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What ISOs can learn from consultants in today's complex payments arena

As payment technology matures, retailers are searching for acquirers who can provide them knowledgeable advice in areas as diverse as POS equipment requirements, payment software options, new payment channels, mobile solutions, marketing, security, liability and business strategies.

ISOs are responding to this demand by adopting consultative sales models that build merchant relationships and capture payment transactions by providing data-centric business strategies, solutions and services.

Pressing questions merchants want answered are the same questions ISOs are struggling to answer themselves: What actions should I take? When? What's the right technology for my business? Is it secure? What's the legal risk? Is there an opportunity here to grow my business?

ISOs, like merchants, often need input from outside consultants to find the right answers to these questions and the correct approach for transitioning their businesses into the world of modern payments. So who consults with the consultants?

Consultants who work with ISOs sell a highly sophisticated skill set that addresses topics of critical importance to the payments industry's feet on the street. The list of services offered includes, but is not limited to, security solutions, strategies for implementing technology, mobile transaction acquisition through merchant-centric marketing applications and services, and protection against legal liability for issues that may arise in conjunction with an ISO's products and services.

A recent sampling of payment consultants found consensus that the industry changes ISOs are experiencing are also bringing industry opportunity. They agreed the savvy and successful ISO will offer customers customized, flexible, highly specific and technically detailed solutions, as well as the special skill sets needed to implement them.

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NotableQuote

Old ways of fighting fraud will not work well in an environment transformed by new technologies. More transactions will be processed remotely by nontraditional institutions, and changing risk attributes are not well understood.

Inside this issue:
CONTINUED

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Things to do today

I ♥ GS

To reach Danielle directly!

The Green Sheet, Inc.

Danielle Thorpe
ASST. VICE PRESIDENT OF ADVERTISING SALES

(707) 284-1686 Direct
(800) 757-444 Office
danielle@greensheet.com

1160 N. Dutton Ave., Suite 200
Santa Rosa, CA 95401
www.greensheet.com

Aly #1

Latest interchange rates

Do you know if the new Visa interchange rates for fall 2012 have been released yet? Usually these rate tables are released by the card associations (MasterCard and Visa) in April and October, but I haven't seen anything from them or *The Green Sheet* (or elsewhere for that matter) that indicates Visa's table was released. Do you have any idea when it may be released, and will *The Green Sheet* notify its readers when it is?

Steven Renville
Shift4 Corp.

Steven,

Thank you for your question. When Visa Inc. and Mastercard Worldwide became companies instead of associations of banks, they began posting interchange rate charts on their respective websites. Prior to that, The Green Sheet *published interchange rates, but since they are public knowledge now, we no longer do that. However, we do discuss interchange and other fees (such as Visa's Fixed Acquirer Network Fee) in our editorial coverage.*

Visa's latest rates are from June 2012; MasterCard's are from October. Visa stated in the introduction to its chart, titled Visa U.S.A. Interchange Reimbursement Fees, *that these are "transfer fees between financial institutions" and that merchants "do not pay interchange reimbursement fees; merchants pay 'merchant discount' to their financial institution." Visa stated this "is an important distinction, because merchants buy a variety of processing services from financial institutions; all these services may be included in their merchant discount rate, which is typically a percentage rate per transaction."*

Given the recent regulation of debit interchange, Visa may have decided to emphasize that merchants do not technically pay interchange fees. The rates in Visa's document are, however, the same interchange rates payment professionals use when calculating what a merchant's discount rate should be.

Here are the links to the latest rates:

Visa:
http://usa.visa.com/download/merchants/visa-usa-interchange-reimbursement-fees-june2012.pdf

MasterCard:
http://www.mastercard.com/us/merchant/pdf/MasterCard_Interchange_Rates_and_Criteria.pdf

Editor

Benefits, costs of registration

While I have found a few related articles in the archives of *The Green Sheet*, I am trying to come up with a good answer to a couple of questions. First, how much of a financial benefit would be gained by becoming an ISO or member service provider (MSP) for an office bringing on somewhere between 50 to 100 new accounts each month who is currently on average getting a 55 to 60 percent split? This would be weighing the annual cost of registration.

Second, are the ISO and MSP offices that we see out there who show that they are registered with multiple merchant banks paying the Visa/ MasterCard registration fee per merchant bank that they have an agreement with or do they pay that just the once per year?

Also, most of these ISOs and MSPs seem to have one application that they are using. How are they doing that while working with multiple merchant banks? Do those banks just all accept their one form of application, or is there some other method happening in the background that we do not see?

Benjamin C. Tolman
Advantage Merchant Services

Benjamin,

We referred your questions to Andy Meadows, Vice President of Sales for SignaPay Ltd. He is also a member of The Green Sheet Advisory Board. Here's what he had to say:

1. *It's tough to quantify the financial benefit, per se, of registering with Visa and MasterCard. It's more about having the ability to brand and market your organization as its own unique entity. Obviously, there are inherent benefits to creating your own brand in the marketplace. As well, when approaching a processor for your ISO partnership, registration may be necessary to obtain a wholesale relationship (versus a retail relationship) where the revenue share is higher and the cost structure is lower.*

2. *Yes, registration fees must be paid to each sponsor bank that an ISO registers with.*

3. *Generally speaking, an ISO will lead with one application that drives their merchant accounts through a specific sponsor bank relationship. If, for any reason, the ISO needs to board the merchant through a different sponsor bank relationship, the ISO would then need to execute a separate merchant application. All sponsor banks have their own unique merchant applications, and they will not accept a merchant application from a different sponsor bank relationship.*

Thank you for your questions Benjamin, and thank you, Andy, for providing these helpful answers.

Editor

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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.

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Education

Coping with PCI noncompliance fees

A main goal of the PCI Security Standards Council is to avoid making consumers liable for fraud. One way the council accomplishes this is by putting merchants first in line for fines when data breaches occur. Just behind merchants in the penalty line are acquirers and processors, with ISOs becoming the reluctant Payment Card Industry (PCI) compliance enforcers.

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Education

The smart way to sell POS systems – Part 2

The second article of this two-part series details how to make the most of sales meetings once you accomplish the hard-earned goal of winning merchants' attention. Now it's time to set the agenda, manage expectations and tailor demos to suit different types of merchants. And before you part ways, remember to ask merchant prospects for those all-important referrals.

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Education

200 ways to get noticed – Part 1

The first installment of this two-part series contains the first 100 tips to help agents maximize sales and marketing efforts. The simple, straightforward advice contained in these tips can be filed and retrieved to remind sellers of what is important when conducting webinars and presentations, designing websites, and generating email campaigns.

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Inspiration

Functioning in today's challenging payments world

The speedy evolution in the payments industry compels ISOs and MLSs to adapt. To stay relevant, sellers should choose partners with care, commit to ongoing education, share knowledge with colleagues, become indispensable partners to merchants, and be prepared to take a leap of faith, which is often uncomfortable, but is nevertheless necessary.

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HARBORTOUCH

Industry**Update**

NEWS

B&N breached

Leading book retailer **Barnes & Noble Inc.** discovered a criminal alteration of its PIN pad devices allowed thieves to steal customer PINs along with credit and debit card information in 63 of its 689 U.S. stores. The discovery caused the retailer to temporarily discontinue PIN pad use in all of its locations on Sept. 14, 2012, while it validated the security of all its PIN pad devices. The company reported the attack to the public on Oct. 24, 2012.

An internal investigation found fewer than 1 percent of B&N's PIN pads were altered. The retailer concluded the PIN pad tampering "was a sophisticated criminal effort to steal credit card information, debit card information, and debit card PIN numbers from customers." B&N said the thieves had planted recording devices or "bugs" in the PIN pad devices. The bookseller is cooperating with law enforcement authorities. It is also contacting banks, card companies and issuers to determine which B&N customer accounts were compromised.

Square on the move

Square Inc. released its free mobile card reader and POS system in Canada. This is the first time the company has made its payment options available outside of the United States. The company reported it is currently handling more than $8 billion in annualized payments.

In another kind of move, Square intends to relocate its corporate headquarters from South of Market to the Mid-Market neighborhood of San Francisco in mid-2013. Renovations on the new headquarters are scheduled to begin at the end of 2012. Square also has offices in New York and Atlanta.

Square also recently notified the New York Taxi & Limousine Commission it is terminating its pilot mobile payment program in New York City taxis.

The company said it elected to discontinue the pilot, which involved approximately 15 vehicles, "in light of developments in prospective taxicab regulations in New York and other markets, and based on what we have learned from conducting the pilot program to date." Square added that it wants "to pursue a different hardware and software solution" for its TPEP offering.

Cyber thieves continue to strike

Police in **Burlington**, **Wash.**, reported they suspect cyber thieves transferred approximately $400,000 out of a city account over a recent two-day period. The money allegedly went to a network of personal and business accounts across the United States. The U.S. Secret Service Puget Sound Electronic Crimes Task Force is investigating the theft, which was reported Oct. 11, 2012. The Burlington Police Department is not taking part in the investigation because police investigators are also potential victims.

It was also recently reported that hackers hit **Abilene Telco Federal Credit Union** and stole Experian credit reports for 847 people. In response to the proliferating data breaches, Mark Bower, Vice President at Voltage Security Inc. said that "organizations need to dramatically improve sensitive data handling to avoid potentially catastrophic incidents, through methods such as data-centric encryption for data."

PayPal streamlines organization

Prioritizing "great, simple products and experiences" for customers, **PayPal Inc.** redesigned its product organization, folding nine product groups into one. "Instead of being organized around projects, our teams

RETAIL BRIEFS

- The **Nielsen Co.** *Holiday Shopping Survey* estimated spending in 89 retail categories could reach $98.3 billion for the 2012 holiday season, with 18 percent of U.S. shoppers planning to tap online retailers.

- The **U.S. Census Bureau** *Advance Monthly Sales for Retail and Food Services* monthly report estimated total combined sales in the auto, retail and food services categories rose to $412.9 billion in September 2012, representing a year-over-year increase of 5.4 percent.

- According to a **Shop.org** forecast, online sales this holiday season could grow to $96 billion, up 12 percent from 2011. Shop.org estimated 52 percent of U.S. shoppers will make at least one online holiday purchase, and the group will spend an approximate total of $900.86 on gifts, cards, food and decorations.

will now be dedicated to products and focused on our customers – consumers, developers, small businesses and large retailers," said David Marcus, PayPal's President. This necessitated eliminating 325 full-time jobs and ending contracts with 120 contractors. Marcus said it was difficult to make decisions that impacted employees, but he is "confident these changes will make PayPal even better and stronger."

ANNOUNCEMENTS

AnywhereCommerce granted patents

The U.S. Patent and Trademark Office granted two patents to Silicon Valley-based **AnywhereCommerce**. The patents involve a mobile payment dongle used with mobile devices and cover audio jack-based transactions for various payment methods, such as mag stripe, near field communication and bar code scanning.

Bango busts 1 billion subscriber mark

One-click mobile payment provider **Bango.net Ltd.** reported it had surpassed 1 billion mobile phone consumers who use its platform to purchase apps from online app stores. The U.K.-based company allows app stores, such as Blackberry App World, Windows Phone Store and Google Play, to utilize Bango's one-click mobile shopping interface.

Citi joins merchant exchange fray

Citi, the global bank owned by Citigroup Inc., launched Citi Payment Exchange. Citi said its exchange differs from its competitors in that the exchange provides recommendations on payment methods and supply chain management. Citi said its online tools help Citi merchants drive transaction efficiencies and insight for better decision making.

CO-OP launches EMV resource

CO-OP Financial Services introduced Ask the EMV Expert, a web page designed as an educational tool for credit unions preparing to migrate payment systems to the Europay/MasterCard/Visa (EMV) global interoperability standard. The web page features a forum where credit unions can submit questions and receive replies from CO-OP's EMV subject-matter experts and links to EMV background materials and educational downloads. The page can be accessed at *www.co-opfs.org/EMV.*

First Data advances Universal Commerce

In its *Q3 2012 U.S. Product Release*, **First Data Corp.** reported on the progress it had made in its Universal Commerce initiative.

Among its actions, the largest U.S. acquirer launched the First Data FD400GT wireless terminal for on-the-go mer-

chants; complied with new Americans with Disabilities Act requirements for POS device keypads; and updated the First Data Retail Solution application to support tax functionality for liquor and spirit retailers.

FrontStream pilots charitable program

ISO **FrontStream Payments Inc.** launched its pilot charitable giving program, MerchantGiving. The pilot allows merchants to add donation buttons to their websites to benefit charities of their choice. The pilot arises from FrontStream's August 2012 acquisition of FirstGiving Inc., the operator of a peer-to-peer fund-raising platform for nonprofit organizations.

Harbortouch honored

ISO and POS system provider **Harbortouch** was named a Gold Winner by the 2012 Golden Bridge Business Awards. At the Oct. 2, 2012, dinner and awards presentation in San Francisco, Harbortouch founder and CEO Jared Isaacman accepted the award for the company's feature-rich POS systems designed for restaurant and other retail installations.

PAI named a Fast 50 company

ATM network operator **Payment Alliance International** was recently recognized for the fourth consecuvitve year by *Business First of Louisville* as a Fast 50 company in the 13-county greater Louisville area. PAI ranked thirtieth this year.

Revo offers new subscription pricing

Revo Payments is providing new subscription-based pricing for its bank customers. Revo said the new pricing model allows banks to offer their clients industry-specific payment tools without incurring upfront licensing and deployment fees. Revo added that its software solution gives banks tools to compete for property management, schools, nonprofits, and business-to-business clients, among others.

V.me adds online flower shop

Visa Inc. added 1-800-Flowers.com to its digital wallet solution, V.me. Online retailers on the V.me wallet include Rakuten Buy.com, StudentUniverse.com, MovieTickets.com, BlueNile.com, ShoeBuy.com, ZooStores.com, Cooking.com, 88Hours.com and Scentiments.com.

PARTNERSHIPS

Century extends Komen alliance

Payment processor **Century Payments Inc.** signed a three-year extension as a partner in the **Susan G. Komen for the Cure** global breast cancer movement. Century reported that in the past three years, its Every Swipe Counts program raised approximately $450,000 in donations to support the cause.

Elavon, 41st Parameter team up

Payment provider **Elavon Inc.** formed an alliance with security services firm **41st Parameter Inc.** Under the agreement, Elavon clients have access to 41st Parameter's FraudNet hosted fraud detection and mitigation solution for e-commerce merchants.

Achieve Fitness picks Merchant Warehouse

Boston-based ISO **Merchant Warehouse** was named Preferred Partner for franchise operator **Achieve Fitness USA**. Merchant Warehouse said it will offer payment solutions and merchant services, including the Genius mobile offering, to Achieve Fitness licensees nationwide.

Micros integrates Isis SmartTap

Hospitality and retail POS vendor **Micros Systems Inc.** integrated the **Isis** SmartTap near field communication (NFC) mobile commerce application into its Simphony POS platform. According to Micros, the integration will permit customers to make purchases, redeem offers and present loyalty cards with the single tap of their smart phone.

PAI joins AATAC program

The **Asian American Trade Associations Council** representing over 200,000 Asian-American owned and operated businesses in the United States selected payment processor **Payment Alliance International** to become a founding strategic partner of its newly launched Watchdog program. The program seeks cost-effective merchant service solutions for its members.

