



The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

March 14, 2005
Issue 05:03:01

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Prepaid Cards: Not Just for Gifts Anymore

But they give consumers access
to traditional financial tools

Editor's Note: This article is a follow up to "Opportunities in Prepaid Cards," (The Green Sheet, Dec. 13, 2004, issue 04:12:01).

The road to riches is lined with plastic cards according to the industry buzz. Not the run of the mill, ordinary, average card Association-branded credit and debit cards. Instead, cards loaded with pre-set sums of money are paving the golden road.

The market for the cards, comprising a segment known as stored value or prepaid, is booming and provides plenty of opportunities for a wide range of people and organizations involved in it.

Within the segment are closed loop cards, which merchants issue to customers for use specifically at a particular establishment. These are gift cards. They have one purpose and are increasingly popular among gift givers and receivers alike for their one-size-fits-all convenience.

Then there are the open loop products, or stored value cards (SVCs), which incorporate a growing number of functionalities. These are payroll and other reloadable cards consumers purchase for a variety of reasons.

With their increasing popularity, and with more types of prepaid cards now reaching new markets, a number of issues surround the products and affect anyone who provides, processes, purchases or uses SVCs.

Prepaid payment cards of all kinds might line the road to riches, but before you sell the farm and load the proceeds onto a stored value product, take some important things into consideration.

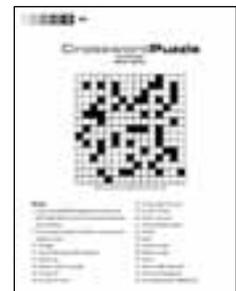
See Prepaid on Page 63



Check It Out!

Here's a chance to test your knowledge of the payment processing industry with our brain-tickling crossword puzzle, a new feature in The Green Sheet.

See Crossword Puzzle on Page 20



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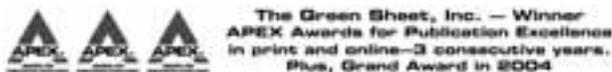
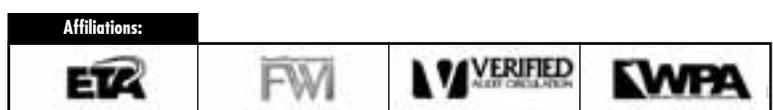
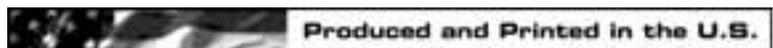
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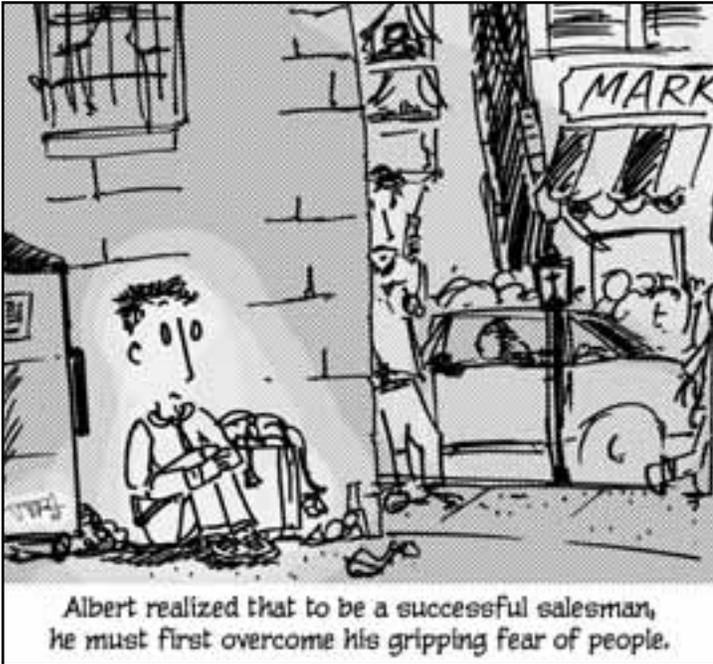
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Forum

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Verified by Visa: A Solution for All?

Editor's note: The following letter is in response to the article "3-D Secure Payer Authentication: A Solution for E-Commerce Merchants," by Rick Lynch (The Green Sheet, Feb. 14, 2005, issue 05:02:01).

I agree there are some huge advantages for acquirers and issuers with [the] Verified by Visa product, but as other card offerings over the years go, the merchant side and the cardholders need to be sold equally in the initial introduction, and the merchant side has been slow to react.

This probably brings to bear another reason Visa is dropping five basis points on the interchange. It's another new Visa product that could not sell on its own merit to all parties, so they simply adjust interchange.

Thanks for the great article, but Visa needs to "simplify interchange," rather than continue to complicate it for our processors and our pricing models.

– Bill Shaw
First Citizens Bank
Credit Card Company

Looking for New Interchange Rates

Where can I find the new interchange rates that will be posted in April 2005?

– Thomas Reilly

Thomas:

We published Visa U.S.A.'s new interchange rate schedule, "Visa 2005 Interchange Fees," in the Dec. 27, 2004 issue (04:12:02) of The Green Sheet. We published MasterCard's new interchange rates, "MasterCard U.S. Region 2005 - 2006 Interchange Programs and Rates," in the Feb. 28, 2004 issue (05:02:02).

Editor

Have you moved or do you plan to move?

Many of the phone calls we receive at The Green Sheet are from subscribers inquiring why they no longer receive the publication. Most of these people have recently moved and did not tell us their new address.

If you would like to ensure uninterrupted delivery of The Green Sheet and GSQ, please send an e-mail with your new address to greensheet@greensheet.com.

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IndustryUpdate

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NEWS

TNS CEO Lauded

Transaction Network Services Inc. Chairman and Chief Executive Officer **John J. "Jack" McDonnell Jr.** received the Robert A. Mooney award for lifetime achievement from the Electronic Funds Transfer Association (EFTA). The association presents the award annually to an individual who has shown outstanding leadership and service to the advancement of the EFT industry and its issues.

McDonnell is also a founder of EFTA, having served as a Director for the National Commission on EFT. He also serves as an EFTA Director and is a past Chairman of the organization.

Credit Card Competition Heats Up Online

The competition to acquire credit card customers online has heated up, according to a study by **Keynote Systems Inc.** The company bases its Keynote Customer Experience (CE) Rankings for the credit card industry on research with 2,000 prospective customers as they evaluated and interacted with leading credit card Web sites.

Discover Financial Services and American Express Co. provide the best online experience for consumers, as measured by the overall Keynote CE Rankings. In addition, JPMorgan Chase & Co.'s Bank One, and Citigroup's Citibank have made gains in their effectiveness in acquiring customers online, joining MBNA Corp. atop the Keynote Acquisition Impact Index.

The index gauges the overall likelihood of visitors to apply for a credit card based on their online experience at a specific card site.

Pay By Touch Files Suit Against BioPay

Pay By Touch filed a patent infringement suit against **BioPay**, alleging that BioPay infringes on Pay By Touch's '042 patent covering tokenless biometric transactions and Pay By Touch's '397 patent covering biometric check-cashing services. Pay By Touch seeks damages and costs of suit.

In other news, Pay By Touch acquired a new patent portfolio including U.S.-issued patents for biometric authentication for check cashing services. The acquired portfolio adds to the company's more than 24 U.S. patents.

Acquiring Processing Prices Hold Stable, Study Finds

The overall cost per transaction of processing pricing did not decrease in 2004, according to a study by **Strategic Management Partners Inc.** (SMP). In its annual Benchmark Study, SMP surveyed more than 20 of the largest acquirers. The study focused on the direct costs financial institutions and ISOs pay to third-party processing companies.

From a front-end authorization perspective, the study found that large portfolio players have as much as an 85% cost advantage per front-end transaction. From a back-end settlement perspective, large players had a 60% cost advantage versus small acquirers.



- **The Gap Inc.** plans to close 135 unprofitable Gap stores this year and will open up to 175 Old Navy and outlet stores instead.
- **Federated Department Stores**, which owns the Bloomingdale's and Macy's chains, announced on Feb. 28, 2005 plans to buy May Department Stores, which operates chains such as Famous-Barr and Lord & Taylor, for about \$11 billion. Federated also said it would expand the Macy's brand.
- As part of a billion-dollar deal, **7-Eleven Inc.** (U.S. 7-Eleven) will become a subsidiary of 7-Eleven Japan. Ito-Yokado controls 7-Eleven Japan, but the company plans to sell its 37.6% stake in the U.S. 7-Eleven to 7-Eleven Japan. The deal gives 7-Eleven Japan a 73.8% stake in the U.S. 7-Eleven company.

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Industry Update

It also found that mega processors tend to unbundle pricing while smaller processors tend to bundle their costs. To subscribe to the study, or receive additional information, e-mail kurt@smpbiz.com or call 888-859-5637.

FIs to Spend Almost \$118 Billion on IT in 2005

According to research from **TowerGroup**, the U.S. financial services industry will spend more on information technology than any other country in the world this year. Financial institutions (FIs) in the United States will invest \$117.8 billion in information technology, representing growth of approximately \$5 billion over 2004.

The report, "2005 IT Spending Crossroads in the U.S. Financial Services Industry: Plotting Roadmaps for Growth," finds that U.S. institutions make both organic growth and operational efficiency top management priorities, with IT serving as a critical link between the two.

The study found that many U.S. FIs abandon pure IT cost-cutting tactics to drive short-term operational efficiency. Instead, they look to opportunities for sustainable operational efficiency. Additionally, TowerGroup expects that U.S. FIs will be less interested in simply driving down IT costs, as they emphasize investing more effectively in IT as a vital driver for growth. To purchase the report, e-mail service-info@towergroup.com.

ANNOUNCEMENTS

Bartlett Upgrades Hypercom Certification

Bartlett Info Tech Services LLC upgraded its certification as an authorized repair facility for Hypercom Corp.'s T7 family of payment terminals to include the T7Plus. Hypercom designated Bartlett Info Tech Services as an authorized repair facility in 2001.

Bartlett Info Tech Services earned this recognition by meeting Hypercom's technical proficiency and electrostatic discharge requirements.

Precidia Class-B Certified With Global

Precidia Technologies Inc. announced Class-B certification of its POSLynx retail router with **Global Payments Inc.**'s GlobalNet @dvantage SSL gateway. The gateway provides a direct Internet connection to Global's East Host card authorization center.

The POSLynx offers secure payment transaction processing over the Internet for dial terminals. The POSLynx connects as many as four terminals to affordable public networks using SSL encryption.

Visa Ready With Contactless Platform

Visa U.S.A. completed the development of its contactless payment platform. The card Association said it will begin deployment of this new payment feature on Visa cards in the U.S. market.

In a Visa contactless transaction, cardholders hold their cards near a secure reader at checkout instead of swiping them. Visa said that all other aspects of the transaction are handled in the same way as a traditional Visa transaction.

Visa wants the industry to adopt a brand-neutral contactless indicator to identify contactless cards, key fobs and devices to simplify the point of sale for merchants and allow financial institutions to brand their contactless programs as needed.

Western Union Adds Locations

First Data Corp.'s subsidiary **Western Union Financial Services Inc.** and its subsidiary **Orlandi Valuta** added approximately 37,000 agent locations in 2004. This brings the total number of agent locations to more than 220,000 in more than 195 counties and territories.

New Report on Check Processing Standards

The **Accredited Standards Committee (ASC) X9 Inc.** published Technical Report (TR) 2, "Understanding, Designing and Producing Checks." The report includes references to standards covering the payment process that involves paper checks. The report also discusses all the core X9 standards involved in the production, including the printing and issuing of paper checks and related transactions.

X9 has published 15 check-related standards and four TRs on the use of checks. Individual copies of TR 2 cost \$100, and are available through the X9 Web site at www.X9.org.

X9 is the only industry-wide forum that brings together bankers, securities professionals, manufacturers, regulators, associations, consultants and others in the financial services industry to address technical issues, find the best solutions and codify them as nationally accepted standards.

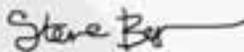
PARTNERSHIPS

AnyDATA and Precidia Offer Wireless ATM Solution

AnyDATA Corp., developer of code division multiple access (CDMA) modems, and **Precidia Technologies**, developer for POS Internet protocol (IP)-based access

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is not about up-front payments or one-time payouts. It's something more. We at **GET** believe it is about building something great, something we are both proud of. Isn't it time you build your own dream rather than making another processor bigger, richer, slower! The fact is you must "own" your merchants and your business not simply rent a name and get a check. Call us and begin building your future today.



Steven H. Bryson
Founder & CEO

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Having worked in the bankcard world for a number of years both as an employee and for myself, I have come to know the difference between getting a paycheck and being in control of my future. I found GET late in my bankcard career and wish that I had found them sooner. My residual payments are always on time and are larger than they were at my previous processors. Who knows, had I found them earlier I might be the one with the Green Sheet ad.

Sincerely,
Tom H Chicago IL



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Industry Update

devices, partnered to offer a low-cost wireless connectivity option for dial-based ATMs.

AnyDATA modems enable users to transmit data over wireless networks. Precidia's CellDial converts dial ATM transactions to IP and provides the necessary link to the modem via a simple cable connection. The solution does not require any change to existing ATM equipment or systems.

Certegy to Provide Check Services

Global payment services provider **Certegy Inc.** expanded its check risk management agreement with **Federated Department Stores** to include full warranty services. Federated has more than 450 stores in 34 states, Guam and Puerto Rico operating under the names of Macy's; Bloomingdale's; Bon-Macy's; Burdines-Macy's; Goldsmith's-Macy's; Lazarus-Macy's; and Rich's-Macy's.

enCards Inc. and Evisions Partner

Card processing provider **enCards Inc.** signed an agreement with software provider **Evisions**. enCards will co-locate its U.S. headquarters with the Evisions office in Irvine, Calif.

MasterCard and MBNA Play Contactless Football

MasterCard International partnered with **MBNA**, the Seattle Seahawks and the Baltimore Ravens football clubs to incorporate MasterCard's PayPass contactless payment technology into the MBNA Seahawks and MBNA Ravens Extra Points credit card programs. Both Qwest Field and M&T Bank Stadium will accept MasterCard PayPass cards at the POS beginning in the 2005 football season.

Six Universities Select Moneris

Moneris Solutions has gone back to school. The transaction processor recently signed deals to provide credit card processing services with the following six universities: Gonzaga University; Regis University; Temple University; University of Pittsburgh; University of San Diego; and University of St. Thomas.

These institutions will use Moneris' infiNET service charge program to allow students and third-party payers to pay tuition and fees with their credit cards. Under the agreements, Moneris will provide credit card processing services through infiNET's QuikPAY service, a fully integrated automated billing, payment and commerce solution for the higher education market.

Pay By Touch Partners With MTXEPS

Pay By Touch entered into a strategic partnership with software provider **MTXEPS Inc.**, creator of the WinEPS

payment engine. The alliance enables retailers to deploy the most recent release of WinEPS and Pay By Touch. Through this partnership, MTXEPS and Pay By Touch will jointly sell, market and support the integrated solution.

Payment Data Systems Enters Insurance Industry

Payment Data Systems Inc. (PDS) signed a multi-year agreement with **Online Insurance Services Inc.** to provide payment services for its insurance clients. This marks the first entry of PDS into the insurance industry. The company anticipates the transactional value of the agreement will produce approximately \$3 million annually.

CES Joins OneLynk Alliance

Payment processor **RBS Lynk** signed **Cutting Edge Systems** (CES) as the newest member of OneLynk Alliance, RBS Lynk's value-added reseller program. As part of the program, CES will offer RBS Lynk's payment processing services to its customers. CES provides Aloha restaurant systems for the Mid-Atlantic region; it also provides POS solutions to a growing list of regional restaurant clients including Aunt Sarah's Pancake House, Cinema Cafe, Kelly's Tavern, River City Diner and Starrhill Brewery.

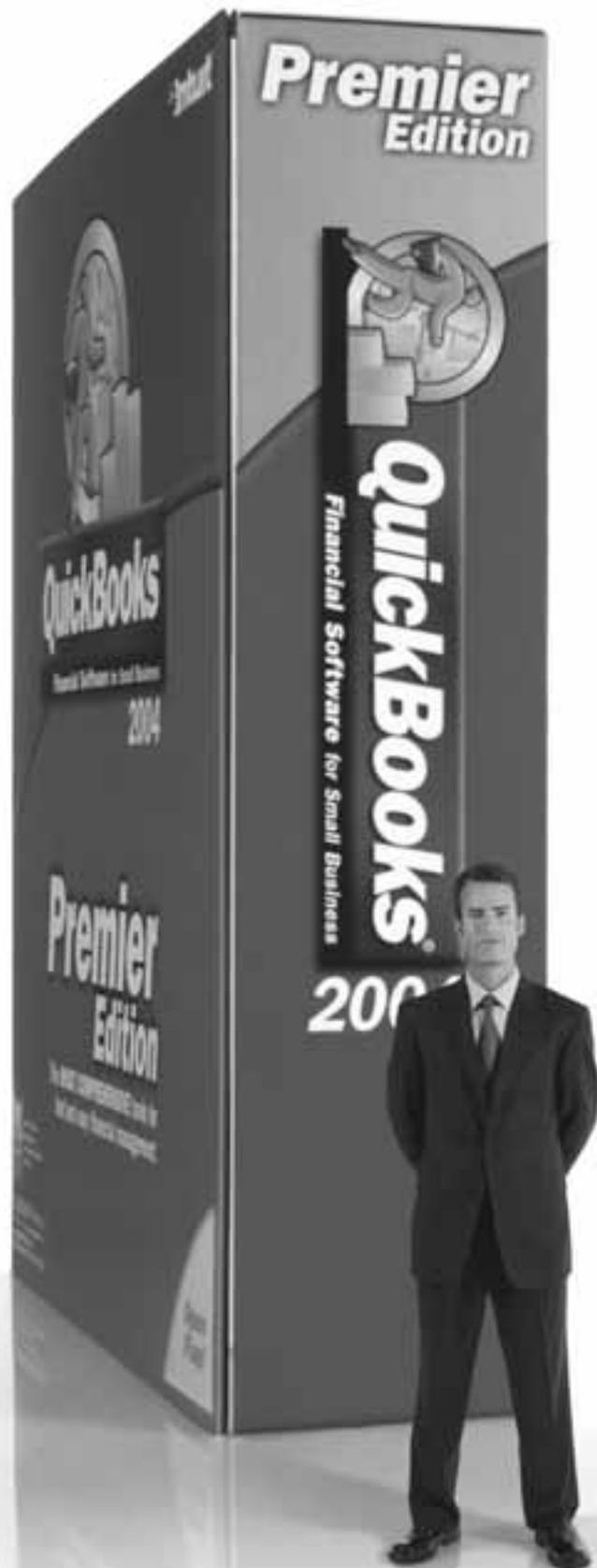
Semtek Partners With Noblett & Associates

Mobile card-reading technology developer **Semtek Innovative Solutions Corp.** and payments industry consultancy **Noblett & Associates** formed an alliance to channel Semtek's products through ISOs. The goal of the alliance is to provide small- and medium-sized businesses with the ability to accept electronic payments via mobile/wireless devices in the most secure environment possible.

Semtek's card readers connect through wireless handheld devices, such as PDAs and mobile phones, and support industries requiring mobile commerce applications, on-site lead retrieval, and immediate identity verification. Noblett & Associates will recommend Semtek's card swipe products to ISOs that specialize in payment technologies.