USAT, Eaton expand kiosk market

Wireless noncash transactions network provider **USA Technologies Inc.** expanded its kiosk market base by empowering electric vehicle stations sold through **Eaton Corp.** with the company's ePort and DC Quick Charger cashless payment options.

VeriFone forges Australian alliance

VeriFone Inc. forged a strategic alliance with **National Australia Bank** to provide Australian businesses access to the company's latest payment technologies. VeriFone reported it will be the sole provider of POS card acceptance solutions for NAB's business customers.

VersaPay, Chase Paymentech renew

Canadian financial technology company **VersaPay Corp**. renewed its payment processing partnership agreement with **Chase Paymentech Solutions LLC**, extending the relationship another four years.

Viableware adds restaurant POS partners

Viableware, creator of the RAIL payment platform for restaurants, has integrated its patented payment technology with **Micros**, **NCR Aloha** and **Dinerware** restaurant POS systems to deliver its secure wireless digital pay-at-the table program to restaurant patrons.

ACQUISITIONS

SignaPay acquires Equity Commerce

ISO **SignaPay Ltd.** acquired payment processor **Equity Commerce LP** to reportedly enhance the company's financial strength, platforms and relationships with multiple banks. Equity co-founder and President Jeff Brown will serve as Vice President of Operations, overseeing 14,000 merchants and nearly $2 billion in annual processing volume.

TransFirst buys CurveNorth

Payment processor **TransFirst LLC** acquired software developer **CurveNorth Corp.** for an undisclosed sum. TransFirst plans to incorporate CurveNorth's flagship Merchant-Flo software for automating merchant boarding and account management into its suite of payment processing solutions.

ViVOtech sells software division to Sequent

ViVOtech Inc. sold its NFC payment software division to **Sequent Software Inc.** The acquisition will reportedly enable Sequent to integrate bank and other service provider credentials more efficiently into the secure element of mobile devices. Terms of the acquisition were not disclosed.

APPOINTMENTS

Cibley joins CardWare

Jerry Cibley is the new Vice President of CardWare International's POS-itivity division. Cibley was formerly the National Sales Trainer at Harbortouch and is a contributor to *The Green Sheet*. Cibley is responsible for sales of CardWare's retail and hospitality POS system POS-itivity.

Constantine signs on at SecureNet

SecureNet Payment Systems named **Greg Constantine** Executive Vice President of Client Operations. Previously Constantine held senior management positions at FundsXpress Financial Network Inc. and First Data. Constantine is responsible for directing client operations, enterprise account management, product development, marketing, and communications and public relations initiatives.

QuickPay picks Ganguly

Sukanta Ganguly joined mobile parking payment solutions provider QuickPay Corp. as Chief Technology Officer. Ganguly previously served as CTO and Head of Products at TakingPoint, a social network helping with the post-service transition of military veterans. Ganguly's responsibilities include talent recruitment and product development.

Herrington on Acculynk Board

Mark Herrington, First Data Executive Vice President for Global Product Management & Innovation, was named to the Board of Directors of Acculynk, an Atlanta payments software provider. In 2001, Herrington co-founded the Money Network prepaid card service which First Data acquired in 2007.

Lanthier leaves PayPal

Andrew Lanthier is the new Chief Technology Officer at cloud-based payment solutions provider PaySimple. Lanthier left his job running Architecture and Strategy for PayPal Inc.'s global infrastructure to accept the CTO job at PaySimple. Lanthier will head the Denver-based company's new California office.

CSI taps Mastronardi

Computer Services Inc. hired **Giovanni Mastronardi** as Vice President of Sales for the Southeast region. Mastronardi comes to CSI from ACI Worldwide Inc. where he was General Manager of the Community Banking Division. At CSI he is responsible for leading the southeast sales group and will report to Chief Sales Officer George McGourty.

Murray, Purcell new execs at iPayment

Christian Murray is the new Vice President of Sales – Independent Sales Groups, and **Robert Purcell** was tapped to be Vice President of Finance and Chief Accounting Officer at payment processing services company iPayment Inc. Murray was formerly President and CEO of payment software company ePaySpot LLC. Purcell served as Vice President

Finance at Intuit Financial Services prior to coming to iPayment.

Scharf takes helm at Visa

Visa Inc. named the former Chief Executive Officer of Retail Financial Services for JPMorgan Chase & Co., **Charles W. Scharf**, to succeed **Joseph W. Saunders** as Visa's Chief Executive Officer. The appointment is effective Nov. 1, 2012.

Scharf, a former Visa director, is leaving One Equity Partners, where he has been Managing Director since 2011, to take the Visa job. Saunders will continue to serve as Visa Executive Chairman until his retirement in 2013, at which time the board will appoint a new nonexecutive independent chairperson. The board will also expand from 10 to 11 members when Scharf joins Visa.

Zelman to direct W.net

Shawn Taylor Zelman is the new Executive Director at payments industry mentoring network Women's Network in Electronic Transactions. Zelman was formerly Senior Director at Coulter Nonprofit Management where she was responsible for guiding communications and chapter relations for the National Association of Women Business Owners.

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Will Isis launch shuttle in new era for NFC?

J VL Ventures LLC's Isis rolled out its mobile wallet in two cities Oct. 22, 2012, and opinions differ regarding the significance of this development for the U.S. payments industry. There are nine Isis-enabled handsets available to consumers but, Jaymee Johnson, Head of Marketing at Isis Mobile Commerce, said, "By year end, as many as 20 [types of] Isis-ready handsets are expected to be in-market."

The Isis Mobile Wallet uses near field communication (NFC) to wirelessly transmit payment data stored on the phone to a POS terminal. A company spokesman said Isis demonstrates "an unprecedented level of support for NFC and consumer choice."

According to JVL, to make a payment using an Isis wallet, consumers will need to acquire an NFC-enabled phone manufactured by AT&T, T-Mobile or Verizon, along with a secure element SIM card; download the Isis Mobile Wallet application from the Google Play store; and put their credit card information into the wallet. Consumers also can opt to use the reloadable Isis Cash card that comes with an Isis wallet.

The company reported Isis will ultimately be available to all merchants, banks, payment networks and mobile carriers. It also noted that the Isis Mobile Wallet enjoys the support of local merchants in the Salt Lake City and Austin metropolitan areas, as well as that of national and regional retailers.

SCA says Isis will have impact

Smart Card Alliance Director Randy Vanderhoof believes the joint venture's control over the mobile handset market gives it an opportunity to win consumer adoption, while other mobile wallets, like the software and cloud-based wallet introduced by Google Inc., so far have not.

"This is significant because it is the biggest mobile NFC payments launch in U.S. history," Vanderhoof said. "It is likely going to set the standard for how mobile devices will use NFC. Isis will succeed where Google has not."

Vanderhoof believes Isis' investment in an open system, along with its support for multiple financial institutions and multiple options, will carry the day with consumers. "It is clear consumers expect choice," he stated, pointing out Isis already has three times more wallet-enabled handsets than Google Wallet.

For consumers, though, Isis adoption is about more than payments, Vanderhoof noted. He said that in the near future, NFC technology will be used for multiple tasks, including security identification, government ID verification (including drivers licenses and Social Security numbers) and insurance information. Isis-enabled mobile phone adoption will also be spurred by features such as global positioning that add additional value for consumers and create a demand for higher-end mobile devices with more features and richer data plans, he said.

Some express skepticism

Paul Martaus, founder of the payment consulting firm Martaus & Associates, is skeptical about Isis' ability to obtain a critical mass of consumer adoption. A 30-year industry observer, Martaus believes a dramatic change to a system as large as the U.S. payments system typically must involve an organization – public or private – with the ability to impose a standard on the market.

In the United States, Visa's ability to impose the Europay/MasterCard/Visa global interoperability standard and the Payment Card Industry Data Security Standard are the closest examples of what Martaus described as fiat – the ability to decree.

Martaus said that without fiat, the mobile phone venture may rethink its approach to payments as it comes to better understand the realities and complexities of the payments business.

Cisero's amends counterclaim in Elavon case

A recent ruling in the US Bank and Elavon Inc. v. Cisero's Ristorante Inc. litigation is seen by Cisero's as a positive development in the lawsuit plaintiffs filed in 2010 to collect data breach fines from the restaurant.

The action, filed with the Third District Court of Utah, is an attempt to recover more than $82,000 in penalties imposed on Cisero's after a 2008 card company investigation deduced data stolen from cards used at Cisero's resulted in $1.26 million in fraud losses.

In a 2011 counterclaim, Cisero's argued that plaintiffs US Bank and Elavon – Cisero's acquiring bank and processor, respectively – owed it duties that were independent of the parties' merchant services agreement and that said duties were not fulfilled. It also argued that the contract was an unfair contract of adhesion; as a result, the merchant services contract is not enforceable, and Cisero's should not have to pay data breach fines sought by the plaintiffs.

Why Rich Yanek is an independent agent with First Data Independent Sales (FDIS).

In a September 2012 ruling, Judge Todd Shaughnessy ruled that Cisero's could amend its counterclaim to "more particularly identify the independent duties it contends US Bank owed it." Days later, Cisero's submitted its amended counterclaim.

The Cisero's merchant contract allows the restaurant to be fined if it is determined, as it was by Visa Inc. and MasterCard Worldwide in this case, that the restaurant's POS system was not in compliance with the Payment Card Industry (PCI) Data Security Standard (DSS) at the time of the alleged data thefts.

The Cisero's counterclaim

In its original counterclaim, Cisero's said its merchant contract is an unfair contract of adhesion because the plaintiffs' services were so critical to the restaurant's success that Cisero's had little choice but to accept the plaintiffs' terms. Cisero's also noted that when it signed the contract, the contract's terms were not negotiable, Visa rules were not available to merchants and the PCI DSS had not yet been adopted.

The counterclaim also stated that after an investigation concluded Cisero's was the source of the data breach, Elavon accepted card company fines and passed them on to the restaurant without giving Cisero's the chance to defend itself or challenge the assessments. Cisero's said two independent forensic exams of its POS system found no evidence its terminals had been breached.

In addition, Cisero's asserted that because US Bank and Elavon had a much better knowledge of the card companies and their rules, they had a duty independent of the merchant agreement to ensure the restaurant had access to a full hearing process.

Principles at issue

In its amended counterclaim, Cisero's listed the duties allegedly owed it by the plaintiffs. Among them are the duty to:

- Warn Cisero's its system may not have been in compliance with the PCI DSS and was vulnerable to data theft
- See that Cicero's was in compliance with the PCI DSS
- Disclose known defects in the restaurant's POS system
- Disclose "material facts" about network rules and security standards
- Inform Cisero's of its right to appeal and challenge fines in a timely manner
- Help Cisero's get a fair hearing and ensure it was neither unjustly nor arbitrarily fined

Constantine Cannon LLP, which represents Cisero's, was the lead firm in a class-action antitrust claim brought by a group of national retailers that resulted in a $3 billion settlement with Visa and MasterCard in 2003.

After the ruling in favor of Cisero's, Steve Cannon, Chairman of Constantine Cannon, told *The Green Sheet*, "I believe these are very important principles at issue here. This goes to the basic issues in the merchant acquiring world. We think the indemnification power of the contract is void."

US Bank and Elavon did not reply to a request for comment. For more background on this case, see "Elavon versus Cisero's dispute could have major repercussions," *The Green Sheet*, Feb. 13, 2012, issue 12:02:01.

Challenges ahead for EMV

ISOs, acquirers and processors are beginning to confront the challenges they face as the United States moves toward adoption of the Europay/MasterCard/Visa (EMV) standard mandated by the major card brands, Randy Vanderhoof, Director of the Smart Card Alliance and Acting Director of the EMV Migration Forum, said in an interview with *The Green Sheet*.

EMV is a global standard for integrated circuit (chip) cards. Considered to be more secure than mag stripe cards, EMV cards are already used in most regions of the world. EMV cards work with traditional terminals equipped to accommodate them; the cards can also be enabled with near field communication (NFC) for terminals that accept contactless payments. "EMV is not a technology change so much as a fundamental platform change to how payments processors accept transactions," Vanderhoof noted.

U.S. EMV migration topics

What the EMV migration means to the U.S. payments industry was the topic at the recent EMV Migration Forum's inaugural meeting at MasterCard Worldwide headquarters in Purchase, N.Y. The forum is an independent organization created by the SCA to assist in EMV implementation in the United States.

Vanderhoof said discussion among the 130 forum participants covered the impact of EMV on debit networks, clarification of EMV testing and certification standards, and EMV education and communication, among other topics.

Challenges for issuers

"Issuers aren't being told they have to issue a specific type of card," Vanderhoof noted. He said among the decisions issuers face are whether to issue contact-only cards, contactless cards or both; and whether the chip will require a PIN, a signature or neither.

The decisions aren't easy. NFC-enabled cards are significantly more expensive to produce than more traditional cards. And when combined with chip and PIN, non-NFC cards achieve the main objective of EMV implementation: to significantly reduce the use of counterfeit cards at the POS.

Issuers also are working on processes for assigning a PIN when a card is issued and for when the password is reset. Credit providers are additionally trying to resolve how to capture a sale when a legitimate customer doesn't have or remember the PIN.

EMV's impact on ISOs

Vanderhoof said the U.S. payments

industry is unique because there are so many processors and acquirers here. No single supplier has the market power to make one solution prevail. Merchants and acquirers are instead faced with multiple POS options, along with multiple tests and certifications.

"Processors and acquirers don't have to be able to process EMV transactions by the deadline; they only need to have their application tested and approved by the deadline," Vanderhoof pointed out. "But each card brand has its own application certification and testing procedure in place."

Getting ATMs ready for EMV is another challenge for the industry. "ATMs vary in their software and hardware," Vanderhoof said. "They are not like the POS; you don't just unplug them and swap them out.

The upgrades needed, and the complexity of preparing ATMs to accept EMV cards, are only just beginning to be evaluated. From a fraud standpoint, as merchant terminals are hardened by EMV, fraudsters will move to the least secure point, and in some cases that will be the ATM."

Mobile's impact on EMV

Regarding mobile payments and EMV, Vanderhoof said, "Merchants will have to make complicated choices in terms of accepting mobile payments, and this could delay adoption of EMV. But the reality is merchants are not in a position to refuse any method of payment a consumer wants to use.

"Though it may be in the merchant's best interest to ride an alternative payment rail, it doesn't take away from the fact that most consumers come in with their bankcard from their financial institution, and that will be the way they will choose to make their payment rather than with a mobile app."

Also, after 2015, the cost merchants who are not EMV-compliant will bear for card fraud associated with them will be far greater than their current processing costs and Payment Card Industry Data Security Standard compliance fees, and that's another incentive for adoption, Vanderhoof said.

Jones predicts ISOs will remain at payments hub

SOs and merchant level salespeople (MLSs) will remain at the center of the payments hub even as the tent surrounding that hub grows to include more players, SignaPay Ltd. President Kevin Jones said

in an interview with *The Green Sheet* shortly after he spoke at the Mobile Payments Conference in New York City in October 2012.

"For more than 20 years, business owners have been getting all their payments needs met by banks or processors," Jones said. "Why should we assume that they will move away from this one-stop-shop model and look outside for mobile solutions?"

Jones noted that new mobile payment players often choose a distribution model that goes directly to market. He conceded this approach has worked for Square Inc., which has made inroads into micro-merchants and some big-box retailers. But he believes the future for ISOs is in the middle between Square's two target segments.