SunTrust and Mashboxx Choose Peppercoin

SunTrust Merchant Services, a joint venture between SunTrust Banks Inc. and First Data, selected micropayment software provider **Peppercoin Inc.**'s Small Transaction Suite to deliver a small payment processing system to its merchants. Reino Parking Systems is one SunTrust customer that will deploy the solution to process credit card transactions at Reino's multi-space parking meters in various U.S. locations.



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Industry Update

In addition, **Mashboxx**, the first peer-to-peer (P2P) file-sharing network authorized by major record labels, selected Peppercorn's software to enable Mashboxx to sell licensed music profitably.

Mashboxx enables P2P consumers to purchase legal digital downloads for \$0.99. The company intends to capitalize on the 2.2 billion music files that consumers trade monthly through P2P networks.

ACQUISITIONS

Fifth Third Completes First National Bank of Florida Conversion

Fifth Third Bancorp completed its conversion associated with the acquisition of **First National Bank of Florida**. Fifth Third Bank (Fla.) has nearly 90 full-service locations. Kevin Hale, former First National Bankshares of Florida Inc. President and CEO, assumed leadership of the Florida affiliate.

Ingenico Acquires Stake in XA

In a move to enter the Swiss payment terminal market, **Ingenico Corp.** acquired a 51% stake in XA, a spin-off of

Aufirex SA. XA was the first company in Switzerland to gain full control over the payment terminal field. Switzerland is moving to adopt the new Europay/MasterCard/Visa (EMV) standard, which will require the replacement of approximately 80,000 payment terminals in the next few years.

NOVA Acquires SouthTrust Bank Merchant Portfolio

NOVA Information Systems acquired **SouthTrust Bank's** existing payment processing portfolio from Wachovia Bank and has simultaneously renewed and extended a long-term marketing alliance agreement for Wachovia Bank's merchant referral business.

NOVA acquired SouthTrust's merchant processing accounts and will provide processing services, customer service and support operations to SouthTrust's existing 16,000 merchants.

The company will market new merchant services referrals through Wachovia Bank's 3,100 branches. NOVA expects the credit and debit card processing volume from the existing SouthTrust portfolio to generate an additional \$2.3 billion annually.

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Industry Update

Pipeline Data Acquires 1,500 Accounts

Transaction processor **Pipeline Data Inc.** plans to acquire two merchant portfolios totaling 1,500 accounts from two ISOs. The accounts represent \$142 million in annual consumer charge volume.

As a result of the acquisition, Pipeline Data said it anticipates its operating income to be approximately \$70,000 monthly.

TNB Adds Three Agent Clients

TNB Card Services purchased the credit card portfolios of three more credit unions and will operate the programs under its agent-issuer program. TNB has acquired more than 50 portfolios since it began its agent-issuer program in late 2002.

Mizzou Credit Union in Missouri, Sentry Federal Credit Union in Pennsylvania and Marshfield Medical Center Credit Union in Wisconsin sold their portfolios. TNB Card Services is currently converting the portfolios.

TSYS Closes Acquisition of Vital

TSYS completed its acquisition of **Vital Processing Services LLC** by purchasing the 50% equity stake that

Visa U.S.A. formerly held. The transaction closed March 1, 2005. Vital Processing Services now operates as a wholly owned subsidiary of TSYS.

US Bank to Buy Multi Service's Aviation Business

US Bancorp subsidiary **US Bank** plans to purchase the aviation business of **Multi Service Corp.**, a Kansas-based provider of aviation and trucking credit card services.

Approximately 100 Multi Service staff members will become employees of US Bank as part of the acquisition. The companies did not disclose financial terms of the agreement. Multi Service was established in 1978 to provide specialized credit card services to the trucking industry; it expanded to the aviation industry in 1980.

GO Software Now Part of VeriFone

VeriFone Inc. completed the acquisition of the assets of **GO Software** from Return On Investment Corp. VeriFone will integrate GO Software products and employees into its business; the company said this will enable it to market payment processing software to operate on almost any platform, including Windows, Unix, Linux, AIX, OS/390, OS/400 and Sun Solaris.

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APPOINTMENTS

Pipeline Data Hires Beene

Pipeline Data Processing, the wholesale division and wholly owned subsidiary of Pipeline Data Inc. appointed **Jeffrey A. Beene** to Chief Compliance Officer. Beene will oversee all operational risk management functions including security, collection and credit underwriting. He has 15 years of security experience in the transaction processing industry.

He previously served as Senior Vice President of Risk Management for Bridgeview Payment Solutions; he has also worked at Genpass Technologies. Beene is currently the Vice Chairman of the Electronic Transactions Association's (ETA) Risk and Fraud Management Committee and is a founding member of ETA's Merchant Acquirers Committee.

Peoples Bancorp Names CEO

Robert E. Evans will retire as CEO of **Peoples Bancorp Inc.** and its banking subsidiary, Peoples Bank, National Association. Evans will continue as Chairman of the Board and a Director of both Peoples Bancorp and Peoples Bank.

Current President and Chief Operating Officer **Mark F. Bradley** will succeed Evans as CEO. Bradley joined Peoples Bancorp in 1991, served as Controller of both Peoples Bancorp and Peoples Bank from 1997 to 2001, and also served as an Executive Vice President of Peoples Bancorp.

DuoCash Names VP, Technology Services

DuoCash Inc. appointed **John Earle** Vice President of Technology Services. The DuoCash Online Cash Network allows online and phone-order merchants to receive online payments from consumers who pay with credit or debit cards or electronic checking online by using DuoCash prepaid shopping cards. Earle has been with DuoCash for more than a year.

Sullivan Appointed Optimal Services Group President

Optimal Services Group Inc. appointed **Brian J. Sullivan** President. Sullivan has many years of experience within the global technology and service industries, including having held senior positions with NCR Canada Ltd. and AT&T GIS Canada Inc. Most recently, Sullivan served as President and CEO of NCR Canada.



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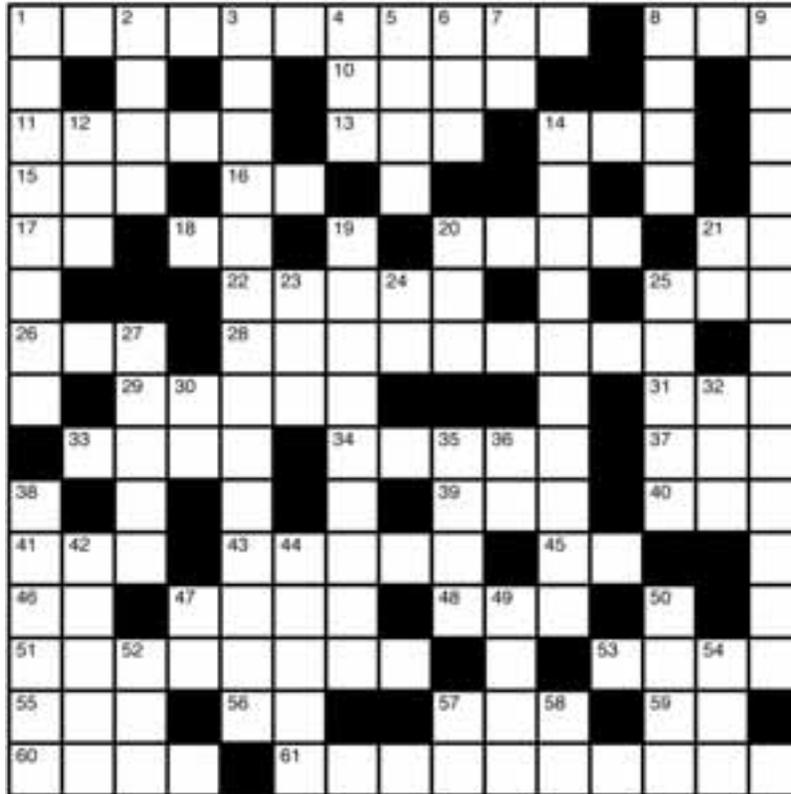
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Created by Myles Mellor



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Across

- 1. Lingo for handheld POS applications and devices that enable clerks to come forward and shorten lines at the checkout
- 8. The automatic transfer of funds from one account to another account
- 10. Average
- 11. Type of Internet guerrilla marketing
- 13. Zodiac sign
- 14. Reduce, costs for example
- 15. Time period
- 16. Account, for short
- 17. E-mail subject line intro
- 18. St. Paul's locale
- 20. Advice columnist
- 21. Transcendental number
- 22. Muscle
- 25. Spoil
- 26. Location tracker
- 28. Electronic trade
- 29. Lift up
- 31. Heavy creditor demand
- 33. Financing arrangement
- 34. Annoying Internet marketing ad



37. Present participle suffix
39. Abbreviation that precedes the routing number
40. Pick up the ___
41. The paperless act of transferring funds through the Internet (abbr.)
43. Togetherness
45. Savings certificate (abbr.)
46. Mail order/telephone order credit card transactions (goes with 59 across)
47. Right to take and hold or sell property of a debtor as security
48. Envelope for the receiver to return (abbr.)
51. Speed at which a company uses up its venture capital
53. Cash-___ procedure
55. Compass point
56. Time period, for short
57. Place and time where a transaction occurs
59. See 46 across
60. Finance institution that offers accounts and also electronic processes for controlling them
61. Electronic bookkeeping procedure that puts funds to be cleared into the merchant's account
- Down**
1. Taking on debt to expand a business or investment
2. Singer, ___h Jones
3. Procedure where a person requests account information at an ATM
4. Internet security technology (abbr.)
5. Stay on your ___ ...
6. Term for an organization that is sponsored by an acquiring bank to solicit and sometimes support merchants (abbr.)
7. "Who's in charge? That would be our CE '___' " according to Capital One ad
8. First step in processing a bankcard transaction (abbr.)
9. Financial institution that enables a merchant to accept credit cards
12. Wrath
14. The Internet and the world of computers, according to William Gibson's novel "Neuromancer"
19. Amount of space a POS terminal takes up on a countertop
20. Electronic cash processor
21. William Penn's state
23. Bank payment guarantees to a third party (plural abbr.)
24. Uncertain expression
25. Qualification level of MasterCard transactions
27. Way of selling stocks when you believe they will fall in value
30. On or about (abbr.)
32. "One" in Madrid
35. Transfers money
36. ___40 rock group
38. Financial institution that is licensed to issue cards to holders and accept merchant drafts
42. Discovered
44. Gets close to
47. Lane, for short
49. Gone without notification
50. Type of fee charged by banks
52. Umpire, for short
54. Trick
57. Point, for short
58. Williamsburg, Va. is ___ of Charlottesville, Va.

Are Smart Cards the Key to the Biometrics Solution?

By Tracy Kitten, Reporter

ATMmarketplace.com

This story was originally published on ATMmarketplace.com, Feb. 9, 2005; reprinted with permission. © 2005 NetWorld Alliance LLC. All rights reserved.

Editor's note: This story is a follow up to "Back to the Future: Biometrics Revisited," an ATMmarketplace.com article published in the Feb. 28, 2005 issue (05:02:02) of The Green Sheet.

The idea of carrying a template of some part of yourself around in your pocket is, well, a little unnatural. But it's becoming one of the preferred forms of identification, especially when compared with the alternative, storing biometrics data elsewhere.

Whether it's used to let a cardholder gain access to accounts at ATMs or to enforce security restrictions at airports, biometrics is finally attracting increased interest, largely because of weaknesses associated with other verification methods.

Although biometrics technology has been around for more than a decade, it hasn't yet taken off as a form of identification, especially in the United States.

Mark Grossi, NCR Corp.'s Chief Technology Officer, said that consumers weren't comfortable with biometrics in the 1990s. They didn't understand how biometrics information would be used and stored, and financial institutions weren't willing to tackle the infrastructure challenges that storing all of that data posed.

But experts like Francois Lasnier, North American Vice President for Axalto Inc., a Texas-based provider of smart cards and point-of-sale terminals, believe that the challenges that slowed adoption of biometrics in the 1990s can be overcome with smart cards.

It's Not Called Smart for Nothing

Card issuers around the world realize that online connections are not as secure as they need to be, Lasnier said.

Banks were initially eager to connect all transactions, from ATMs to online banking channels, but recent incidents of phishing and card skimming at ATMs and POS terminals, have forced banks to reconsider traditional methods of protecting data.

"It's really all about the communication channel," Lasnier said. "The U.S. is one of the leading countries in the world to address online security. But the whole online environment [is vulnerable]. People can get into your account."

Lasnier said financial institutions in the United States have been reluctant to change the way they do things because they fear a consumer backlash.

"If they try to deploy something that protects consumers from fraud, then they have to admit that problems exist, and that's not something financial institutions want to do," he said.

Lasnier expects that to change over the next five years. As the rest of the world incorporates the Europay/MasterCard/Visa (EMV) standard, the United States will be forced to catch up.

EMV

In 1996, Europay, MasterCard and Visa first released flexible specifications for smart card-based debit and credit payments.

In 1999, the three card Associations founded EMVCo LLC, an independent organization, to manage and enhance EMV specifications as technology advances and

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Feature

the implementation of chip card programs become more prevalent.

Since then, EMVCo has published specification updates that factor in advancements in smart card technology, such as faster chip speeds.

EMVCo also established a single approval process for POS terminals and ATMs to ensure cross-payment system interoperability.

Because smart cards can hold far more information than magnetic (mag)-stripe cards, and because data cannot be copied as readily from them as they can from mag-stripe cards, issuers throughout the world are beginning to adopt the EMV standard.

According to a report published by VeriFone Inc. titled "EMV: Global Framework for Smart Card Payments," Visa estimates that counterfeiting can be decreased by at least 70% with smart cards.

The financial industry in the United Kingdom became one of the first to endorse EMV specifications when card fraud soared there during the mid-1990s.

In 1999, the United Kingdom began converting its approximately 80 million mag-stripe debit and credit cards to smart cards, and began requiring ATMs and POS terminals to be equipped with EMV-compliant card readers.

Western Europe face[d] a deadline of January 2005 to make the smart card/EMV switch. Central and Eastern Europe, the Middle East, Africa and Asia/Pacific must make the move by January 2006.

Though Canada has yet to establish an EMV compliance deadline, Lasnier said smart card pilots are already underway there. "When that technology begins to unfold, you'll begin to see neighboring countries, like the U.S., begin to use it," he said.

American card issuers have been reluctant to adopt EMV because fraud has not been as great a problem as it is in countries like the United Kingdom. But Lasnier predicts that could change.

"We can suspect that fraud is going to begin moving to the U.S. as the increased use of smart cards spreads throughout the world," he said. "The fraud will move to the place of least resistance."

Lasnier estimates that 50% of the POS devices being sold in the United States include smart-card readers. Approximately 35% of the country's installed base of POS devices is ready for EMV now, he said.

"The last link is the smart card infrastructure," he said. "So in the next two or three years, there won't be anything to hold it up. You will begin to see smart card connections in the United States."

Lasnier believes that Visa and MasterCard may even mandate the technology in the United States as they have elsewhere around the world.

If You Build It, They Will Come ...

Most experts agree the issue of where to store biometric data has been one of the primary issues blocking the use of biometrics at the ATM. If smart cards are adopted in the United States, those barriers could begin to disappear.

As card fraud becomes a greater concern throughout the world, the use of smart cards at the ATM must be considered, said Randy Vanderhoof, Executive Director of the Smart Card Alliance.

"There's no concrete evidence at this time but as more people use debit cards with traditional PINs and mag-stripes in the United States, fraud will increase," he said. "It will become increasingly easy for someone to go to the

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Feature

ATM and empty someone's account. With a smart card, you eliminate the fraud that occurs from people reading the mag-stripe information from the swipe, like from the card reader."

Evidence of growing consumer acceptance of smart cards in the United States is popping up, Vanderhoof added.

Last November, the Transportation Security Administration launched an 11-month worker identification credential prototype that requires transportation employees to present smart cards that contain biometrics information for admittance at ports, airports and other sites.

Gordon Hannah, a Senior Manager for BearingPoint Inc., which is overseeing the \$12 million project, said 200,000 credentials will be issued over the course of 11 months.

BearingPoint is running the prototype project at 10 sites, some using contact smart cards and others using contactless versions that communicate with smart card readers via radio waves. At the end of the 11-month period, the project will be implemented at 30 sites.

Hannah said biometrics data, including fingerprint tem-

plates and facial and iris images, are being stored in a database, a government requirement for the project, and also on the cards themselves.

"For this program, we had a requirement to use the database, to make sure that we hadn't seen the person before, so that we didn't issue more than one card," Hannah said.

"Or, for the scenario of re-issuance, I want to make sure that I only have to make the match once to get a new card, so that I don't have to come back in."

But using smart cards alone for biometrics information could be appropriate in other situations, Hannah said, including ATMs, where creating a database to hold all users' information would be cumbersome, if not impossible.

For instance, an Axalto smart card being used in another interesting biometrics project, one that is underway at the Minneapolis-St. Paul International, Los Angeles International, Houston's George Bush Intercontinental, Boston's Logan International and Ronald Regan Washington National airports, can hold about 64 kilobytes, 13 times more information than a standard mag-stripe.

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Feature

A mag-stripe, on average, can hold about 140 bytes. The average fingerprint template consumes around 500 bytes.

The airports' project involves select frequent flyers who now only present cards with biometrics data to verify their identities when they go to the airport. About 10,000 frequent flyers, 2,000 at each site, are participating in the pilot. The expectation of the pilot, which is being administered by Unisys Corp., is that airports throughout the country will be able to quickly usher frequent flyers through security checks.

All five sites are using iris and fingerprint biometrics. Three of the five airports store information only on cards, while the other two are using a database.

Bryan Ichikawa, Chief Engineer for Unisys' Registered Traveler Program, said the pilot has been extended until the end of September 2005.

Because the program is voluntary, Ichikawa said, there hasn't been any resistance from consumers. In fact, he said cardholders are pleased with the program because it has eliminated the need to wait in long lines at security checkpoints.

"Security is the catalyst," he said. "If you think in terms of a haystack, there are something like 60 million passenger boardings per year. Half of those are performed by about 8 million people. So if you know who the 8 million are, you've cut the haystack of boardings in half; you've narrowed that down to 30 million boardings.

"It's not about looking for needles when it comes to terrorists," he added. "It's about making the haystack smaller."

Using smart cards to store biometrics templates is logical, Ichikawa added, because the cards "are inherently secure." There is plenty of room to store biometrics data on smart cards, especially if only a biometric template, and not the entire image, is used.

"Going back to ATMs, having one common network to hold all of the biometrics data would be difficult," Ichikawa said. "And you have the same sort of situation in the airports. It just would seem easier to put the information onto the card." 

Link to original article: http://atmmarketplace.com/news_story_22214.htm



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Sell a Bundle, Make a Bundle

By **Patty Colby**

VeriFone Inc.

Take a look around; I doubt there's a shortage of competitors willing to go toe to toe to sell basic credit and debit point-of-sale solutions to your target merchants.

But take another look. How many of your competitors are ready, willing and able to learn how to package and sell a bundle of POS applications suited to a particular type of merchant?

In this day and age, keeping it simple is a formula for churn-and-burn economics. It leaves you competing solely on price and forever at risk from competitors who will undercut you and cost you merchant accounts.

Many definitions of bundling exist, but they all come down to the same concept: providing customers with a packaged offering of multiple products or services that collectively provide greater value than if they had to acquire them separately.

Additionally, bundling allows you to stand out from the competition by offering suites of products and services tailored to particular market segments or individual customers.

Bundling is now standard practice in many industries; however, it's not yet in ours. Part of the reason this industry has been slow to adopt bundling strategies is because in the past, several smaller applications were "daisy chained" or linked together to become a single, larger piece of code within a traditional payment environment.