"If you look at everyone other than the big-box retailers, they have all of their loyalty, processing, gift card, ACH, and check processing through ISOs," he said. "Do you really think they are going to break away from that relationship?"

Jones believes new industry players such as online and mobile payments processor BrainTree Payment Solutions LLC are choosing ISO distribution channels because they "want to be able to grab a lot more of the market at a faster pace and eliminate a lot of problems" by leveraging ISO sophistication and experience in payments.

ISOs are central to the distribution channel; the successful solutions will be those that capitalize on that channel, he added.

Complications, attrition ahead

Jones is not, however, forecasting a cloudless sky ahead for payments. He predicted as many as two-thirds of the ISOs and MLSs now in the business could be gone in five to 10 years as a result of attrition due to increased competition and the increasingly complicated nature of the business.

"You have to decide what role you will play in the ecosystem if you are going to move forward," he said. He also foresees value-added reseller channels growing in importance as they become recognized as "a high tech boutique" of payment software and services and an important revenue source for successful ISOs.

"To succeed, you need to negotiate great deals for your partners" to make better, cheaper options available, Jones said. Later, at the conference, he elaborated on the idea. "The time is now," he said. "We are looking for solutions now.

"The companies that offer us simple solutions backed by training, marketing and excellent customer support will be the ones that succeed."

trust:

reliance on the integrity,
strength, ability, surety of a
person or thing; confident
expectation of something

Trust. It's a small word with a very big definition. And it's what makes a partnership
with NPC different fom the rest. Our ISO relationships are built on trust that
comes from delivering what we promise, from decades as an influencing force in
the payment processing industry, and from our innovative payment products and
services. At NPC, a Vantiv Company, we're committed to your success as an ISO
partner. And that's something you can trust.

Let's Talk
Payment Processing
877.453.5933
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Prepaid in brief

NEWS

States to reap gift card 'breakage'

An online lost-asset investigation and recovery firm believes it is only a matter of time until every U.S. state passes legislation that allows state governments to collect funds from unused gift cards.

Retailers will ultimately lose, as they will no longer be able to claim unused gift card balances as profit, but consumers will be the ultimate winners, as they will be able to collect those balances from the states, according to **UnclaimedMoneyDiscovery.com**.

The firm said an estimated $100 billion in unclaimed property is being held by the states. Gift card "breakage," which represents between 12 percent to 15 percent of the $65 billion total loaded onto gift cards annually, will make the unused gift card balance segment the largest in states' unclaimed property coffers, the firm noted.

Prepaid card made from corn

Security technology company **Gemalto NV** collaborated with the **Raiffeisen Banking Group Austria** on what they call the world's first bio-sourced payment card. The prepaid card issued by Raiffeisen Bank is Visa Inc.-branded, near field communication- (NFC) enabled and Europay/MasterCard/Visa-compliant. The body of the card is composed of renewable material derived from corn.

The card is part of Gemalto's Clarista line of payment cards and comes in packaging that is also recyclable. Gemalto said the card's corn-based material is "recyclable and compostable through small-scale industrial units, and reduces the global ecological footprint of the production process."

PATCO pilot called success

A mass transit open payment pilot on the East Coast ended Oct. 20, 2012. **Cubic Transportation Systems Inc.**, developer of the PATCO Wave & Pay Anywhere Visa Prepaid Card, said October 20 was the last day commuters were able to use the Wave & Pay card, other NFC-enabled contactless bankcards, or virtual cards via mobile wallets, to pay for parking at **Port Authority Transit Corp.** terminals and for fares on its high-speed rail line that runs between Southern New Jersey and Philadelphia.

Cubic officials said the pilot provided technical information on how to successfully deploy and operate future contactless transit payment systems, including data that suggests mass transit riders will use the same media for general spending as they do to pay for fares.

ANNOUNCEMENTS

CardSmith serves tech college

Doylestown, Pa.-based campus card provider and program manager **CardSmith** integrated campus card programs for Gateway Technical College campuses in Kenosha, Racine and Elkhorn, Wisc., and at technology centers in surrounding areas. The GatewayOneCard gives over 20,000 students access to services such as cashless printing, copying and dining.

Financial Capability Institute site goes live

The **Center for Financial Services Innovation** went live with the Financial Capability Institute website (*www.financial-capability.org*). FCI's website is an interactive, educational online portal designed to help non-profit organizations integrate alternative financial products into service offerings.

Contact Solutions marks record growth in Q3

In the third quarter of 2012, cloud-based customer self-service provider **Contact Solutions LLC** recorded its largest call volume and cardholder usage of its automated interactive voice response (IVR) solution. The firm said the addition of over 40 new IVR installations in the quarter contributed to its overall growth.

CPI joins EMV forum

Prepaid card manufacturer **CPI Card Group** joined the Smart Card Alliance's EMV Migration Forum. CPI, a member of the Smart Card Alliance for over five years, has contributed to the alliance via education programs and market research.

GoNow Card set to 'break barriers'

Digital Life Technologies said its GoNow eWallet card will accelerate adoption of mobile wallets in the U.S. marketplace. The card is a reprogrammable mag stripe card that receives commands from e-wallets via near field communication technology resident on mobile phones. The card will be white-labeled and allow merchants to launch personalized, branded e-wallets. The card program is currently in two pilots, according to DLT.

Blackhawk president wins Silver Stevie

Prepaid card distributor and Safeway Inc. subsidiary Blackhawk Network said its President of International,

Dan Dmochowski, won the 2012 Executive of the Year Silver Stevie Award in the financial services category. Blackhawk noted that Dmochowski's leadership led directly to the company's global expansion.

Giftango named Leading Prepaid Organisation

E-gift card provider **Giftango Corp.** took home the Leading Prepaid Organisation, North America award at the 2012 Prepaid Award ceremony held in London, Oct. 11, 2012. The recognition has spurred the company to continue to innovate in the digital gifting realm, said Giftango CEO David Nelsen.

Payza taps Trustwave for SSL management

London-based e-commerce platform and prepaid card provider **Payza** engaged security and compliance firm Trustwave for its security sockets layer (SSL) certificates and online identities management.

Payza said Trustwave's SSL Control Center 2.0 upgrades Payza's current SSL validation with powerful industry-leading tools and functionality to make its certificate management more efficient and cost-effective.

Fortune 50 firm plugs into Transaction Wireless

A well-known but unnamed Fortune 50 company that specializes in printing solutions chose **Transaction Wireless** for an e-gift card solution. The digital gifting company offers solutions for retail brands that include Groupon Inc., Lands' End, Overstock.com and Domino's Pizza.

Wal-Mart launches Rapid Reload

Wal-Mart Stores Inc. unveiled Rapid Reload, a new service that combines the reload networks of Green Dot Corp., InComm and First Data Corp. The big-box retailer said Rapid Reload is available at over 3,800 Wal-Mart stores nationwide, where customers can add money to their general purpose reloadable (GPR) cards for a $3.74 fee per transaction.

Western Union advances via fred's

The Western Union Co. inked a deal with fred's inc. to offer three Western Union-branded GPR cards via 645 of the discount retailer's stores in 15 states.

The cards available are the MoneyWise, Gold Card and Telemundo co-branded cards. The cards are processed over MasterCard Worldwide's network, and cardholders can reload cards at any of 45,000 Western Union agent locations in the United States, or at any fred's Super Dollar locations, through direct deposit and money transfers.

PARTNERSHIPS

Blackhawk goes mobile with mFoundry

Blackhawk tapped **mFoundry Inc.** to enable the distribution of gift cards via mFoundry's Fin X mobile payment platform. Smart-phone users whose financial institutions have deployed Fin.X can browse and buy gift cards electronically from any of the retail brands distributed by Blackhawk.

hyperWallet expands via Valitor

Vancouver, British Columbia-based online and mobile platform provider **hyperWallet Systems Inc.** tapped Iceland-based merchant acquirer **Valitor** to expand hyperWallet's footprint in Europe.

HyperWALLET selected Valitor because of its cross-border payments capabilities and ability to localize solutions by country.

Orange tops up with Ingenico

Via its subsidiary Ingenico Prepaid Services, POS terminal manufacturer **Ingenico SA** collaborated with mobile prepaid telecommunication provider **Orange** to enable mobile phone customers to allow the contactless top-up of phone accounts at POS terminals.

Yalamanchili supports EZ-Link for M1

Payment technology provider **Yalamanchili International** reported that Singaporean prepaid card giant **EZ-Link Pte Ltd Co.** will use Yalamanchili's platform to process payments for the contactless M1 Prepaid MasterCard. The card is co-branded by EZ-Link, MasterCard Worldwide and telecommunications firm M1 Ltd.

ACQUISITIONS

InComm buys On-Line Strategies

InComm acquired processor **On-Line Strategies Inc.** InComm said one reason for the purchase was OLS' ability to integrate its processes with legacy systems. OLS will operate as a wholly owned subsidiary of InComm.

APPOINTMENTS

PIF welcomes Yalamanchili

Ramki Yalamanchili, founder and Chief Executive Officer of Yalamanchili, was named to the Prepaid International Forum's board of directors. The PIF said Yalamanchili brings to the association new perspectives and insight informed by his experience working in numerous prepaid markets around the world.

Features

AmEx goes big with Bluebird

An indication that the prepaid card industry is in transition can be found in how American Express Corp. is marketing its new financial services product, Bluebird. No mention is made in its advertising that Bluebird is a prepaid card. Instead, AmEx characterizes Bluebird as a "checking and debit alternative."

Bluebird is the result of a partnership between AmEx and Wal-Mart Stores Inc. The solution involves online, mobile app and physical card components. Features of Bluebird include a checking account with online bill payment capability, sub-accounts for the disbursement and management of childrens' allowances for example, and mobile remote deposit capture (RDC) for the depositing of physical checks.

In an Oct. 8, 2012, conference call, Dan Schulman, Group President, Enterprise Growth at AmEx, said Bluebird is a "first of a kind" product that brings together the best of prepaid, debit and checking. He called it a comprehensive service for consumers who either don't have access to traditional banking, are underbanked or, just as importantly, are "unhappily banked in some way."

Consumers can enroll in Bluebird online or in-person at over 4,000 Wal-Mart locations in the United States. The in-store process is akin to the purchase of reload packs for the prepaid cards of Wal-Mart's other prominent partner, Green Dot Corp. Consumers buy a $5 set-up kit that includes a temporary Bluebird "starter card." At checkout, the starter card can be loaded with between $1 and $500. Registration is completed online, and consumers are then mailed personalized Bluebird cards. Once consumers have the permanent cards in hand, they are afforded a daily load limit of $1,000.

The Bluebird card can be used to withdraw cash at 22,000 ATMs nationwide – a network that is approximately 35 percent larger than the next biggest ATM network, Shuhlman said. Withdrawals are free via AmEx's ATM network if the cardholder has enrolled in direct deposit; if not, cardholders are charged $2 per withdrawal.

In the conference call, Daniel Eckert, Vice President

of Financial Services for Walmart U.S., said the big-box retailer's partnership with AmEx resulted from customers "frustrated with the complex maze of dos and don'ts just to avoid fees with traditional checking accounts." For AmEx, the partnership afforded the card brand an opportunity to "move beyond our traditional consumer set," Schulman said.

Feature-rich realities

Madeline K. Aufseeser, Senior Analyst at Aite Group LLC, believes Bluebird will make the general purpose reloadable (GPR) card market more competitive. However, the program may not quite live up to the hype. Aufseeser said other providers charge minimal fees for cardholders who sign up for direct deposit. She noted that Green Dot and other competitors are working on mobile RDC solutions of their own. And Bluebird's mobile RDC offering – accessed via the mobile app currently available only on Apple Inc. iPhones – comes with a catch.

"You can use the remote deposit capture feature, but then when are the funds actually available?" Aufseeser said. She added that the deposited funds are not instantly available to cardholders because the funds must be cleared and settled first.

The advantage AmEx holds over other GPR card providers is that it is not subject to the debit card interchange price caps imposed by the Durbin Amendment to the 2010 Dodd-Frank Act, according to Aufseeser. She said AmEx is exempt because Durbin offers a carve-out for three-party networks. AmEx is a three-party network because it acts as the card issuer and acquirer (with the consumer making up the third part of the network).

"[AmEx] owns the relationship with the cardholder and on the other side they are also acting as the acquirer and own that relationship as well," Aufseeser said. Four-party networks, on the other hand, are not exempt from Durbin regulations. Visa Inc. and MasterCard Worldwide operate four-party networks, "where you've got the issuer and consumer on one side and the acquirer and the merchant on the other, " Aufseeser noted.

Effects on Green Dot

With Bluebird, AmEx is now in direct competition in Wal-Mart stores with the Green Dot-powered MoneyCard. The last several months have been rough on Green Dot's stock. In late July, the Monrovia, Calif.-based GPR card company issued an earnings reforecast that warned investors of impending threats to its bottom line. In response to the news, Green Dot's stock plummeted 60 percent.

Green Dot's stock fell another 20 percent with the

Bluebird launch in October. When the topic of Green Dot was brought up in the conference call, Eckert would only say that Wal-Mart's relationship with the company is "terrific" and represents the "single biggest program in the United States in that segment in the marketplace."

Aufseeser could not say if Green Dot had foreknowledge of Bluebird when it issued its July reforecast and warned of new in-store competition from other prepaid card providers. But she was certain that when Green Dot relies on its Wal-Mart partnership for over 60 percent of its revenue, that the inevitable change to that relationship brought on by market forces makes Green Dot's revenues "a little bit risky."

Prepaid card dispensing ATM technology advances

On Oct. 23, 2012, Mesa, Ariz.-based ATM technology developer Better ATM Services Inc. reported from the 2012 ATM, Debit & Prepaid Forum in Las Vegas that Visa Inc. had approved the company's prepaid card ATM dispensing technology. Visa's go ahead means all financial institutions (FIs) that issue Visa-branded payment cards in the United States can equip their ATMs with the technology to allow the machines to dispense Visa-branded prepaid cards, according to Better ATM Services Chief Executive Officer Todd L. Nuttall.

"Any bank that has a Visa relationship can now leverage ATM issuance of prepaid as part of its channel," Nuttall said. "So it opens up literally every institution and prepaid program manager to extend their [prepaid] programs to the ATM."

A convenient solution

In late 2011, Better ATM Services entered a pilot program for its new technology at FIs in Arizona. The company said the enthusiastic response the pilot garnered from consumers and FIs prompted Visa to expand the program nationwide.

Better ATM Services' technology integrates into new and existing ATM models, allowing Visa prepaid cards to be dispensed via cash trays. Bank customers can load any amount onto prepaid cards, such as Visa-branded gift cards. The cards are dispensed as "sheets" of three "panels." The first panel is the card; the second panel contains customer service information and fee disclosures; and the third panel can offer targeted incentives and promotions.

For consumers, the main advantage of ATMs dispensing prepaid cards is convenience. Instead of having to go into gas stations or supermarkets to purchase gift cards, consumers can just pull up in their cars to ATM drive-thrus to make those purchases, Nuttall said. "If you're a bank that has your card program behind the counter, it's still there for your customers," he added. "But now you can also put it in your ATM. … You are now more convenient than a convenience store or big-box store."

The linkage between customers using ATMs and prepaid card purchasers is very strong, according to Nuttall. He cited PNC Bank research, corroborated by other research, that 77 to 80 percent of bank customers use ATMs.

"We also know that 70 percent or more of consumers buy some type of prepaid card, whether it's a gift card, GPR or whatever," he noted. "What we're finding is there is a high correlation. It's not just the unbanked that are prepaid consumers; it's middle America. And so the same people who are using ATMs for cash are the same people that go into the convenience stores to get prepaid cards. And this marriage of the ATM and the prepaid allows these people, whether they are stopping for cash, to now get their prepaid at exactly the same time."

New channel for ISOs

Better ATM Services' solution is not just beneficial for banks; ISOs win, too, as prepaid card dispensing ATMs open up a new sales channel for them. "The ISO world is hungry for an additional revenue stream," Nuttall said. Better ATM Services is partnering with ISOs that have established prepaid marketing channels with banks, he noted.

Such ATM ISOs can thus benefit from the program to reduce the costs of handling cash. "It's a huge cost reduction with recurring revenue potential for ISOs," Nuttall said. "So we know in the long run it's a very big play for ISOs.

"If you look at cash, especially in the ISO world, everything about cash costs them money. They're losing money on interest and float, the cost of handling cash. When you load a machine with a cassette full of cards, those cards are just dead plastic – pennies apiece. There is no cost of it sitting in the machine.

"And yet, as soon as somebody purchases it, that money is loaded on a card. And depending on it – the ISO has their own card program, or they use ours – that card is generating revenue throughout its entire life cycle."

Nuttall expects more announcements in advance of the 2012 holiday season that involve creative combinations of prepaid card programs at ATMs that will appeal to holiday shoppers.

Whatever happened to the British motorcycle industry?

By Brandes Elitch
CrossCheck Inc.

This article is titled after a book written by motorcycle designer Bert Hopwood and published in 1981. At the time, people were wondering how the Brits could have dominated an entire industry and then lost it all. In the 1950s, British motorcycles were so popular in the United States that American firms fought, unsuccessfully, to have them banned or heavily taxed.

The book identifies several factors that contributed to the industry's decline in Britain:

- Few, if any, top executives came from the motorcycle industry. They came from the financial realm, not engineering, design or manufacturing.
- Money was diverted from product design to marketing, causing production quality to fall.
- British trade unions opposed modern production techniques, and management chose to "negotiate" with them rather than to press for change. Thus, production was slow and outdated.
- Companies made bikes based on pre-World War II designs that no longer appealed to the populace.
- Companies wasted resources and capital on products that nobody wanted, so passion for the British brands waned.
- The British industry stagnated while competing Japanese motorcycles became less expensive, more reliable, showed more innovation and engineering development, and opened up new markets.

Thus, the British industry was transformed – out of existence. Ironically, classic and vintage British bikes are in great demand today, and collectors pay big money for them.

How does this apply to ISOs?

The ISO business is about to go through a similar experience, except that this changeover will take about five years; the transition took the Brits about 20 years.

Recently, a highly respected observer in the card space told me, "The traditional definition of 'processor' still contemplates the swipe function, which is going by the wayside, with mobile, digital and remote processing. I don't know if you still need 'processors' or ISOs if all transactions get authorized in the cloud."

So, how will ISOs add value in this new landscape? When electronic ticket capture came along, ISOs were transformed from pure salespeople to gatekeepers. Merchants could only buy POS terminals from ISOs, not directly from manufacturers. Most acquiring banks used ISOs to sell for them because it was too difficult for banks to hire, train and manage bankcard sales reps. While working for a large acquiring bank in the 1980s, I was stunned when the sales manager fired the salespeople and turned the selling over to the bank's "Alliance Partner," First Data Corp. This is not a viable long-term business strategy.

The card brands were focused on issuing, not acquiring, which they viewed as a necessary, if cumbersome, component of creating a revenue stream for the major issuing banks. These banks dictated what information they would require to underwrite merchants. Smaller, card-not-present, MO/TO and new merchants were usually handled by smaller niche banks. In some cases, the ISO indemnified acquiring banks for losses, which made the banks much more comfortable with the business – if the ISOs were deemed financially sound.

Today, the top 200 retailers can negotiate directly with Visa Inc. and MasterCard Worldwide or with the largest acquiring banks. They don't need ISOs to do this for them. Meanwhile, margins have shrunk so much that it may not make sense for ISOs to handle some relationships. For example, about 10 years ago, an ISO told me that when he fired one of his largest accounts, The Gap Inc., he said, "The only 'gap' here is the difference between what you are willing to pay to me to process your transactions and what I have to pay my salesperson to handle your account."

What's coming next?

ISOs must transition again, and the next logical category is "trusted security partner." As such, ISOs can truly add value to acquiring banks and merchants because of the rapidly emerging risks in the retail payments world. The risk is not just that of fraudulent transactions. A broader risk looms that consumers won't trust the security of entities processing their transactions. Indeed, surveys now show bankers are even less liked than attorneys.

Old ways of fighting fraud will not work well in an environment transformed by new technologies. More transactions will be processed remotely by nontraditional institutions, and changing risk attributes are not well understood. ISOs must stay abreast of developments between banks, regulators, mobile carriers, application providers, device manufacturers and vendors regarding security, liability and standards issues.

In the mobile payments sphere, challenges include lack of

technology standards for interoperability, regulatory gaps, unresolved liability issues, and concerns about security, privacy, authentication and fraud. Banks, saddled with a fragmented approach, are dealing with over 1,000 legal and regulatory standards.

James Van Dyke, President of Javelin Strategy & Research, noted that the very nature of fraud is changing rapidly. A black market exists for stolen card data, which has a long shelf life. Buyers and sellers negotiate on forums where hackers sell data to wholesalers, who then sell it to fraudsters.

These criminals use mules to fence the stolen data for cash. They also share information on web forums, and organized crime has long-term business plans, sophisticated communication and sufficient capital to fund their efforts. The Financial Fraud Resource Center estimated that the direct cost of financial fraud to Americans was $40 to $50 billion in 2011.

The challenges of fighting payment system fraud are beyond the scope of all but the very largest merchants. The banks will not provide much guidance to their merchants beyond their service agreements. Educating merchants and managing fraud is a role ISOs are well positioned to perform. Remember, the acquiring bank normally requires the ISO to perform some degree of due diligence on the merchant, up to and including indemnifying the bank for losses, particularly ISOs that are true third-party processors, not just resellers.

So, ISOs already have expertise in this space. Some might argue that a natural tension exists between the ISO's fundamental role of getting a signed contract and the role of providing a complete, accurate financial picture of the merchant. With the new regulatory environment, however, this dichotomy will have to disappear, particularly if the ISO principal is held personally liable for sloppy underwriting.

What can ISOs do?

Here are some ways ISOs can add value:

- Ensure Payment Card Industry Data Security Standard and regulatory compliance via regular site inspections and personnel training.
- Ensure proper merchant underwriting. Here are some examples, based on an Underwriting Management System provided by ContractPal Inc.:
    1. Consistent information is gathered, using web and mobile automated tools, to replace the typically incomplete, disjointed and slow approach that is now the norm.
    2. A customer risk profile is created, with a scoring engine and an enforceable, suitable and consistent work flow, based on each risk-based assignment.

    3. Customer review and validation is automated and includes information on beneficial ownership.
    4. Consistency is maintained in onboarding and underwriting.
    5. There is ongoing monitoring for suspicious activity from a wide source of data. This includes identifying higher risk customers, and subjects them to higher due diligence requirements and ongoing monitoring.

    For more information about how ContractPal does this, visit *www.contractpal.com*. The company also holds a patent regarding e-signature that would be valuable in conjunction with an e-brochure or merchant self-enrollment capability in the ISO's product suite.

- Ensure ongoing and timely use of forensic tools, such as interchange analysis and reporting, to identify anomalies and provide early warning of retrievals and chargebacks. Historically, this has meant setting up criteria for each merchant that tracks average ticket and daily volume, frequency and velocity, and swiped versus keyed transactions, in addition to checking for late settlement, duplicates, excessive declines, foreign cards, and limited key entry or forced transactions.

It is unlikely merchants can do all of this in-house. So, while the traditional role of the ISO is going away, unlike professionals in the British motorcycle industry, ISOs will get another chance to create and maintain a profitable, long-term business model.

Previously, ISOs functioned as gatekeepers for the card companies, furnishing an acquiring bank for the merchant and new clients for the bank, and providing a source of hardware and software to process card transactions. Now, ISOs can help by providing risk exposure management tools for both merchants and banks.

I'll end with an anecdote. Many years ago, I purchased a 1953 Velocette 350 single. Local expert Fred Twigg, restored it for me over the course of about 10 years. When he finished, it was "as new," maybe even "better than new." Fred rode it up my driveway, and we pushed it up the stairs and into my den, where it sat, virtually a new bike. It proceeded to leak oil on my hardwood floor, reminding me of the old saying, "Every part that falls off this bike is of the very highest British quality."

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.

Can mPOS be a game-changer in India?

By Sunil Rongala

MRL Posnet Private Ltd.

The mobile POS (mPOS) is taking off in a big way everywhere because mobile and payment technologies comprise a match made in heaven, like cookies and milk – or in the case of India, curry and rice. They are naturally symbiotic because of the cost and convenience advantages they bring to merchants. In India, where the POS market is dominated by small desktop payment terminals, mPOS is still in a fledgling stage.

Until now, mPOS efforts have largely focused on higher-end smart phones or tablets, such as the Apple Inc. iPhone and iPad, and Research In Motion Ltd. BlackBerry. These are not really viable in an emerging market like India, where they can cost upwards of $500 without a contract.

An initiative in India has endeavored to develop mPOS on a phone that costs $40 without a contract. But that effort stalled when the phone manufacturer discontinued the model. While mobile and payment technologies are a combination whose time has come, the duo has fared better in developed countries than in emerging markets because of cost and other factors.

Questions in need of answers

For mPOS to be a game changer, the following questions need answers.

- Are conditions right for mPOS in India?
- Can the cost issue be taken care of, and if so, how?
- What are the best sweeteners to entice merchants to give mPOS a try?

Fertile ground

The conditions are perfect in a number of ways for mPOS to scale up. For starters, India has over 900 million mobile phones in use, according to official numbers. Even if we reduce that number by 25 percent, the quantity is still massive. However, most of the phones in the market are lower-end. Yet, smart phones are beginning to capture a larger share because manufacturers have been able to introduce models for under $100 without contracts.

Credit card spending in the past two years has grown at an average rate of 25 percent, while debit card volume has risen by 42 percent. Growth for both types of card is likely to continue as India moves away from a largely cash-based economy. The number of POS terminals is about 700,000, and that doesn't come close to the number of individual merchants in the country.

Anecdotal evidence and informal surveys suggest India has some 30 million individual merchants, most of them small to midsize businesses. This untapped market exists because Indian acquirers do not pursue smaller merchants since the acquirers provide POS terminals for free. Given the capital cost, growth and penetration in this sector have been abysmal.

The regulatory environment stars have also aligned for mPOS. The Reserve Bank of India – the central bank – which sets the larger direction for payments, has taken upon itself the mission of making India a less cash-dependent society. It wants fewer payments to be made by cash or checks and had hoped for this to be achieved by mobile payments, much like the mobile money-transfer system M-Pesa is used in Kenya.

But this effort is stuck in a quagmire of interoperability issues between banks and telecom companies due to regulatory and political blunders. With this effort now essentially dead, the next best way to achieve the RBI's goal is going to be through mPOS.

Addressing high equipment costs

If mPOS is to succeed in India, it needs to be accepted by small and midsize merchants. They are being asked to buy mPOS terminals, which means that cost is going to play a huge role if it is to be accepted on a mass scale. The battle is half won, since merchants will be buying a device that is multipurpose in nature relative to a regular POS terminal.

While some merchants may want high-end smart phones, an iPhone 4S costs about $750 in India, which may be prohibitively expensive. The majority of merchants are likely to go for phones that are less than $250 without a contract. For the whole mPOS package to be effective, it will have to operate on a smart phone.

Given that most global efforts have been focused on relatively few, expensive smart phone brands and models, development in India will have to address the sub-$250 smart phones, and herein is the problem.

No clear global mPOS standards exist. Just because an mPOS dongle works on one phone brand and model, it doesn't necessarily work on another model from the same maker, even if both phones have the same operating system. This happens because the dongle usually connects through the headphone jack, and incompatible frequencies prevent dongles from working across all models and brands.

That said, for mPOS to succeed, not every dongle has to work on every sub-$250 smart phone; but a dongle that works across at least the most popular ones is needed. The good news is that a few firms have made serious and, in

Based upon the evidence, all the necessary factors seem to be in place for mPOS to scale up and be the game-changer that the Indian acquiring industry desperately needs.

some cases, successful efforts to allow multiple cheap smart phones to work on the same dongle.

Multifunctional and feature-rich

To make mPOS successful, the mPOS application on the phone, apart from following best practices, must provide more than just payment card processing capability. The application should be designed with extra features, such as accounting functions that merchants will use daily. Even if payment card usage rises, cash payments are still likely to represent a large percentage of transactions. So additional applications will be necessary to help spur adoption.

Apart from that, applications will need a great deal of flexibility to be able to work seamlessly on multiple smart phones, regardless of a phone's operating system.

The way forward

Based upon the evidence, all the necessary factors seem to be in place for mPOS to scale up and be the game-changer that the Indian acquiring industry desperately needs. However, for the program to really succeed, the following roadblocks need to be cleared.

- A mandate effective in early 2013 requires that POS transactions placed on debit cards in India be PIN-based. Current Payment Card Industry PIN Entry Device-compliant devices for mPOS cost nearly as much as regular POS terminals. With debit card transactions accounting for about 36 percent of card transactions, this cost factor is going to have a deep impact.
- International standards-setting bodies, such as the PCI Security Standards Council, have not come up with an mPOS-friendly debit card acceptance standard.
- No common standards are in place to avoid the incompatibility and interoperability problems that are likely to crop up as newer and cheaper smart phones come into the market.
- Europay/MasterCard/Visa-compatible dongles are going to become mandatory in June 2013 in an attempt to shift liability. Yet very few manufacturers are making these. For those that are, the cost is not competitive.

These factors have the potential to slow, but not prevent, adoption. With the stage set for growth, mPOS could begin to steamroll. As that happens, equipment costs will come down, and compatibility issues will be resolved along the way.

Sunil Rongala is the Head of Risk Containment and Business Strategy at MRL Posnet Private Ltd., a technology-driven transactions facilitator based in India. He is a professional economist and holds a Ph.D. in economics from Claremont Graduate University in California. To reach him, call +91-99490-61784, fax +91-40-2355-4002 or send an email to sunilr@mrlgroup.in.

Company**Profile**

PayCube Inc.

ISO/MLS contact:
Mustafa Shehabi
Co-founder and Princkpal
Phone: 925-285-6265
Email: *ms@paycubeinc.com*

Company address:
7276 Valley View Court
Pleasanton, CA 94588
Email: *innovation@paycubeinc.com*
Website: *www.paycubeinc.com*

ISO/MLS benefits:
- Mature capabilities to help ISOs bring technology in-house in a phased manner
- Build versus buy analysis for new product and platform development
- Full-spectrum payment technology development capability to cover multichannel payments
- Wide experience in acquiring systems and building technology for varied transactions types
- End-to-end technology provider for payment systems covering entire product life cycle
- Offshore development capabilities
- Focused team of payment professionals and technologists

Giving payment pros the technological edge

Located within a breath of California's storied Silicon Valley, PayCube Inc. specializes in providing end-to-end payment technology services – from strategy consultations to building and supporting payment gateways. The company's offerings include payment system assessment and evaluation; vendor and technology evaluations; and information technology (IT) project planning, execution and support.