And these monolithic applications became problematical because:

- Payment applications must undergo stringent certification processes, and each time a change is made the entire piece of code must be recertified at a significant cost to the developer and acquirer.
- Large, linked-together applications have significant performance penalties and unacceptably long download times.
- Whenever developers add new functions or make changes, the risk of corruption to the entire application code increases.

This all changed, however, with the industry's adoption of multi-application terminals, such as VeriFone Inc.'s Omni 3750. Designed with the Verix multi-application architecture, the Omni 3750 and similar products enable merchants to securely run multiple payment and value-added applications.

Different developers create the applications on the same platform, and the core payment application is isolated from them and thus does not require recertification.

Multi-application terminals allow the addition of applications for merchants, and every new application installed on a merchant's payment terminal creates an added business relationship with that merchant.

These growing relationships build strong barriers to competition that make it less attractive for merchants to switch to working with one of your competitors.

What's the best way to take advantage of this opportunity? First, become aware of and comfortable with the range of applications available. Then become savvy in learning how to package them together to meet the needs of particular merchants.

Let's look at the needs of liquor store merchants, for example. Credit and debit obviously provide key benefits in allowing merchants to extend added payment options to their customers, but they also reduce merchants' risk of cash theft.

While many consumers have readily adapted to debit cards, many still prefer to use checks, so adding a check authorization and conversion application makes check acceptance about as easy as using a credit card.

In addition to offering their customers more convenience, merchants also reduce the risk of accepting fraudulent or bounced checks. Liquor store operators also face the risk of selling to minors. With multi-application terminals, it's a breeze to add age- and ID-verification applications.

With these applications, clerks can swipe a mag-strip license, scan a bar-coded license or manually enter a birth date, and the system calculates age eligibility.

These applications might also store a log of the transactions so merchants can provide authorities with proof that a person was "carded."

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View

While merchants have customers' attention at the check out counter, they have a golden opportunity to present a variety of prepaid solutions that not only provide consumers with convenience but also provide merchants with fee income from card activation and reloads.

opportunity to use their payment devices as time and labor management solutions to better manage employee time and payroll functions.

These applications optimize labor costs by enabling merchants to electronically collect, process, track, update and report labor information. They ensure uniform payment practices and decrease the volume of Department of Labor compliance issues for merchants.

Another workforce application is employment verification. Using the POS terminal as a data entry point, merchants can quickly and easily

screen potential and existing employees. An application on the POS terminal searches databases to electronically confirm the identity of new hires.

Merchants can use this information to prevent the hiring of workers who have committed fraudulent or criminal activity for related organizations. This solution is particularly valuable to merchants experiencing high employee turnover.

While merchants have customers' attention at the check out counter, they have a golden opportunity to present a variety of prepaid solutions that not only provide con-

sumers with convenience but also provide merchants with fee income from card activation and reloads.

It's not only about long distance calling cards anymore. Merchants have the ability to also offer prepaid debit and signature cards in their stores.

Prepaid debit often serves as a great payroll check cashing alternative that lets merchants cash customers' checks and hand them an immediately useable debit card. This reduces merchants' risk of keeping cash on hand, allows them to sell a new product (the card) and sets customers up for repeat visits to the merchant location every payday.

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I've just described five applications to present to retail merchants in a bundled solution. You can sell that application suite just as easily to convenience store merchants with similar issues. If they don't sell liquor, they undoubtedly sell tobacco and lottery products that require age verification.

If you're not comfortable handling the details of this type of sale, no problem. The bundle creates a great post installation telemarketing opportunity.

If you still think you can't handle it, the terminal manufacturers and the value-added service providers will make the calls. This provides you with the benefit of the revenue without the sales work to make it happen.

If you're still not sure, send merchants flyers in the mail to help them understand the possibilities; they might even call when they want to be signed up.

Once you become more comfortable and familiar with these applications, mix and match different suites to different customers.

For example, a dry cleaner doesn't need age verification and labor management, so why not sell them on the value of check authorization and conversion, along with gift cards that will increase repeat business?

Restaurants might be well suited to time and attendance labor management, along with gift and loyalty applications.

The possibilities seem endless. It's a matter of sizing up the needs of merchants and figuring out how to best package and sell them a suite of solutions.

Each additional application loaded on merchants' payment devices strengthens your relationships with those businesses and makes it that much harder for the competition to move in.

Don't wait ... call your equipment sales reps today and ask them about bundling solutions for your merchant sales team. 

Patty Colby is the Manager of VeriFone's North America Value-add Program. She manages the company's strategy regarding all Value-add Program initiatives. She also coordinates the acquisition and executions of new value-add relationships and launch programs. Colby has more than 14 years' experience working with electronic payment systems and 19 years' experience in the issuing and acquiring industry. E-mail her at patty_colby@verifone.com.

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BookReview

Fraud Protection Primer for Consumers

This book may scare the hell out of you, and rightfully so," writes Steve Weisman. "It explains just how vulnerable we all are in the world of identity theft and credit."

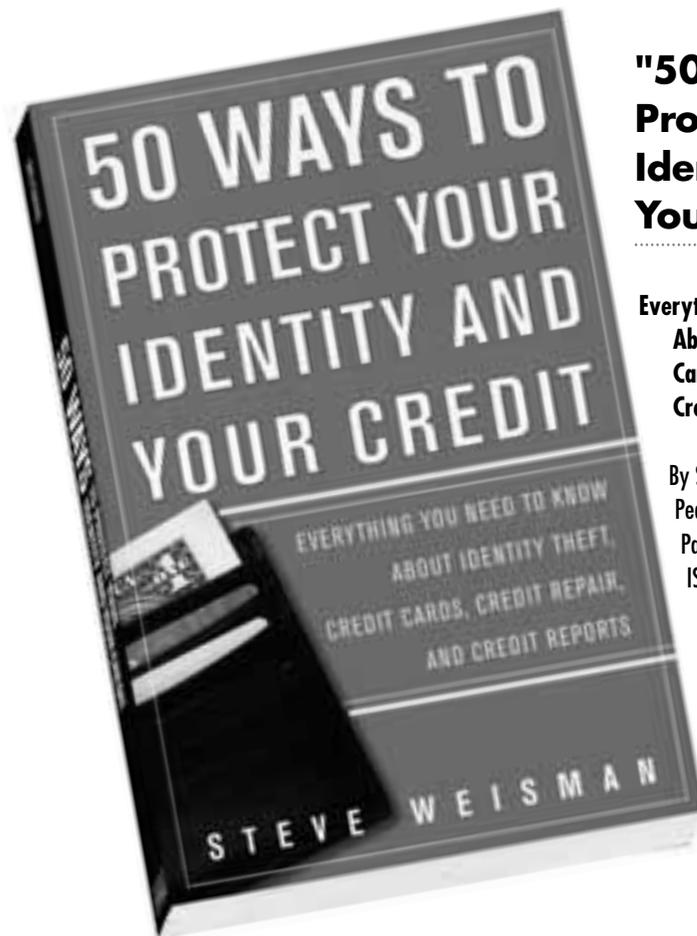
For consumers, these are ominous words. The card Associations and payment networks have motivated and encouraged them to participate in various electronic systems and assured them that their personal financial information is safe.

Yet despite the best efforts of the payments industry, including processors, equipment manufacturers, software developers and card Associations, instances of identity theft, phishing and credit card scams are on the rise.

According to the Federal Trade Commission (FTC), nearly 650,000 Americans fell victim to identity theft in 2004. Credit card fraud was still the most common form of reported identity theft, the FTC said, costing consumers about \$547 million last year alone.

Consumers have to wonder whether their financial information is secure, and what measures their banks and credit card companies are taking to keep them safe. They've been invited to this big party, so shouldn't they be aware of the house rules?

Weisman addresses those issues, and from a consumer standpoint, provides insightful explanations of



"50 Ways to Protect Your Identity and Your Credit"

Everything You Need to Know About Identity Theft, Credit Cards, Credit Repair, and Credit Reports

By Steve Weisman
Pearson/Prentice Hall, 2005
Paperback, 232 pages
ISBN 0-13-146759-X

the processes involved and suggestions for ways to conduct personal business safely. This might be unfamiliar territory for many consumers.

He presents explanations of biometrics and other technologies used in payments; federal and state government efforts to legislate against fraud and identity theft; the differences in credit card programs and what all that fine print in the card

disclaimers means; and credit scoring, reporting and repair.

He also offers carefully worded form letters and suggestions for dealing with creditors and finance companies.

Weisman is a syndicated print and broadcast journalist who reports on legal and personal finance issues.

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BookReview

Clearly, Weisman wrote this book with consumers in mind. People working in payments need to wonder: If consumers don't feel secure about the systems they use for commerce, how much will they use them?

In "50 Ways to Protect Your Identity and Your Credit," he explains why people should be extremely careful about protecting their personal financial information.

He details a variety of payment mechanisms and where holes in the systems create vulnerabilities so that consumers can arm themselves against intrusions.

Clearly, Weisman wrote this book with consumers in mind. People working in payments need to wonder: If consumers don't feel secure about the systems they use for commerce, how much will they use them?

Issues around fraud protection and risk management have become integral to the payments industry; it's worth considering that many consumers are now also aware of these very real concerns.

The book "50 Ways to Protect Your Identity and Your

Credit" might serve as an excellent investment on both a personal and a professional level.

Do professionals in the payments industry easily grasp and explain to customers the complex issues involved in fraud protection, including compliance regulations and security?

Are merchants savvy enough? Would they benefit from learning more? This book is a practical gift for clients, friends, relatives or even a useful addition to your own bookshelf.

For payment professionals, the level of information in this book is probably basic. But reviewing the issues from a different angle could provide refreshing insight into how the true end-users of the systems, products and solutions this industry promotes might lead to a more consumer friendly way of doing business. 