PayCube noted that its clients include product vendors, financial institutions, ISOs, retailers, processors and networks. The company provides them access to multichannel payment, transaction acquiring, switching, settlement, reporting and security capabilities, as needed. "We appeal to a very broad audience," PayCube co-founder and Principal Mustafa Shehabi said. "Our projects range from a few thousand dollars to multimillion dollar projects."

Shehabi said the company is growing because PayCube "understands the business outright" and finds out what solution a given ISO is looking for and then builds it. "If a customer wants to hook up a POS to a mobile phone using QR codes, how many companies not only understand the question but can also build the solution?," he said. "We offer ISOs the opportunity to have payment capabilities across the board so they can share these capabilities with customers."

35 years in payments

PayCube's co-founders, Shehabi and Chandan Mukherjee, have more than 35 years' combined experience working in payments and IT outsourcing. The two men started PayCube in 2011 when they saw an opportunity to turn their technical payment-focused backgrounds into a business. "Our mission is to evangelize forms of technology in world payments processing," Shehabi said. He added that PayCube's technical capabilities could be widely applied, but the founders elected to dedicate the company's resources and talent exclusively to the payments space.

Shehabi said PayCube aims to foster change and innovation by keeping clients technologically up to date. "We are a payments focused technology consulting company and a custom software development company in the world of payments," he said. "If the customer needs an application built for a web page, a POS, a kiosk or ATM we can build that application. We are technology enablers. Customers need us to make technology come to life."

Both founders believe the company's strength lies in thoroughly understanding the needs of all parties in the payments space – from merchants and card issuers to the acquirers, banks and technology companies. They noted that PayCube knows how to ask the right questions to find the business solution a particular client is looking for, and it has the ability to build the exact system the client needs.

For instance, if an acquirer has an idea of what it wants to do but no technology or staff to develop and execute the concept, PayCube can step in and provide the requisite payment-focused technological resources, Shehabi pointed out. "Not all organizations have to be technology organizations," he said. "Emerging ISOs who are new to technology find it synergistic to partner with a payments focused technology firm like PayCube to help them through this process and become a partner to grow with."

Projects across the payments spectrum

PayCube's offerings include traditional POS and mobile applications that are compliant with the Payment Card Industry (PCI) Data Security Standard (DSS). Recent client projects have included building the following:

- Card-not-present payment apps
- A card-present app that employs Bluetooth card readers
- A web POS system
- A payment and promotion system for a mobile wallet
- A proof-of-concept payment system using quick response (QR) codes

In addition, the company has recently:

- Delivered technical requirements for a multiprocessor, multicurrency, multilingual payment switch
- Performed a prepaid technology competence evaluation for a large payment processor
- Created a credit, debit, gift card application that allows customers using specified terminals to make charity donations.

A key to keeping transactions in-house

Another piece of PayCube's business the founders deem to be significant is custom gateway building. Mukherjee believes acquirers need to control a larger portion of the transaction cycle to profit in the payments market because declining margins are challenging the viability of pure ISOs. Thus, PayCube promotes payment gateways as an effective way to capture a larger share of the transaction cycle.

The company customizes its gateways to include such options as the ability to:

- Use multiple processors for least-cost acquiring and settlement
- Include value-added programs
- Provide the opportunity to host real-time, location-based loyalty, promotion, incentive, prepaid and wallet solutions
- Include electronic funds transfer switching capabilities on terminals and mobile devices

PayCube's payment transaction switches are PCI compliant and work with credit, debit and open- and closed-loop gift cards; telephone top-ups; loyalty cards and programs; and other payment alternatives. Shehabi said a customized gateway can increase the value of an ISO by shifting it from being a seller of cost-based processing to becoming a technology asset-based processor.

PayCube's familiarity with cross-channel payments and its ability to provide technology-neutral solutions give gateway clients a competitive advantage, he added.

Social payments pointing to the future

Social payments demonstrate the kind of complexity PayCube can help ISOs address, Mukherjee said. Such payments comprise an emerging market where he expects to see rapid growth. He pointed out that social payments are difficult to define, but they include multiparty payments, fundraising and split payments.

"The basic idea of social payments is that a group of people get together to pool in funds for one common purchase, cause or service," he said, citing group fundraising, office donations, and gifts paid for by groups as examples.

Mukherjee also said acquiring transactions in the social payments arena will mean being able to accommodate multiple channels such as e-commerce, social media, mobile and traditional POS transactions. "Regardless of the transaction acquiring channel, the transaction must clearly identify the group for which the funds are being accumulated," he said. "Processing payments for obtaining the funds from multiple members of the group is not always smooth."

Mukherjee noted that social payment technology is similar to the technology powering stored-value account systems, but a social payments system needs to be enhanced to support such items as single point of funds disbursement.

He illustrated the challenge of processing social payments by noting that credit and debit cards give instant authorization, but automated clearing house payments may take days to clear, leaving the processor with serious fund collection, data storage and fund distribution challenges. Among the leading issues are how to handle declined cards and fraud in social payments.

Importance of technology, business strategy integration

Having a technology strategy is critical if an ISO wants to grow to the next level, Shehabi said. PayCube often counsels businesses on how to marry a technology strategy with a business strategy. He noted that the cost-benefit calculation is complex when it includes the cost of building, owning, maintaining and securing a gateway, for instance. Finding the answers to myriad payment technology questions begins with a consultation focusing on the goals and drivers of an ISO's business technology.

"Nobody has all the answers, not even the big guys in the industry," Shehabi said. "This means ISOs aren't the only ones making the decisions. Technology models will change even as companies invest in technology. Therefore they need a technology strategy. We offer complete back-end services to continue to address technology needs."

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Fears of disintermediation

Mustafa Shehabi, co-founder of PayCube Inc., a payment-focused technology consulting company and custom software developer, said the ISOs seeking his advice are increasingly concerned their services and offerings will be ignored as newer entrants into the payments sphere like LevelUp, Google Inc., Apple Inc. and PayPal Inc. dazzle the market with offers of free, easy-to-use POS systems or no interchange fees. "ISOs are worried they will get disintermediated," he said.

Shehabi said the consultative sales model offers ISOs the best opportunity to compete in the new payments environment because it allows ISOs to partner with merchants as they integrate new payment channels into their POS offerings.

This new and sticky ISO-merchant relationship makes sales organizations less likely to fall victim to disintermediation and offers ISOs the best opportunity to compete in the new payments environment, he stated.

"The sales representative is going to become an evangelist of all kinds of processing services, not just credit and debit," Shehabi said. "Salespeople will need to be able to talk with merchants about what LevelUp is doing and how they can capture data and use it more effectively."

Today's sales are not just about processing transactions; they are about building long-term relationships, Shehabi noted. PayCube focuses on working with mid-segment ISOs looking to accelerate growth by promoting technology, in addition to mature companies wanting to increase operating margins by incorporating new technology-based, value-added services into their businesses.

"At PayCube we teach ISOs how to marry their technology strategy with their business strategy," Shehabi said. He added that acquirers and merchants are alike in that they often know what they want to do with technology but they just as often don't know what the technology really costs or how to determine and implement the solutions that are right for them.

Balance between present, future opportunities

Paul Martaus, founder of the payment research and consulting firm Martaus & Associates, said disintermediation is just as much a risk for the new technology and mobile phone companies entering the payments industry as it is for ISOs.

Martaus said new players in payments may find merchants rethinking their deals if customer data is stolen or if merchants discover they have no way to challenge profit-killing chargebacks.

"The payments business is the most complex simple busi-

ness in the history of the world," he said. "When they look under the hood and look at the engine they will realize how many moving parts it has. Eventually they'll end up trying to replace something little understood and incredibly complex with something else little understood and incredibly complex."

Martaus expects it will be difficult for new companies in the industry to introduce change on a scale that can build and support a national payments infrastructure and generate profits. But he has no doubt technology companies and mobile phone companies will remain well financed and viable competitors to ISOs for some time.

Martaus also believes the way for ISOs to successfully compete with these new payments companies is to adopt a consultative sales model that delivers in-depth knowledge in specific market segments such as health care, restaurants and petroleum.

However, in preparing for the future, ISOs shouldn't lose sight of opportunities available now, Martaus said, noting that the card issuers' push for industry adoption of the Europay/MasterCard/Visa (EMV) global security standard is creating a tremendous opportunity for acquirers.

Martaus said he recently told an audience at the Western

> *Marketing and loyalty applications are an important new source of revenue for sales organizations faced with declining interchange rates and disruptive new pricing models ... ISOs ignore them at their own peril.*
>
> Richard Crone, Crone Consulting LLC

States Acquirers Association gathering in California, "If you go out now and sell merchants EMV terminals that also do encryption, you are selling in a marketplace that in today's world has no competition; you get the whole field to yourself.

"The devices you replace today with EMV terminals still have residual value but they will have no value later when the EMV standard is required. Selling an EMV solution now will give sales organizations a competitive advantage for a year or two because they have a super product, no competition and they get to charge a fee."

The importance of mobile

Richard Crone, founder and Chief Executive Officer of the mobile payment and marketing consulting firm Crone Consulting LLC, said that successful acquirers need a mobile solutions strategy because of the enormous opportunity it offers to acquirers.

"The first challenge for most ISOs as the payments market evolves is to move from the traditional price-based sales model to a relationship and consultative model," he said. "The key criteria for making mobile payment decisions are who controls the data and how a mobile payments solution might work."

Crone believes acquirers in the mobile payments arena should consider building or adopting mobile software applications that give them (and their merchant clients) access to customer data rather than allowing mobile network operators and technology providers lone access to the information.

"ISOs would be best served to focus on a merchant-centric approach rather than a third party intermediary approach," he said "They could end up doing a bunch of charity-based work for First Data and Google if, at the end of the day, they give them the consumer data."

Crone feels that for most merchants and ISOs, data acquisition begins at the prepaid level. These ongoing spending accounts with a merchant are an entry point for mobile marketing and loyalty programs.

Marketing and loyalty applications are an important new source of revenue for sales organizations faced with declining interchange rates and disruptive new pricing

models, he said, adding that ISOs ignore them at their own peril.

"If you don't have a mobile payments strategy, now's the time to get one," Crone stated. He predicted ISOs that do not offer a mobile processing platform soon will lose business to companies with merchant-centric mobile payment options. He said his job is to help ISOs and sales representatives understand the issues they face in mobile payments and translate that knowledge into sales and revenue.

"Mobile payments is a defining moment for ISOs and MLSs and they need to be very strategic in their approach," he said.

A place for security consulting

Todd Whittaker, Senior Channel Sales Manager at Authorize.Net, a security solutions provider for the Visa Inc.-owned electronic payment and risk management company CyberSource Corp., said his company embraces its new role as "the consultants' consultant." Acquirers need to speak to merchants with confidence and knowledge about fraud, and they need to know who the fraud and security experts are when they need additional support, he stated.

"In order to remain close to their customers, ISOs are tasked with an obligation to be the industry experts, trusted advisers who understand security issues tailored specifically to their merchants," Whittaker said. "This industry cannot be about one sales organization closing a single customer deal.

"I believe that ISOs who invest in cultivating long-term relations among their partners and customers, and therefore bring more to the table, will win the hearts of their merchants and ultimately experience long-term success."

Whittaker said the constantly evolving threat of fraud is a driver behind the changing role of ISOs and merchant level salespeople (MLSs) and opportunity lies in the realization there is no one right solution.

"Long gone are the days of the 'set it and forget it' strategy to fraud prevention," he said. "Merchants are looking not only for flexible and scalable solutions to their business challenges, solutions that take an ecosystem of partners to

create, but also a trusted adviser who will be there during these times, helping them navigate through the change. This is why consulting and partnerships are key for all industry stakeholders."

Autorize.Net's approach to consulting is based on a "holistic total system, layered approach to network and payment security," he said. The company's services include face-to-face meetings with ISOs to discuss payment opportunities and challenges; sales collateral through the Authorize. Net portal, educational videos and visuals, and hands-on product training.

Legal strategies for a new environment

ISOs sometimes don't realize how the development of technology can impact their businesses from a legal perspective, said Adam Atlas, an attorney whose practice has focused for more than a decade on clients in the payments industry.

ISOs providing merchants with security services and other consultative-related offerings should have legal agreements in place that provide liability protection. "The legal solidity to supplier agreements is really the pillar on which your business rests," he said. "Without these agreements properly in place, the ISO can lose out on huge sums of money."

In-house development of payment software is becoming more and more common for acquirers. Atlas said ISOs delivering these products need to be aware that development of new payment software should be accompanied by added legal support such as licensing agreements for merchants.

Also, as ISOs begin to build custom solutions for clients, they need to keep in mind that the customer's requirements can sometimes unknowingly push the acquirer solution into governmentally regulated areas, "and that's a whole other kettle of fish" he said

Theory in practice

Kevin Jones, President of SignaPay Ltd., an ISO delivering high-tech, high-touch solutions and services exclusively to ISOs and value added resellers (VARs), said his company has realized "an unprecedented evolution in a turbulent marketplace."

One way SignaPay is positioning for long-term success is through its partner agreements. SignaPay, for instance, offers its sales organizations the ability to board merchants on several major processing platforms. SignaPay also has deals with three POS manufacturers to offer EMV- and near field communication-enabled terminals to customers as soon as they are available.

"Our infrastructure, platforms and middle-ware technology are totally scalable and positioned for long-term growth," Jones stated. He added that it is becoming "much more complicated and hard to survive as an ISO," and a sales organization needs to decide what role it is going to play in the ecosystem as it moves forward. He advised ISOs to focus on demonstrating payment sophistication and experience.

"Those who succeed in this next payments revolution will be those who capitalize on the existing distribution channel: ISOs and agents," he said. He feels it would be wise for upstart payment companies to use ISOs as a distribution channel because that would enable them to acquire transactions at a faster pace while eliminating distribution problems.

He also advised ISOs to develop partnerships with new payment companies that add value and can influence merchant loyalty and buying decisions. "The [new payments] companies that offer us simple solutions backed by training, marketing and excellent customer support will be the ones that succeed," Jones said.

Jones noted that SignaPay is positioned to be a "high-tech ISO and VAR boutique," and the company will continue to drive change with simple, scalable solutions that help ISOs navigate the complicated electronic payments ecosystem. "We want to supply our partners with all the templates in the marketplace and help guide them appropriately," he said.

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Make large merchants your gravy

By Jeff Fortney
Clearent LLC

A few years ago, one of my friends in the payments business shared the worst thing that had happened to him during his career. It involved his best friend, with whom he'd been close since the third grade. They were college roommates, best man at their respective weddings, and godparents to each other's children.

After college, my friend entered the payments business; his friend joined his father's company and soon became one of my friend's first merchant accounts. Both businesses flourished. Years passed, and it came time for the merchant's daughter to get married. It was a beautiful wedding.

"The call" came the day after the wedding. "I have bad news," my friend's friend said. "My new son-in-law is in the payment processing business, and I'm going to have to move my processing to him. I hope you understand. It's either move the processing to him or support them in other ways."

Imagine my friend's shock, especially since 40 percent of his revenue came from this account. He had three choices.

- He could play hardball and not let his friend leave.
- He could charge the early termination fee.
- He could simply respect his friend's decision.

He chose the latter and said if he were in his friend's shoes, he'd do the same thing. Both men decided their friendship was too important for this to come between them. However, it took my friend a couple years to recover even a portion of the business he'd lost.

A shared experience

I asked fellow members of GS Online's MLS Forum whether they had ever been in a similar situation. I hit a nerve: I received more responses on this topic than any other.

"My old college roommate went to work for this B2B corporation as its COO," **JC7310** posted. "He asked me if I could handle something this large and, of course, I said yes.

"Their local bank was handling the processing and charging them an arm and a leg. They were thrilled that I was able to save them more than $1,000 a month. I then helped them bring on a client worth over $1.5 million in sales simply by proving that they were PCI compliant.

"Then along came a huge prospect for them, worth upwards of $4.5 million in sales. They asked if I could handle this influx in business, and I darn near fainted. All was good.

"The higher ups in the company loved the fact that I would drop whatever I was doing to tend to their needs. ... It turned out that they needed to get a substantial credit line to handle the increase in inventory they needed for this huge prospect.

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> *It's important to recognize the potential risks involved in signing a larger merchant. As time goes by, it's easy to take large merchant customers for granted. You'll no doubt provide above-average service; remember to look at how time spent on these merchants will affect your overall income.*

"Their bank said they could have the credit line, but insisted on the processing. My Golden Goose was cooked. I still have not recovered financially, but enjoyed the ride while I was on it."

CCNJ's loss related to family. "I had a private school who was processing tuition payments and was generating about $700 a month in profit for me. While my ex and I were together, everything was fine, and I did what I could to keep the account happy.

"Once my ex and I split, my former mother-in-law, who happened to sit right near the comptroller of the school and executive director, saw to it that I lost the account."

Forum members provided several other examples. **JOHNMCKEE** summed them up well. "It hurts to lose a big customer, especially when a friendship is involved. When I asked a friend why he switched he said, 'John, I like you a lot. You're a good friend, a great golfing buddy and you're always there when I need you. But I happen to like my money better.'"

These stories share several common threads:

1. Each represented a significant portion of the rep's overall residual revenue.
2. Each merchant received exceptional service – at the expense of selling to new customers.
3. Each rep is still trying to fully recover from the loss.
4. Each merchant left for reasons outside the payment rep's control.

Stories like these abound in almost every industry. In some cases, the companies didn't survive. However, you can take steps to avoid catastrophe, ease the impact to your income and make the overall loss less painful. Just follow the IDOL acronym: Identify, Dilute, Overcome and Lead.

Identify

It's important to recognize the potential risks involved in signing a larger merchant. As time goes by, it's easy to take large merchant customers for granted. You'll no doubt provide above-average service; remember to look at how time spent on these merchants will affect your overall income.

It is critical that, as a sales rep, you comprehend which merchants impact your residuals the most and quantify the effects. Set thresholds so you can mitigate the impact that any one merchant can have on your income.

Start by calculating the percentage of your residuals you could lose and still survive if a large merchant switched service providers.

Notice I said survive, not thrive. That percentage may be as little as 10 percent or as high as 25 percent. Next, weigh every merchant as a percentage of your total residuals. If any one or two merchants exceed your survival percentage, their loss could be fatal to your long-term success.

Take note whenever you sign a merchant who will generate residuals that exceed your threshold. Until you address the next step, don't consider this added income as long-term revenue.

Dilute

This is the most critical step to help you survive the loss of large merchants. Dilute the impact these merchants have on your residuals. The way to do this is to offset the account's revenue with merchants that better match the description of your "average merchant."

Once you have identified these large merchants, determine what your average merchant generates in residuals. Divide that average into the residuals generated by your large merchants. This reflects the number of average merchants you need to sign to ease the impact of the larger merchant.

Then sign this number of average merchants as quickly as possible. You must manage your time to accomplish this task. This may be the most difficult step. You have to maintain your level of customer support while increasing your marketing efforts. This requires dedication and time management because these merchants are above and beyond what you need to sign during a given a time period.

KLINCKPHILIP affirmed the importance of this concept: "The only way I know to fix a loss like this is to sell more accounts. When I sign a big merchant, I feel pressure to immediately cover that amount of residual with new accounts in case they leave."

It's OK to celebrate a large signing and its added revenue; it's more important to recognize the importance of diluting that impact on your overall residuals.

Overcome

Even if you fully dilute the impact of a large-residual merchant, losing one is painful. However, you can take steps that will help you overcome that pain.

Start by identifying why the merchant left. Is it because of something you did or because of factors that are outside of your control? Was there a communication breakdown? Was there a software or product need you could not support?

If the reason is due to something you could have controlled, implement steps to prevent it from harming your residuals in the future. If the reason is software or product driven, talk with your ISO partner about how to address this need; determine whether it was unique to this merchant or merchant type.

If the reason the merchant left is out of your control, keep the lines of communication open because the merchant may want to come back. Even if that's not the case, the merchant can still be a good source of referrals for future business.

Also, remain calm. If you panic or react negatively, it can and will impact your relationship with the merchant, as well as potentially damage your reputation. You can say that you're sad to see the merchant go, but be professional.

If the relationship has always been positive, chances are the merchant is not happy to let you go. Leverage this by asking at the end of the call if the mer-

chant knows of any company or companies that can use your service.

Lead

It has been said that leaders lead while managers manage. When a major merchant leaves, even if you have taken all the proper steps to mitigate the impact, you must become a leader. Being a leader doesn't necessarily mean you're "leading others."

Even if you are a one-person office, examine your long- and short-term goals; adjust them as needed to address the lost residuals.

Leaders know hurdles will arise, even during the best of times, so they have action steps prepared to address them. For example, examine your current attrition rate to determine steps you can take to reduce it. Reducing attrition will help shorten the time necessary to recover from a big loss. You can also increase your sales time by eliminating activities that are not sales related.

Remember, leaders look forward, not backward. Leaders know they can't change the past, so their energy is devoted to the future. As **MAKETELINC** said, "Anytime you sign a large merchant, be happy while it lasts. But know that it is only a smile for a while."

No one wants to lose a large merchant. It's a damaging event, both monetarily and emotionally, and if not immediately addressed can result in even greater losses. Follow IDOL to minimize the impact of such losses.

And if you follow IDOL all the time, the large merchants in your portfolio will be akin to gravy on mashed potatoes. Gravy is nice, but you won't starve without it.

Jeff Fortney is Vice President, ISO Channel Management with Clearent LLC. He has more than 17 years' experience in the payments industry. Contact him at jeff@clearent.com or 972-618-7340. To learn about how Clearent can help you grow faster and go further, visit www.clearent.com.

Coping with PCI noncompliance fees

By Adam Atlas
Attorney at Law

T he PCI Security Standards Council developed a set of security standards to protect cardholder data. We have all heard examples of security breaches at merchants both large and small. These breaches, which often involve stealing cardholder information, result in fraud on the card-issuing system.

The liability for that fraud is carried by all the participants in the network, including the merchant, POS provider, gateway, processor, ISO, acquiring bank, payment network, issuer and cardholder.

Yet to make cards as easy as possible to use, the network tries, wherever possible, to avoid making consumers liable for fraud, except when the consumers, themselves, are the perpetrators of the fraud.

Merchants are first in line for fines

For security or revenue purposes, or both, the payment brands have instituted fines on merchants for security breaches and Payment Card Industry (PCI) Data Security Standard (DSS) noncompliance that have been very costly for the merchants.

> *The big question for our industry is how to deal with this mass of merchants who, for any number of reasons, just don't bother to begin compliance efforts.*

For example, my firm advised a pizza restaurant that unknowingly stored 15,000 credit card numbers on a server in its back room. After criminals from overseas hacked into the server and stole the numbers, the restaurant was fined over $300,000 by a payment brand for PCI noncompliance and the breach. The fine put the restaurant out of business.

It was never revealed to the merchant to what extent the stolen cards were used, if at all. In other words, the process of ascertaining and levying these fines does not take into account the actual fraud committed. Instead, the fine is often calculated as a function of the cost of replacing the stolen card numbers, which is about $36 per card account.

The disconnect between the total amounts of fines levied and the harm done implies that business factors drive the magnitude of the fines, rather than just an interest in maintaining security and repairing the wrong done by a breach.

A gulf between the objective and reality

A semblance of PCI compliance is achieved when a merchant completes a self-assessment questionnaire that helps the merchant identify PCI issues. All merchants are supposed to complete these questionnaires. Anecdotally, only about 20 percent have done so.

This means a majority of merchants have failed to take the first step toward being PCI compliant.

The big question for our industry is how to deal with this mass of merchants who, for any number of reasons, just don't bother to begin compliance efforts. Considerable factors may be that some of these merchants are new to America, not fluent in English or too busy to spend time on technical questionnaires.

The processor as sheriff

As trustees of the rails on which the financial system rests, processors are ultimately responsible for remitting the face value of fines to acquirers when their merchants fail to do so. Thus, they act as a kind of receiver for the payment networks in the administration of the PCI system.

Whether to motivate merchants to become more compliant or to earn fees from the whole PCI phenomenon, processors working for the benefit of acquirers, as well as themselves, levy fees on ISOs for not doing enough to bring merchants into compliance. These PCI noncompliance fees are the source of a lot of consternation in the industry right now, mostly because they do not appear to be grounded in objective agreements between the parties levying them (processors) and the parties being asked to pay them (ISOs and merchants).

Within the verbiage of merchant agreements, merchant pricing is usually subject to adjustments of various kinds, but ISO agreements usually do not allow the processor as much leeway to adjust pricing. Indeed, if processors had the unfettered right to change ISO pricing for any reason, the negotiation of ISO agreements in the first place would become pointless.

The ISO as enforcement deputy

ISOs have become the often-unwilling enforcers of PCI compliance programs and are required by processors to sell hefty PCI noncompliance fees to merchants. These fees, originating with the acquirer, are uneven and sometimes arbitrary; and they get marked up as they are passed down through the processor to the merchant.

Some ISOs have found a sweet spot in this chain of events, finding a way to entice their merchants to pay PCI compliance or noncompliance fees and earning enough from those fees to justify the effort of selling them.

Other ISOs are struggling to keep up with new and seemingly arbitrary compliance fees from processors, which result in irate merchant calls, spikes in attrition and loss of competitive advantage.

As deputies enforcing PCI compliance programs, ISOs hold double-edged swords; they can either pass the fees through to earn more in a market with ever-shrinking margins, or absorb the fees to preserve their portfolios while taking enormous reductions in residuals.

ISO agreement pricing amendments

Because of interchange and other infrastructure costs that adjust over time, ISOs are accustomed to pricing changes in their ISO agreements, without great interference in the essential commercial understanding of the agreements.

ISOs are not, however, accustomed to new charges, such as PCI noncompliance fees, that do not appear to be based on some objective calculation of costs to the processor. In recent months, a spate of new fees has been tacked on to ISO agreements, often for PCI noncompliance, which the ISOs are supposed to pass through to their merchants. A problem arises when no rational basis exists for these new fees. The amount of the fee can seem arbitrary.

For example, a fee of $10 could just as easily be $100. Therein lies the crux of the crisis that many ISOs find themselves in now. They are flustered not by the addition of a new fee, but rather by the fee's lack of grounding in third-party costs or other objective determinants.

If the PCI noncompliance fees are levied on ISOs, effectively implementing a mandatory amendment to

ISO pricing without their consent, ISOs are left wondering why they bothered to negotiate ISO agreements in the first place. Hopefully, processors will back down and keep their promises to ISOs to charge fees that are based upon the agreed pricing schedules. Time will tell. 🖼

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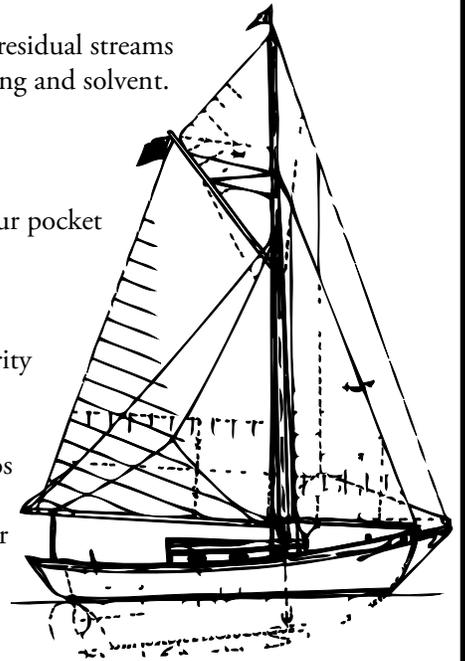
200 ways to get noticed – Part 1

By Nancy Drexler
Acquired Marketing

his is the first of two articles containing tips compiled to maximize your sales and marketing success. This article covers use of presentations and webinars, company websites, and email. The second article, which will appear in an upcoming issue of *The Green Sheet*, will offer additional advice on using email, as well as tips regarding social media, blogs, and company advertising and collateral.

Presentations and webinars

1. Encourage communication while attendees arrive and settle in for the event.
2. Assume most people don't want to talk to you unless you give them a reason to do so.
3. Start with a compelling reason why someone should want to talk to you.
4. Mean what you say, and say what you mean.
5. Bring flowers.
6. Bring a plaque.
7. Disable desktop email notifications, chat functions, Skype alerts, appointment pop-ups, weather alerts, software updates, screen savers, power savers and any other distractions.
8. Be friendly and entertaining.
9. Modulate your tone of voice and vary your pacing to grab and hold attention.
10. Keep the show moving at a brisk, but unhurried, pace. Keep your audience engaged.
11. Avoid "dead air." If things go a bit haywire, let participants know and, if possible, continue the webinar or presentation despite any less-than-optimal conditions.
12. Speak clearly; speak concisely. If you catch yourself rambling about an inconsequential point, stop and get back on topic.
13. Create content attendees can use immediately. They should be excited about implementing your ideas.
14. Avoid clutter. Choose easy-to-read fonts; set the size to about 30 points. Stick to a simple, unobtrusive color scheme.
15. Instead of boring bullet points, use an arresting image that captures the essence of your idea. Then talk about the idea, point by point.
16. Use fewer slides, and become less dependent on them. Attendees are not there to hear you read from slides. They want you to talk to them.
17. Use the zoom feature to make smaller slide details readable for viewers.
18. Focus on that wow factor. If your customers feel amazing, they will keep buying from you. They will tell their friends, they'll mention you on Facebook, key influencers will get excited – and on and on.
19. Solve problems. Customers don't forget business partners who are attentive to their needs.
20. Compare what you provide to what competitors are pedaling.
21. Make a free offer.
22. Direct attendees to your website to download the presentation.
23. Encourage attendees to submit questions. That can help get the Q&A off to a quick start and may uncover a lead or two.
24. Set up several single-question polls to use at key times during your presentation to keep participants alert and involved.
25. Read body language and control your own. Direct eye contact, smiling eyes and a relaxed brow are signs of comfort and interest; no eye contact and tension in the brow can indicate discomfort and even lying.
26. If someone is showing signs of boredom, try to engage the person in the presentation. Ask a question focused on the individual's needs. Endeavor to help the person relax.
27. Wear blue: it is the color liked by the greatest number of people and is thought to enhance communication.
28. Respond to leads immediately. (Harvard Business Review reported that businesses that tried to contact potential customers within an hour of receiving a query were nearly seven times more likely to qualify the lead than those that tried to contact the customer even an hour later – and more than 60 times as likely as companies that waited 24 hours or longer.)
29. Send thank-you notes immediately after the event.