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United Bank Card, Inc. (UBC) is a payment and transaction processor serving businesses nationwide. UBC currently handles the merchant accounts for over 18,000 locations and processes in excess of 2 billion dollars annually. United Bank Card assists over 650 contracted ISOs around the country in building profitable merchant portfolios. UBC operates out of two main offices located in New Jersey and Arizona offering an entirely in-house processing solution from underwriting and risk management to customer service and technical support. United Bank Card earned 3 honors in the Green Sheet's "Best of the Best" Reader Surveys including "Best Customer Service" by an ISO and "Top 5" nominations for "Best Processor" and "Best ISO Organization". UBC was also ranked as the 48th largest processor by volume in 2004 by the Nilson Report. United Bank Card is continually making advances in the payment processing industry and providing free credit card equipment is just another example of our commitment to innovation.

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One Free Terminal at a Time

By Jared Isaacman

United Bank Card Inc.

Over the past few months, I believe the payment processing industry has undergone a profound change. The free terminal initiative, pioneered by United Bank Card Inc. (UBC), has quickly spread and is reshaping the way ISOs and merchant level salespeople (MLSs) conduct business. This development has sparked industry-wide controversy and ignited the most viewed discussion in the history of GS Online's MLS Forum.

The Forum thread titled "Free Terminals ... low to zero equipment revenue: Is this a turn for the worse or better?" served as a battleground where supporters and opponents debated the pros and cons of providing equipment free of charge. The debate became so heated after 184 posts that the Forum moderator ultimately locked it.

In addition, "Free Lunch?", a recent article in The Green Sheet ("Street Smarts," by Ed Freedman, Jan. 24, 2005, issue 05:01:02), addressed the topic. The article evaluated free terminal programs as a concept and included many different opinions and perceptions.

(For example, the author stated that "It's not an industry norm for a 50/50 revenue sharing program to give the ISO partner the first \$15 on the monthly minimum ... " On the contrary, as part of the program, UBC evenly splits the monthly minimum with MLS partners.)

Despite the conflicting opinions, UBC's free terminal program has proven to be extremely successful for those innovative enough to employ it. Since we introduced the program, our MLS partners have submitted a record amount of new merchant applications; residual streams are building quickly or rapidly.

I would like to address the realities of the initiative to clear up any inaccuracies and misconceptions that exist. On Nov. 22, 2004 UBC rolled out the offer, which provides POS equipment free of charge to its ISOs/MLSs who can then turn around and give the product free of charge to their prospects.

UBC provides a free Lipman NURIT 8320 POS terminal and ePad signature capture pad and an Ingenico Corp. eN check reader to merchants who sign up for the service. UBC will also pay ISOs/MLSs an additional \$100 up-front bonus per merchant application to counteract the loss resulting from giving away the terminals, which

ISOs/MLSs usually sell or lease to merchants.

Too Good to Be True?

Perhaps the most common questions that come up in discussions of a free terminal program are "Is this offer real?" and "What's the catch?" Providing free equipment is real. It might not be realistic for some of the more debt-laden acquirers and ISOs to offer, but for salespeople and organizations that align with the right processor, it will result in real profits. There is no catch; we offer the same program that originally brought us success, only now the equipment is free.

"The free terminal program opens all kinds of doors for me because I can give the merchant the best of all worlds. Offering the free terminal gets their attention so that we have an open ear for them to hear our complete program offering. This program provides complete flexibility to tailor whatever program we wish, to be as competitive as we wish."

– Richard Dorsey, Electronic Funds Capture

Is It Really Free?

Another misunderstanding is that the equipment is not really "free" because it's proprietary. Although merchants must return the equipment at the end of the contract, they never incur an equipment cost; they receive replacements within 24 hours and updated hardware at no additional cost.

If merchants choose to end the agreement completely, unfortunately they won't know the satisfaction of "owning" a piece of POS machinery. However, perhaps giving up a state-of-the-art credit card terminal might persuade them to reconsider their decision to terminate the contract in the first place.

"This is a free program. Most ISOs are charging a \$79 annual fee, and most ISOs are charging \$0.35 for a batch fee. From what I know about this program, the agent has complete flexibility to change the mids, nons, statement fee and monthly minimum. As far as people saying, the merchant is paying for it; they just don't know it. From what I can see, most merchants are paying these fees; they are just not getting anything for their money. At least with this program they are getting equipment to use for their money."

– Jason Hansborough, Merchant Exchange Systems

There's an Annual Fee?

For merchants to qualify for the free equipment program, ISOs/MLSs charge them a \$79 annual membership fee. If ISOs/MLSs choose to waive the fee, merchants will then need to purchase one of UBC's non-proprietary terminals.



The annual fee is necessary to maintain the free replacement program; it also covers the cost of 24-hour customer service, technical support and shipping costs. Many companies charge this fee, and it's often more than \$79. And many of the companies that require it do not offer free equipment, guarantee overnight replacement or provide updated technology.

"There are a lot of ISOs charging an annual fee similar to UBC but giving nothing but 'BS' as to what it is for. I don't mind charging an annual fee when I can really explain what it covers. I do see the UBC free equipment as just that, FREE! If you're selling or leasing a terminal, are you going to then waive the batch fees? Annual fees? Or all the other misc. fees we all know are added anyway? I think not!" – Neil Mink, UBC

"I've Been Doing It for Years ... "

Some salespeople are convinced that these types of programs offer nothing innovative because they've been giving away the Trans 330 for years. Unlike any other "free" terminal offer, UBC is unique in its ability to provide the latest generation of equipment. Rather than simply offering an archaic terminal based on 15-year-old technology, we provide a complete state-of-the-art processing solution.

UBC also provides the additional benefits of SigCapAccess, the only nationwide signature capture network available to the average-sized merchant. We developed this network in-house, and it's only available to UBC merchants.

UBC's free terminal program is also compatible with an online application, a feature that allows merchants to sign up for a merchant account and receive instant approval and an MID directly from the ISOs'/MLSs' Web sites.

"The new free terminal programs being offered are revolutionary in terms of the flexibility for the MLS and the benefits for the merchant. Unlike programs that provide a Zon Jr. or a Trans line terminal, with this program I can really offer merchants something of value, something that I would use."

– Jaime T. Goff, Merchant Services

How Can an ISO/MLS Live on \$100 per Merchant and No Equipment Fee?

Remember that ISOs/MLSs are not really in the business of selling equipment; that's the manufacturers' job. ISOs/MLSs provide a service and sell functionality. Offering free equipment is the rational move and should result in a flood of signed merchants.

However, the \$100 bonus is not intended to serve as a substitute source of income, but rather a supplement to the residuals that salespeople can earn. It's shortsighted to try to support a company based solely on equipment sales. Successful ISOs/MLSs rely on a steady stream of

residuals, and that is precisely what this initiative creates.

"When we were selling terminals, we would seldom make over \$100 profit and usually less. The serious reseller is in the business for the long haul and the residuals, not the fast up-front money. UBC's free terminal program has positively affected my income. Residuals are growing faster, and the up-front money is more than we were making by reprogramming terminals or selling them at cost. We even give 100% of the \$100 bonus to the sales rep."

– Edwin Cornia, Electronic Bank Data Enterprises

Enhancing the Industry, One Free Terminal at a Time

I believe free terminal programs are here to stay. Ultimately, the industry will need to reinvent itself to accommodate these initiatives, and the changes will benefit everyone.

Providing merchants with free equipment is the perfect solution for ISOs/MLSs seeking a method to not only increase the number of merchant accounts that they sign but also to reduce portfolio attrition. This approach also serves as an excellent way to remove outdated equipment from the market and eliminates the practice of gouging merchants with outrageous lease terms.

Despite the hopes of detractors, free terminal programs are not going away. Companies that implement these types of initiatives do not intend to bring about the early demise of the businesses and individuals who support them.

Free terminal programs are also not stunts to attain short-term publicity. After all, if giving away terminals is only a fad, and the companies that do so are doomed to fail, why have these programs caused such a stir in the industry?

"The way I look at it, we are getting a lot of the older refurbished terminals out of the marketplace. We are enabling our merchants to be compliant with both truncation and Triple DES; our reps can up sell for gift and loyalty and/or check guarantee. It is a win-win situation for everyone involved."

– Lazaros Kalemis, Alpha Card Services Inc.

I believe that it will soon be standard practice for merchants, much like savvy mobile phone shoppers, to seek out the salespeople who provide free top-of-the-line credit card terminals with a signed service contract. As an ISO or MLS, will you be able to oblige these merchants? ■

Jared Isaacman is the founder and Chief Executive Officer of United Bank Card (UBC), a payment and transaction processor serving businesses nationwide. UBC handles the merchant accounts for more than 20,000 locations and processes in excess of \$2 billion annually. Visit UBC's Web site at www.unitedbankcard.com or call 1-800-201-0461.

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Bringing the Bills to ATMs

For ATM owners, trust and reliability are the utmost factors to consider when selecting a vault cash supplier. Not only does that company need to deliver the money, but it also must do so securely and consistently. After all, what good is an ATM without cash to dispense?

ATM owners and deployers have come to trust and rely on Newark, Del.-based Cash Connect, the ATM division of Wilmington Savings Fund Society (WSFS) Bank. The company provides 6,000 ATM deployers and ISOs in 47 states with more than \$125 million in cash for their ATMs. The company is also a national distributor of Triton ATMs and provides ATM processing solutions.

Founded in 1832, WSFS is one of the oldest financial institutions in the country operating under its original charter. The bank has 25 branches, holds more than \$2 billion in assets, and has had an ATM division in place since 1997.

"With over \$2.4 billion in assets, Cash Connect's customers can be confident that we have the cash for their growing businesses," said Thomas E. Stevenson, President of Cash Connect.

Does a vault cash supplier need to be part of a bank to be effective? "Not necessarily, but it's the standard, and you need a very specialized system to make it work," said John Clatworthy, Vice President of Sales and Marketing for Cash Connect.

"In the last seven years, we've really refined our system so we feel like we've got the strongest controls in the entire industry."