Websites

30. Create unique looking pages, and change them often. Don't use default looks or templates.
31. Change your copy frequently, adding news and product information to your home page.
32. Share information without selling.
33. Add keywords that capitalize on the latest industry news and information, such as EMV and PCI.
34. Make readers hungry for more with fresh, catchy and valuable content.
35. Highlight your history to emphasize your stability.
36. Include content that demonstrates you are in business for the long run.
37. Include information customers will expect to find on your website, or they will wonder (not in a good way) why it isn't there.
38. Make it easy for viewers to find what they are looking for.
39. Offer content that is neither too broad nor too specific.

40. Create unique sites for distinct audiences; don't satisfy one customer while alienating others.

41. Employ search engine optimization. Use potent keywords, metatags and the right HTML codes. Ensure search engine spiders can correctly index your site.

42. Submit your site to directories and galleries.

43. Use analytics to understand how your sites are being used, and adjust accordingly.

44. Add widgets to your site: news feeds, blogs, tweets, and links like Delicious, Digg and StumbleUpon.

45. List your URL everywhere you can – as part of your email signature, on all your marketing materials, on premiums and on give-aways.

46. Feature all awards, recommendations and testimonials prominently.

47. Run competitions.

48. Host events and promote them with photos of attendees.

49. Offer free consultation services or affiliate opportunities.

50. Link to your social media sites and blogs.

51. Write articles for other websites, and link to those sites.

52. Record podcasts and videos. Invest in a good microphone, find a quiet location and enjoy prepared, but not stilted, conversation.

53. Offer newsletters and RSS feeds.

Email

54. Respond to information requests and leads immediately.

55. Don't purchase lists for email campaigns; they won't work.

56. Create your own list via social media, newsletters, white papers and free offers.

57. Use the right technology. For example, look into DomainKeys Identified Mail to avoid hackers.

58. Make your messages easy on the eyes.

59. If the "from" is not a well-known company, compensate with a strong, benefit-driven subject line.

60. To stay out of spam boxes, avoid words like "free" and "hot" in the subject line.

61. Quote someone who is well-known or has authority.

62. Offer value.

63. Solve a problem.

64. Help prospects do comparisons that put you in a favorable light.

65. Keep it simple.

66. Write for an audience of one: use common conversation, not formal speech.

67. Decrease your text-to-image ratio.

68. Avoid tiny text – remember mobile users.

69. Don't use one large image at the top with text underneath. If the image doesn't display right, the reader never gets to the message.

70. Make the call to action big enough to easily find and read on the screen.

71. Don't try to close a sale in an email.

72. Use emails to build familiarity and grow long-term relationships.

73. Focus on both your short-term and long-term objectives.

74. Leave enough space around a button image so that it is easy to utilize on a mobile phone.

75. Use vertical forms; they generate more response than horizontal forms.

76. Equate your subject line to a headline – make a point that appeals to readers.

77. Use punctuation in the subject line; this will increase the message's open-rate.

78. Your first line of copy is premium real estate – make sure it works hard.

79. Generate attention with a bold statement, startling statistic or curiosity-arousing question.

80. Remember the 4 U's: unique, useful, urgent and user-specific.

81. Don't use multiple columns of text. One long column is easier to read.

82. Never embed video; provide a link instead.

83. Include offline contact information.

84. Use red, but don't overdo it.

85. If multiple people are sending emails to the same audience, coordinate the timing and content of messages.

86. Every email should drive readers to a website landing page or contact form.

87. Leverage historical, behavioral and demographic data to inform the delivery of content.

88. Capitalize on current events to keep your message timely.

89. Personalize. Whenever possible, refer to a recipient's interests or past behaviors.

90. Offer free or discounted services on the recipient's birthday.

91. Add links to social media.

92. Make your email readable on mobile devices.

93. Act like an expert.

94. Make sure your content is valuable.

95. Offer an incentive to act.

96. Offer a free download to capture email addresses (and further build your opt-in list).

97. Put your picture on your communications.

98. Keep it professional – no spouses, children, sports or sex.

99. Send an email after every contract or agreement is signed.

100. Recommend a date and time when you and the recipient can speak.

Nancy Drexler is the President of Acquired Marketing, a boutique marketing firm for businesses in the payments industry. To learn more about what Acquired Marketing can do for you, visit www.acquiredmarketing.com *or call 917-743-5258 or email* nancyd@signapay.com.

The smart way to sell POS systems – Part 2

By Joe Porco
Harbortouch

I n the first article of this two-part series, "The smart way to sell POS systems – Part 1," *The Green Sheet*, Sept. 10, 2012, issue 12:09:01, I discussed effective ways to prospect for potential customers and get your foot in the door.

In this article, I detail how to make the most of a sales meeting now that you have the merchant's attention. It covers what to do before, during and after the meeting and includes advice on how to manage expectations, conduct a survey, tailor your demonstration to the survey results, sell the value of your team and become a connector.

Manage expectations, set the agenda

By setting an agenda and managing expectations, you will convey that you are the consummate professional, you are organized, you are a clear communicator, you value the merchant's time, and you deserve mutual respect in the handling of your appointment.

Many of my former associates lamented over their frustrations with appointment stand-ups, last minute changes and overall lack of their prospects' attention. Ever since I put this process into effect, I significantly reduced the occurrence of stand-ups and attention issues.

Prior to the meeting, discuss the three items below; your prospective customer will know you are an organized professional who respects the prospect's time and will utilize it efficiently. Also, email a copy of your agenda, and ask if the prospect would like to add anything.

- Describe your process: "Here is what you can expect …"
- Explain your objective: "In our meeting, we will accomplish the following …"
- List your deliverables: "By the end of our meeting, you will have …"

Conduct an on-point survey

I have created a customer profile survey that provides positioning phrases (probes) enabling me to gather each customer's commitment points (hot buttons). You earn credibility without uttering any sales statements through active listening and astute observation.

Matching needs is one of the most critical steps within

the sales process, and the customer survey will assist you in gathering the necessary information to move the sales process forward.

This tool allows you to obtain relevant information to better understand your prospect. This is done through insightful questions and open-ended statements, and it provides you with all the information you need to deliver a very powerful on-point demo.

There are a host of scenarios and a multitude of ways to demonstrate knowledge while eliciting new insights. Pose a question or state a fact that positions you as an expert or builds trust with the business owner. For example:

- For a retail merchant, you can ask, "Do you work with National Retail Federation codes" or "Do you track your inventory with an industry matrix?"

- For a casual dining restaurant, identify a key piece of equipment such as an espresso machine, and ask the business owner why he or she chose that particular brand or model.

  You will gain much insight from this exchange, such as the amount of pride the owner places in the establishment's equipment, how he or she perceives value, how important certain features are, how much the owner researched the product before making the purchase, how important specifications are, etc.

  This information will guide the way you convey your value propositions when you deliver your proposal.

- For a fine dining establishment, compliment the extra touches the prospective customer has added such as a crest on the restaurant's plates, the threaded linen, etc. This will inform the business owner that you appreciate the characteristics that differentiate this particular restaurant.

- Every industry has unique characteristics that can be highlighted in your survey. Simply google that industry, review some articles from insiders and note the pertinent information to create talking points.

Tailor your demo to the survey

Customize your demo to hit all the hot buttons that were revealed by the customer survey. Make sure you are knowledgeable and well rehearsed on every topic you are going to cover, including the following:

- Explain the operational construct of the system (why the buttons are placed where they are) and why it was designed with the user in mind.
- Show basic functions and gradually layer in more

complex transactions. Make sure you explain how each function will benefit the business.

- Discuss the reports, but try not to overwhelm the merchant. Say something like, "There are numerous POS reports at your fingertips. However, the basic reports that allow every business owner to manage peak performance and profitability are their key performance indicators, called KPI: sales, taxes, labor and product mix."

Sell the value of your team

Most POS systems require a support contract or service agreement of some sort. The team providing this support can be one of your biggest differentiators, yet most sales representatives allow their prospects to refer to this support expense with a negative connotation. The key is to properly position your support team as a unique benefit, not a line item expense.

You can even go as far as including your support model in your list of valuable features. It is important to keep in mind that statistically the most satisfied customers are those with support contracts.

The next time you conduct a sales meeting, describe your support model as passionately as you describe your product – you may be surprised by your prospect's positive reaction.

Be a connector

If, during your conversation, the merchant mentions a project he or she is involved in, a difficulty the merchant is encountering, or an issue that needs addressing and you know someone who may be able to assist, be a connector.

By actively offering referrals, you will not only make a good impression with the merchant and show that you care about the merchant's enterprise, but you will also build goodwill with the person to whom you are referring the prospect.

Hopefully, this will earn you some reciprocal referrals in the process.

Also, remember to ask for referrals from the merchant. Even if the prospect doesn't end up purchasing from you, he or she may be willing to provide the contact information for other business owners who may be interested.

While I devised these selling strategies as a primer for POS systems sales in particular, most of these successful selling strategies can apply to the ISO and merchant level salesperson community in general.

New opportunities are emerging in payments at a fast clip. It is important to educate yourself about them.

While I have endeavored to provide an overview of effective sales techniques and considerations, if you are serious about POS system sales, I strongly recommend participating in the full training programs available from many POS providers in the industry.

Joe Porco is a seasoned POS sales professional and National Sales Trainer for Harbortouch, an emerging leader in the POS industry. His strategies are tried and true representations of daily sales activities that led him to turn around territories plagued with issues, as well as earn him sales leadership recognition. Joe regularly shares his strategies as part of Harbortouch's free POS training program. If you would like to know more about this innovative program, email jporco@harbortouch.com.

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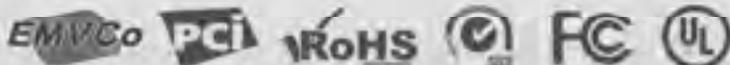payment terminal

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It's all about increasing ROR

It has long been known that going above and beyond duty to provide stellar customer service to merchants is one way ISOs and merchant level salespeople (MLSs) can differentiate themselves in the crowded, commoditized payments industry. And many contributing writers for *The Green Sheet* have emphasized the importance of nurturing relationships with current customers, not only to retain and expand those business relationships, but also to secure referrals to help obtain new business.

The boom in blogging and the advent of social media have also led to exploring new forms of media to interact more fully with customers. Many companies maintain interactive corporate blogs and are active on Facebook, LinkedIn, Pinterest and other sites where they believe their customers can be found. Connect, connect, connect seems to be the mantra of the day.

Well, *The Hidden Wealth of Customers: Realizing the Untapped Value of Your Most Important Asset*, takes developing customer relationships even further – to realms that can foster more active, enthusiastic customers and faster, more profitable growth for businesses, according to the book's author, Bill Lee.

President of Lee Consulting Group and Chief Executive Officer of the Customer Strategy Group, Lee has provided consulting services to such companies as IBM, AT&T, Apple Inc., Microsoft Corp., Wells Fargo & Co. and Salesforce.com, among others, and he provides plenty of data and case studies in the book to support his concepts.

What does Lee propose?

Lee believes current customers are "today's greatest overlooked growth opportunity" and that purchasing a

The Hidden Wealth of Customers
Realizing the Untapped Value of Your Most Important Asset

By Bill Lee
Harvard Business Review Press
ISBN: 978-1-4221-7231-5

company's products and services is just one way, and not necessarily the most profitable way, customers can provide value.

However, when it comes to their customers, most businesses are focused primarily on sales and secondarily on obtaining referrals; they give scant attention to other possibilities. Thus they are not getting much return on relationship (ROR). In the book, Lee offers methods for maximizing and measuring ROR, too.

It all begins with a new customer value proposition, one that brings customers closer to the core of product marketing and development than a traditional us-versus-them mindset, one that can create the customer advocates, influencers and contributors (AICs) who are essential to business wealth creation today, according to Lee. He illustrates "how to engage with, organize, and lever-

age the force of your own customer base to propel sustained growth – all while creating far greater value for customers themselves."

He emphasized that this is not a Net Promoter Score (NPS) system that identifies a company's most loyal customers as the most likely ones to recommend the company to others. Regarding NPS programs, Lee wrote, "I've found that many have major gaps and missed opportunities that add up to serious losses of potential earnings.

"They may work diligently and effectively to create promoters, yet do nothing to encourage them to, well promote – whether through referrals, testimonials, speaking at industry events, participation in a white paper or case study, or so forth. And they do even less to actually bring customers into their product development process."

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How does it work?

One scenario Lee provided in the first chapter to give readers a sense of what the new customer value proposition can mean was of a customer he named Catie, a professional who is a loyal customer of a certain company, belongs to associations the company is interested in and is also active in social media.

The company begins to interact with Catie and learns she is open to becoming an advocate (an AIC) for the company. Lee emphasized that this cannot involve "crass rewards or bribes to encourage an ambivalent customer to say great things about you."

It does involve the company helping Catie learn to tell stories about how she's using the company's products and services to improve her business, as well as helping her expand her own network and visibility in the industry, a sphere in which the company is also interested.

The relationship develops over time as the company provides Catie with "thought leadership" information and data on new industry trends and products. Only when appropriate does this involve writing about the company's products and providing links for further information. Catie interacts with those who comment on her posts, as well as responds to related posts by others. This increases her visibility in the industry, and it increases the level of discussion about the company on social media.

Assuming this goes well, the relationship can expand to include co-creating webinars, videos and even industry conferences at which Catie participates as a speaker along with other industry professionals. And this is only the beginning. Catie, and others like her, can help, not just test and give feedback on new products, but actually help develop them from the start, because, as Lee pointed out, customers "understand buyer needs far better than we ever will."

The point of the example was to illustrate "that all of these activities represent tangible, high-value creation – value that most companies fail either to foster or measure." Real-world examples follow, including the case of Salesforce.com, which credits concepts in this book, in part, for achieving its 80 percent close rate for new business. This was central to its ability to grow its business in the face of established, better-funded, large competitors, according to the author.

While some suggestions in this book might be more applicable to large ISOs and processors, the book could prove useful to smaller ISOs and MLSs if they apply the ideas promulgated to make their business relationships more rewarding and profitable for themselves and for their merchant customers. 🖼

Volunteerism bolsters local economy

Like many business leaders, Marc Gardner, President and Chief Executive Officer of North American Bancard, considers charitable giving an integral part of his life. A similar philosophy applies to NAB's stated philanthropic mission of "fulfilling the American dream."

Today, NAB employees actively participate in a variety of community fundraisers, volunteer their time at local food banks and donate critical supplies to charitable causes. Recent recipients include the American Red Cross, Operation KidEquip School Supply Drive and Gleaners Food Bank, among others.

Headquartered in a suburb of Detroit, an area especially hard hit by the recession, NAB has a longstanding commitment to the Toys for Tots campaign, donating hundreds of gifts to area children each year. And charitable fundraising walks for combatting specific types of cancer are not uncommon for this growing ISO either.

Regardless of the charity, Gardner believes the cause must be worthwhile for the entire organization to accomplish a unified goal. "It makes it a lot easier to donate your time or money if you're really engaged and passionate about the cause," he said. "It takes initiative from an entire corporate holistic team approach."

Bringing dollars home

With a background in economics, Gardner understands the challenges facing metropolitan areas seeking to regain financial stability in the post-recession era. "In Detroit, there is close to 20 percent unemployment," he said. "So, while the nation faces just over 8 percent unemployment, unemployment in the greater metropolitan Detroit area is in excess of double that."