Cash Connect works with a network of banks across the United States for its cash distribution system.

"We're able to wire out cash for [the banks'] armored carriers to pick up, pack out and deliver to ATMs, and then we track it as it settles back," Clatworthy said.

Refined Tracking Systems

As a vault cash supplier, Cash Connect offers ATM set up and conversion, automated cash ordering and funding, electronic reconciliation, automated settlement imports and exports, electronic cash order confirmations, armored carrier notification and vault cash insurance.

The company tracks delivery and distribution with its proprietary CashTrack software and database, now in its third generation.

As transactions take place at ATMs, Cash Connect's database receives direct feeds from the different processing networks including RBS Lynk, Genpass, First Data Corp., STAR, Core Data and others.

With its system, Cash Connect targets residual levels by site. "We're able to track the cash to the dollar every day," Clatworthy said.

Additional tracking information comes from armored carriers as they load funds and then supply paperwork with any remaining cash.

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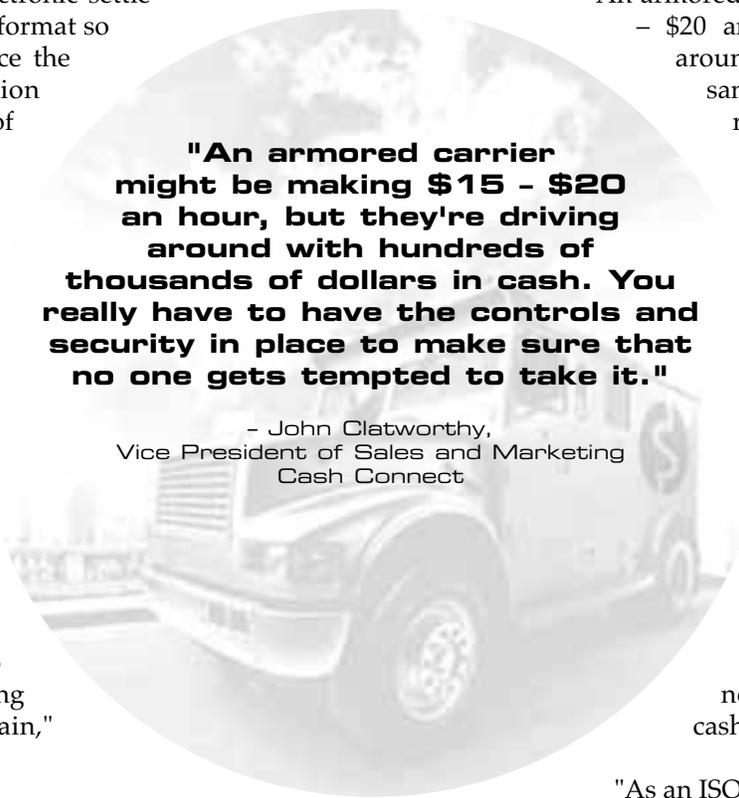
"Our system can import electronic settlement sheets in an electronic format so we're able to quickly balance the ATM and find any situation where it's over or short of cash," he said.

"When you're in a cash business, cash will disappear if you don't watch over it like a hawk."

Through the years, Cash Connect refined its system so it always has the right people and technology in place. "A lot of it is, you stub your toe, then you learn, and you put controls and processes in place so you're never at risk of losing cash in that way again," Clatworthy said.

"An armored carrier might be making \$15 - \$20 an hour, but they're driving around with hundreds of thousands of dollars in cash. You really have to have the controls and security in place to make sure that no one gets tempted to take it."

- John Clatworthy,
Vice President of Sales and Marketing
Cash Connect



"An armored carrier might be making \$15 - \$20 an hour, but they're driving around with hundreds of thousands of dollars in cash. You really have to have the controls and security in place to make sure that no one gets tempted to take it."

The ISO Connection

Cash Connect contracts directly with ISOs; some even remarket the company's services. ISOs will partner with companies such as Cash Connect because many of them would rather invest the money in their own businesses instead of using the cash to load ATMs.

"As an ISO, you'd have to tie up a ton of cash," Clatworthy said. "What we're able to do is allow ISOs to instead use their money to secure more locations to really maximize their sales channel."

"ISOs are out there finding real estate or retail locations for ATMs; it might be a chain of stores. We put our cash in locations like Kmart and Wal-Mart and at many gas stations and convenience stores."

ISOs contract with those locations, whether they own or lease the ATM, and they look to a company like Cash Connect to provide the cash."

Clatworthy said the company works with some of the largest ISOs in the industry that are "out on the acquiring trail."

Because the industry faces frequent consolidation of companies and ATM portfolios, Cash Connect tries to position itself with the companies that are looking to acquire other businesses.

"Because as our customers grow, we'll be able to grow with them," he said.

A Growing Business

Cash Connect has grown consistently year after year. In 1997, the company supplied cash to 14 bank branch ATMs. A year later, it was the top ATM deployer in Delaware. And every year between 2001 and 2004, Cash Connect doubled the number of ATMs it services.

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"Since we started our ATM program, it's grown 135% per year on average over the past seven years," Clatworthy said. "We're still the top deployer of off-premise ATMs in the state of Delaware, but we don't compete with our customers on a national basis.

Cash Connect deploys more than 200 ATMs in Delaware.

"The fact that we do it right here in our own backyard helps us understand what our customers' business model is and the challenges they face," he said.

As part of its ATM program management services, Cash Connect offers ATM transaction processing, ATM equipment sales, 24/7 monitoring of the ATM, terminal set ups, automated revenue sharing, residual payment and reporting, vendor management with networks and armored carriers and claims processing.

The company has 25 employees. In addition to a sales and marketing staff, a funding department makes sure cash gets out on time to the ATMs, and a settlement department carefully tracks any extra cash coming back so nothing is missing and everything balances out.

"Most ATMs are loaded twice a month or bi-weekly, so we

constantly receive cash orders," Clatworthy said.

The recent trend of an increasing number of ATM placements and a decreasing number of ATM transactions has not affected this company's business. "The more ATMs that are out there, the more cash that's needed overall," he said.

"Our profitability isn't tied so much to the individual ATM location, but we are certainly sensitive to our customers watching the volume per ATM go down, so we work with them as much as possible to try to keep their cash costs down."

At the end of the first quarter 2005, Cash Connect plans to launch a Web-based system for requesting, tracking and managing cash. "Customers will be able to place cash orders over the Web and create management-level reports," Clatworthy said.

"We will continue to improve our technology to ensure we have the best controls in the industry, and we will try to keep our customers at the center of all our decisions.

"For them, cash is the lifeblood of an ATM program; it's the oil that makes the machine run," he said. ■



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CompanyProfile



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E-mail: wnirenberg@paradata.com

Company address:

201-1002 Lynham Road
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Web site: www.paradata.com

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They Answer the Phone, and Agents Close More Merchant Deals

Ten years is a long time. In the course of a decade, people age, businesses come and go, technologies advance, industries and markets shift.

Ten years is also a long time over which to grow a business, providing plenty of opportunities to adapt, learn and expand.

In payments, where the landscape is altered on a regular basis, successful companies live by a philosophy of flexibility and readiness to try new ways of doing things.

Paradata Systems Inc. has learned many things over the course of the decade it has been doing business. The company provides a wide range of innovative business solutions, based on Internet payment services, for enterprises of all types and sizes.

Since its founding in 1995, Paradata has expanded its offerings and markets through the years by not only incorporating state-of-the-art systems and solutions, but in sticking with a few tried and true business axioms.

One of those is to make complex technology as easy as possible for customers to understand. Another is to support resellers and end-user merchants throughout the life of the relationships, and never compete with them. Another is taking

enough time to thoroughly study new ventures to develop effective strategies before jumping in with both feet.

And yet another, so basic that it sounds impossibly too simple, is that whenever the telephone rings, make sure that someone is there to answer each and every call live and in person.

Paradata has placed great importance on this small, but key, element. It's unusual enough among businesses today that the company makes it a point of letting its partners and customers know that when they call Paradata, someone will answer the phone, said Shannon Byrne, the company's co-founder, President and Chief Executive Officer.

In fact, Byrne credits her company's strong growth in the United States over the past several years to an in-house staff who actually answers their phones in person. The real success of the company's philosophy is that each call answered translates into a merchant issue resolved.

"When our new partners call and hear a live person answering, they can't believe it," Byrne said. Paradata often receives e-mail from partners saying just that, and how pleasantly surprised and impressed they were by it.

"These kinds of testimonials really



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reinforce why we exist," she said. "We look at it from the basis that our resellers' and partners' revenues depend on us, and their merchants' revenues depend on us.

"I personally don't think I could sleep at night if we didn't answer the phone 24/7."

Providing such a high level of personal attention in business is rare today, but Paradata has hit on a way to provide highly technical and complex payment solutions while maintaining a down-to-earth approach to dealing with all the *people* involved in the process, from staff, to partners, clients and merchants.

Paradata, based in British Columbia, supports more than 6,500 merchants in Canada and the United States.

The company provides payment solutions, including gateways, virtual terminals and recurring billing programs and enterprise consulting.

While Paradata serves these merchants in a variety of market segments, its strengths lie in providing services for three areas in particular.

The company has designed solutions that suit the specific needs of government agencies, universities and not-for-profits while providing a wide range of services for any and all Internet-protocol (IP)-connected merchants in card-not-present or card-swipe environments.

"The Internet is now the critical backbone of the payment industry, and will continue to grow," Byrne said. "But Internet payment is not just e-commerce anymore.

"We started out thinking this business would be fully built on e-commerce-based businesses. That is how we got here and why we exist. As

"What we're doing is getting merchants comfortable with technology," said Walter Nirenberg, Paradata's Vice President of Sales.

"We're demystifying the technology aspect for two reasons: To enable the merchant level salesperson (MLS) to focus just on selling and then to allow the merchants themselves to focus on their core business, which is not Web site set-up or management."