Not one to take such matters lightly, Gardner relocated NAB to its current 105,000 square-foot facility in 2009 after the Michigan Economic Development Corp. recommended and gained approval by the Michigan Economic Growth Authority to extend a $21.5 million in state tax credit over 12 years to NAB for business expansion within the state.

NAB projected it would create 1,500 jobs internally and 399 jobs outside the facility during that 12-year period. But doing so would require qualified talent. "Being in Detroit, there's a lack of opportunity within the job base," Gardner said. "We were seeking to hire 10 to 20 mobile application

engineers, and we couldn't find any in Michigan. They were all in other parts of the United States."

He noted that while Michigan possesses an excellent university system, the state retains very few of its recent graduates, especially those with technical degrees. "One of the biggest issues facing Michigan is what we call 'brain drain,'" he said. Indeed, well organized recruitment programs by large out-of-state companies like Google Inc. and Facebook make it difficult for Michigan-based companies to compete for local talent.

Going back to school

After doing a bit of research, Gardner discovered the University of Michigan had an educational track and specialty in mobile application engineering. He approached the university about his company's hiring initiatives and was recruited to donate personal time as a guest professor twice each semester. "What was really rewarding to me is they wanted my time more so than they wanted our charitable giving from an economic standpoint," Gardner stated.

"Candidly, I hadn't been in a classroom in many moons, and it was really a rewarding experience," he said. "From there we started different initiatives within the graduate and undergraduate school." For example, to compete with larger companies, NAB began offering paid summer internships, which include housing and transportation, Gardner said.

The company also sponsors the university's 48-Hour Mobile Applications Hackathon. With each new initiative Gardner hopes to benefit the local economy in some way, whether donating time or resources, or providing well-paying jobs to recent graduates.

Editor's note: If you're involved in charitable work, or if you know of other payment professionals who are giving back to local, national or international communities, we'd like to know so we can spotlight such inspiring efforts in Gift of Giving, a periodic feature in The Green Sheet. *Reach out to us via email at greensheet@greensheet.com or by phone at 800-747-4441.*

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Merchants respond to card not present fraud

A poll of 379 online and offline merchants about their current anti-fraud efforts revealed most merchants are not only aware of fraud, but a majority are already addressing fraud through verification technologies. The survey was conducted jointly by SignatureLink Inc. and CardNotPresent.com in August and September 2012.

"We applaud the many merchants using active authentication techniques, but the user experience could be improved among legitimate customers by deploying risk-based passive authentication to invoke active authentication," stated SignatureLink Chief Executive Officer Greg Wooten.

First-generation Internet Protocol address prescreening filters can easily be bypassed and manipulated by fraudsters; second-generation geolocation solutions provide the greatest security, he added.

Key fraud survey findings include:

- 66 percent of merchants report friendly fraud levels between 0 and 5 percent
- 65 percent currently deploy customer authorization/validation systems
- 52 percent perform pre-fraud screening before payment gateway authorization
- 10 percent collect buyer voice/signature consent to terms and conditions

According to the study's authors, only 10 percent of respondents reported that they collect voice or signature consent to company terms and conditions (T&C) and refund policies, and the other 90 percent run the risk of exposure to "cybershopping," defined in this study as an incident in which a customer makes a purchase, receives the merchandise and then disputes the transaction with the credit card company, thus triggering a chargeback.

Unfortunately, an online link or pop-up to a merchant's T&C may not be enough to remedy the problem. "This approach is not in line with current regulatory standards and is actually considered deceptive," Wooten said. "There's no way for either side to prove their case or to determine what the T&Cs were for a given transaction. Had they captured a signature within the sales draft that carried a true chain of custody, it would be a different story – because in the e-commerce fraud space, the signature ultimately rules."

To view the SecureBuy 2012 CNP Fraud Study, visit
www.signaturelink.com/2012-cnp-fraud-study.html.

Bright holiday forecast for e-commerce

A Chase Paymentech Solutions LLC poll of 178 merchants and businesses with an online presence showed most businesses are optimistic about the upcoming holiday season, with nearly half expecting overall holiday sales volume to exceed pre-recession levels.

2012 merchant/business holiday sales sentiment	Percentage
Believe holiday shopping season will positively impact U.S. economy	65 percent
Predict a year-over-year increase in overall sales volume	59 percent
Predict a year-over-year increase in e-commerce sales volume	45 percent
Expect sales volume to exceed pre-recession 2007 sales volume	47 percent

Source: Chase Paymentech Solutions LLC, eHoliday Shopping Monitor

Cloud-based payments set to soar

An Aite Group LLC report, *Hey, You, Get Onto My Cloud: Mobile and Cloud Transform the POS*, projects cloud-based payment processing volume in the United States will reach $199 billion in 2017, up from an estimated $15 billion in 2012. "Mobile- and cloud-based technologies continue their assault on legacy payment infrastructure," said Rick Oglesby, Aite Senior Analyst and report author. Cost efficiency and enhanced value-added services were cited as key drivers.

POS in transformation

A RIS Retail Solutions Brief: *POS Metamorphosis* reflects on the radical changes occurring in POS technology and how today's systems must interact with a variety of consumer mobile devices. The brief also discusses how mobility, new payment technologies and omni-channel growth are redefining the POS and offers useful tips for improving mobile payment security.

Payment convergence predicted

An ABI Research report titled *Mobile Payments, NFC, and Contactless Convergence* predicts near field communication (NFC) mobile payments will rise from $4 billion in 2012 to $191 billion in 2017. The report discusses market convergence between payment types, identifies market beneficiaries, and analyzes current trends, drivers and inhibitors across a host of potential markets that include ticketing, retail and loyalty, and other spheres.

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A platform for smart businesses

Product: Newtek Advantage

Company: Newtek Business Services Inc.

Newtek Business Services Inc., The Small Business Authority, recently added Newtek Advantage to its merchant offerings. The cloud-based operating platform is designed to permit small and midsize businesses (SMBs) to manage multichannel transactions, as well as economic and web traffic data – in real time – via smart phone, tablet, laptop and PC devices.

The reasoning behind the product, offered free to existing Newtek client businesses, is simple. "We believe that mobile applications hosted in the cloud will continue to proliferate and become the standard for independent business owners," stated Barry Sloane, Newtek President and Chief Executive Officer.

Prior to the product's invitation-only launch, Tobin Smith, founder of NBT Equities Research and Editor-in-Chief of CloudInvestor.com said, "The mobile data revolution means nothing to a small-business manager unless they can get what they need whenever and wherever they are.

"What is revolutionary about the new Newtek Advantage is that it is a mobile SMB management platform, not just an app. The Newtek Advantage puts the key management and decision-making data on a smart phone, table or laptop in real time."

Newtek Advantage tracks and reports live transactions such as credit, debit and gift card payments, returns and chargebacks, all in real-time, the company noted. Website statistics – including daily, weekly or monthly visitors and page views; which search terms were used to locate a site; and actions taken once on a site – can be used to determine necessary next steps.

"We spent years developing this platform internally and have recently filed a patent application with the U.S. Patent office on this revolutionary state-of-the-art business system," Sloane said.

Newtek reported it is processing more than $4 billion in electronic payments annually and hosts over 58,000 business websites via its secure, PCI Level 4-compliant data center. Newtek Advantage is the first in a series of cloud-based platforms and applications the company plans to release.

Future product launches are expected to include Payroll in the Cloud and Insurance in the Cloud applications, both of which will be compatible with Newtek Advantage, the

Features of Newtek Advantage include:

- Real-time credit card transaction processing
- Chargeback and return management capabilities
- Broad-based payment method acceptance
- Web traffic and sales statistics monitoring
- Independent sales agent opportunities

company said. Newtek works with independent sales agent and business executive partners in marketing its SMB solutions and programs; it also offers backup support to ensure success, the company stated.

Newtek Business Services Inc.

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Virtual POS system for QuickBooks

Product: Instant Accept

Company: NorseCorp

Internet security intelligence and payment solutions provider NorseCorp recently launched Instant Accept, a new service created to enable merchants, accountants, ISOs and other businesses to integrate payment processing and recording functions with QuickBooks.

"For merchants, Instant Accept serves as a virtual point of sale terminal within QuickBooks, and can replace the physical POS terminal," said Brent Gephart, NorseCorp Vice President of Payments Strategy and Operations. "And merchants will not need to switch from their current payment processor to adopt it."

With QuickBooks integration, the system can effectively synchronize front-office payment processing with back-office accounting functions to deliver a virtual front-office POS sales system, the company said.

"Instant Accept gives merchants a very easy to use interface that takes care of front office and back office paperwork in one stroke," Gephart noted.

According to NorseCorp, the system can process all forms of electronic payment, including automated clearing

house (ACH) transactions, which are directly recorded within QuickBooks as they occur.

Working in tandem with existing acquirer gateway and processing platforms, merchants using the service can automate the entire payment process, thereby eliminating the need for manual entries and having to import transaction data into QuickBooks, NorseCorp said.

Instead of having to manually reconcile transactions and accounting entries in QuickBooks, merchants using Instant Accept can create new customer accounts, invoices and sales receipts, as well as record transactions, from a single interface, according to the company.

The product also is designed to integrate with multiple gateways, including NorseCorp's nGate, a platform that allows merchants and businesses to securely process retail and online credit, debit and ACH transactions, as well as payments for niche markets such as medical offices.

"Integrating payment processing with QuickBooks is a major saver of time and resources for businesses," stated NorseCorp Chief Operating Officer Skip Foss.

"We are already receiving a very positive response from payment processors and their merchant customers on the

Features of Instant Accept include:

- Integrates payment processing with QuickBooks
- Automates payment processing and recording functions
- Uses single interface to manage merchant accounts
- Synchronizes front- and back-office functions
- Offers online reseller sales channel opportunity

product's ease of use and the amount of time saved with native QuickBooks integration."

NorseCorp is offering three versions of Instant Accept: Desktop, Enterprise and Cloud. In addition to reseller and private-label programs for its various products, NorseCorp is in the process of developing an online reseller channel specifically for processors to facilitate the Instant Accept sales to business and merchant client accounts nationwide.

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DateBook

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

Women's Network in Electronic Transactions
LINC New York

Highlights: Networking, holiday cheer and wine tasting are among the activities planned by the Women's Network in Electronic Transactions (W.net) for its upcoming Local Interest Networking Circle (LINC) in New York City.

The featured speaker will be Doreen Winkler, the founder and Sommelier for Diamond Sommelier Services; the two-hour event will begin at 6 p.m. W.net provides a forum for women in the payments industry to inspire and empower one another through mentoring, education, and networking with established industry leaders and newcomers alike.

When: Nov. 29, 2012
Where: Le Rendez-Vous Wine Bar, New York
Registration: *http://wnetonline.org/PageDisplay.asp?p1=8042*

Northeast Acquirers Association
NEAA Winter Seminar & Outing

Highlights: The NEAA's winter show is the oldest regional acquirers tradeshow in the United States. The event, now in its 28th year, is returning to The Grand Summit venue near Mt. Snow, Vt. It is an outgrowth of the NEAA's mission to serve as an educational forum for financial institutions, ISOs, merchant service providers and merchant level salespeople in the acquiring industry.

The focus of this event will be to provide information and networking opportunities to help attendees and vendor partners prosper in the ever-changing payments industry.

Registration categories for the show are attendee, industry expert and vendor. This seminar is underwritten by its preregistered, exhibiting vendors and cannot accommodate "roaming vendors."

When: Jan. 29 – 31, 2013
Where: Grand Summit Resort, Mt. Snow, Vt.
Registration: *http://www.northeastacquirers.com/events/2013_winter_attendee_reg.pdf*

Smart Card Alliance
2013 Payments Summit

Highlights: In this sixth annual conference, the Smart Card Alliance will continue its coverage of all leading transaction platforms, including Europay/MasterCard/Visa (EMV), mobile and transit payments. Taking place in a larger facility than previously, the event will bring together leading smart card practitioners, solutions developers, end users and suppliers.

On the agenda will be how to achieve the migration of the U.S. payments ecosystem (the largest in the world) to the EMV global transaction security standard; how to provide clarity for the financial institutions, card issuers, acquirers and merchants involved; near field communication and mobile wallet integration; and the role transit payments can play in expanding the use of open standards-based contactless bankcard and mobile payments.

When: Feb. 5 – 7, 2013
Where: Grand America Hotel, Salt Lake City
Registration: *www.cvent.com/events/2013-payments-summit/event-summary-7c5bd01867cc4b64b85ea8bb33a97c16.aspx*

> "I run on the road long before I dance under the lights."
> – Muhammad Ali

Functioning in today's challenging payments world

Think back to 20 years ago in the payments industry when leasing was a common sales channel, the competition was limited to other ISOs and merchant level salespeople (MLSs), and phones were used mostly for conversation. A decade ago the payments industry could not have foreseen today's dongles, software and payment alternatives any more than the country as a whole could have then predicted the coming failure of Lehman Brothers.

Twenty years ago, the amount of knowledge an ISO or MLS needed in order to provide payment processing and value-added services that could meet a range of merchants' needs was a fraction of what is required today. And back then, merchants needed to consider far fewer variables when evaluating the merits of a payment professional's offerings than they do now.

Part of the challenge for today's payment professionals is to help customers through the often vexing process of making important choices they don't fully understand.

Today, decisions regarding security, POS terminals, platforms, software and a host of other services and products can make or break a business, but the majority of customers have nothing approaching a sophisticated understanding of any or all of these things. And guiding the customer to the best choice possible is a big responsibility when the health of the customer's business may ride on the outcome.

Giving your customers a hand

So, how do you help your merchant customers and prospects make decisions that will serve them well now and in the future? Here are several tips, some of which you've heard before but bear repeating:

1. Pick your partners wisely. Research companies before you sign contracts. Make sure they are ethical; well informed and actively involved in new developments in the industry; strive for the best outcomes at all times; offer resources, including educational opportunities, for you; and provide assistance to you and your merchant customers when needed.

2. Actively participate in your own ongoing education. For example, if you're an MLS, take advantage of educational offerings and training your ISO offers, but educate yourself, as well. Attend industry conferences, find a mentor, take workshops, classes and webinars, read industry publications, volunteer to test new equipment and so on.

3. Before you feel like you're ready to do so, begin teaching what you've learned to other payment professionals at conferences, through mentoring, by writing articles, hosting webinars, etc.

4. Strive to become a trusted resource and mentor for your merchants. Think about each individual's unique circumstances. When informing a current customer or prospect about your offerings, weed out extraneous information that doesn't truly apply to a given merchant's situation to avoid overwhelm.

   Use your industry knowledge to help merchants distinguish between something trendy but not particularly useful to them and something that will truly boost their profits. Build new concepts and ideas on what the merchant already knows, and proceed step by step to foster understanding.

5. Stay open to new opportunities even if they make you uncomfortable.

Nobody knows what tomorrow will bring, but the more prepared, involved and flexible you are, the better you will serve your merchant customers and yourself both today and in the future.

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Paul H. Green, President and CEO

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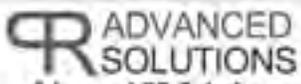
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Since a POS system is integral to the merchant's business operations, Harbortouch offers unmatched retention benefits. This lack of attrition provides you with a much more stable residual stream and a more valuable bank card portfolio overall.

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For more information, contact:
Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136
Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
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