In other words, as Nirenberg said, and in keeping with the company's preference to keep things simple, "We try to keep all the squirrels on the treadmill behind the curtain."

time progressed, Internet business also became supporting mail order/telephone order companies, recurring billing and payments companies, and we've now moved into the era of supporting any company who wants to process payments over the Internet.

"There are so many products and services that we promote because we work with so many different retailers within different niche markets," Byrne said.

It's all about supporting customers, Byrne said, and this notion of personal attention might reflect a more relaxed way of doing business that's not only based in Canada, but near a world-class ski resort.

It's no coincidence that Paradata is the only non-ski industry-related business operating in Whistler, BC. Byrne is an avid skier, and the slopes were the reason she chose the location for her company; the company's 30 in-house staff members get two mornings a week throughout the season to ski.

Don't let the ski goggles fool you: Byrne has two degrees in computer science and one in business. Her background in information technology delivery systems enabled her to build a solid foundation on

which to grow her company.

The relaxed environment belies the experience and knowledge that Paradata's resellers and customers have come to rely on.

The company bases its services and solutions on the implementation of some very technical processes, but what really matters are its relationships with clients and the clients' customers.

One of the company's main goals is to make the technology involved in the complex transaction processes as simple to understand as possible.

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EVOLVE TOWARD SUCCESS

CompanyProfile

Byrne said the company has implemented unique tools to make this happen. Through partnerships and alliances with resellers and third party solution companies, Paradata has bundled packages to address the varying needs of a range of merchants.

These run the gamut from merchants requiring basic credit card processing services to those that want to establish a highly visible e-commerce presence. Paradata has made it as easy as possible for ISOs/MLSs to provide their merchant customers with information about the different options through a sophisticated communications strategy.

A comprehensive training packet for agents contains preformatted materials that each reseller can private-label for its sales team. The Reseller Portal and Merchant Integration Kit, which give pre-sale sneak preview demos of the solutions, are available on the company's Web site. ISOs/MLSs and merchants can download and test all of Paradata's products prior to making that commitment to purchase.

"The way we've set it up is to make it as easy as possible for our partners and their customers to use and buy an Internet payment service," Byrne said. "We put a whole

merchant-facing portal together for our partners' merchants; all the information is there for them to try out before the sale. We actually support our partners' merchants before and after they've bought."

Paradata's Merchant Integration Kit allows merchants to try out various features of Internet payments and see how they fit with their individual situations. Importantly, though, the company follows through with support after the sale with 24/7 live human-being-in-person customer help-desk service.

Paradata has also come up with another strategy, developing partnerships with other payment solutions providers and then matching those services with individual businesses or industry segments; coordinating and providing third-party services for its partners contributes to a large portion of Paradata's growth.

"We've been creative in what we call our 'niche programs,' in pulling together certain niche market opportunities," Byrne said. "We bring together partners, like marketing companies and resellers, and bundle in a gateway service and anything else we need to make it a one-stop solution for that marketplace."



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Byrne said they learn of niche market opportunities mainly by word of mouth, when people call to inquire if they're interested in a certain type of market; they also seek out and research different segmented markets as well.

She detailed a noteworthy program that Paradata implemented in conjunction with the National Federation of Independent Business (NFIB). NFIB is an advocacy group representing 600,000 small businesses in the United States that look to the association for recommendations on products and services.

In the NFIB program, Solveras Payment Systems provides the merchant account processing; Paradata provides the gateway service and brought in a shopping cart solution and a Web hosting company.

Because Paradata takes a very serious stance on security issues, it certifies all of its integrated solutions with card Association compliance programs, sometimes going beyond what the rest of the industry is doing.

As the provider, it's critical for Paradata to ensure the security of all systems so agents can concentrate on selling, and merchants can concentrate on running their businesses.

"We fully support all marketplace initiatives," Nirenberg said. "We're on a constant mission to identify, evaluate and integrate different security protocols."

He cited payer authentication as an example. "We did a pre-emptive integration and became the first fully integrated auth-bridge in the world for Visa's, MasterCard's and JCB's platforms. We embrace the protocols that are available, do a proactive integration and then promote them through our resellers to the merchant end users," he said.

For a company that provides complex technical solutions and processes, Paradata's low-key approach to offering the high quality products and services not only gives its clients secure, state-of-the-art customized solutions, it also gives people working at Paradata great satisfaction in what they do each and every day.

Three core values define the philosophy behind Paradata: You must be happy to come to work and happy to leave. You must be hungry to make a difference no matter who you are. You must want to learn every day.

The company might also consider adding a few more to that list: Give your customers the best solution possible for their particular situation. Hit the slopes. Answer the phone. ■

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■■■■■ Prepaid From Page 1

Broadening Financial Horizons

The nature of prepaid products is expanding to give consumers a much wider range of options beyond simply making purchases at their favorite stores.

Consumers use prepaid cards because of the convenience and cost savings they provide. SVCs make it easier for people to manage their funds, pay bills, make purchases and to transfer money; they also use them for a variety of "top-up" services.

SVCs now provide users not only with a variety of transactional tools, they are also beginning to bring features typically associated with traditional bank accounts to "unbanked" and "underbanked" consumers.

Taking it one step further, some people say SVCs could, and should, serve as credit- and asset-building tools, with information on usage reported to credit bureaus in much the same way data from other accounts are, to help unbanked consumers gain financial footholds.

As these functions become reality, questions arise: How to define a bank account or a deposit; whether funds loaded on an SVC should be federally insured or to whom the coverage would apply; and whether all issuers of SVCs should be considered financial institutions.

These issues serve as fodder for discussions among regulators, providers and industry observers.

They're trying to figure out where to draw the line between retail grocery or convenience locations where customers buy and reload SVCs, and financial institutions that offer prepaid products including long distance and wireless service at their branches.

A Prepaid Package That Does Fit All

SVCs give a large portion of the population access to financial services that they otherwise might not be able to enjoy, and financial institutions are just beginning to discover that the cards provide them with access to a large, previously untapped customer base.

New York Community Bank (NYCB) is one of the first financial institutions in the country to offer its customers a range of prepaid products at its 143 branches throughout New York City, Long Island and northern New Jersey.

The program offers a full suite of prepaid products and services that includes a Visa-branded gift card; MasterCard-branded stored value debit cards; a payroll

card; credit card cash advance; and prepaid wireless and long distance. The NYCB program is unique because it has packaged a number of products and has taken a one-stop approach to making them available to customers.

All of the card product values are loaded via Ingenico's Elite 712 terminal, which the branches also use to process credit and debit transactions.

NYCB introduced its program in December 2004 in conjunction with payment processing provider TransFirst, and so far, results have been overwhelmingly positive, according to Bob DuFort, Senior Vice President for NYCB.

"We introduced the gift cards prior to the holidays," he said. "Without a major ad campaign, the cards sold way ahead of our expectations."

NYCB is the country's fourth largest thrift with assets of \$24 billion. As its name suggests, it has a strong commitment to the communities in which its branches are located.

The neighborhoods that NYCB serves are financially and ethnically diverse, DuFort said, creating the need for marketing the same prepaid products to very different target audiences: as a primary payment tool, or as a convenience tool for traveling or managing a college student's finances, for example.

However they use them, the idea behind offering the prepaid products is to not only give existing customers another service, but also to get the unbanked, who are potential new customers, in the door as well.

One day when these people are ready to move to traditional bank products including checking or savings accounts, the relationship will already exist with NYCB, DuFort said. They're using the SVCs to build trust.

"These customers can depend on the safety and soundness in banking," DuFort said. "We don't know whether they've applied for checking accounts or credit cards.

"If they don't wish to, we'll have this product available for them to utilize. If they wish to move into that area, we'll open the way for them to do that."

DuFort said assistance from NYCB might include the development of a prepaid product that helps customers build credit. "NYCB is structured to be community oriented and focused on local neighborhoods.

"We do our best to serve the various markets within the community. Moving forward, we see [the credit-building



product] as a natural extension of this."

Banks as Retailers?

It's no surprise that financial institutions have long used various products to entice customers to bank with them. But with the introduction of stored value products at the branch level, does that put banks in direct competition with retailers?

"Competition with non-bank retail locations is not the issue," DuFort said. "It's not an issue of the market forcing us to be in that area, but rather, we're following up on our promise to serve our community."

"The issue here is making it convenient for the consumer. The prepaid products are complementary to the services we provide in the local communities," he said.

"Financial instruments are being pushed at c-stores, check cashers and gas stations," said Randy Oveson, TransFirst's Director of Business Development for Prepaid. "Our program is kind of a flip-flop of that."

"We're giving the banks financial instruments to bring into their fold the unbanked and underbanked customers."

Oveson noted the benefits that stored value products have over check cashing businesses, too. "It's a convenience to the buyer. It's cheaper, and it's a safer way to do it; there's no exchange of dollars with a reloadable card."

The Center for Financial Services Innovation (CFSI), based in Chicago, promotes new ways to help underbanked consumers reach financial prosperity.

The organization does this by providing funding and resources, enabling partnerships, and developing and distributing authoritative information on how to respond to the needs of the underbanked profitably and responsibly.

CFSI published a research paper on stored value products in July 2004. According to Executive Director Jennifer Tescher, the changing nature of the business relationships involved in stored value is cause for scrutiny.

"We're beginning to look at this, at banks as retailers and at retailers selling financial tools," she said. "The underbanked are now able to access financial services at a broader range of locations, and this is changing the definitions of how we think of financial services: What is an account? What is a deposit? Where do people go to access financial services?"

CFSI's Senior Analyst Katy Jacob, who authored the

paper on prepaid products, said that among SVCs, gift cards are in a class by themselves and create different issues from a consumer standpoint, as well as for how the cards are set up and used.

As far as reloadable prepaid programs are concerned, she said that from a regulatory standpoint things are "really up in the air right now." And as banks and financial institutions become more enmeshed in promoting SVCs, deciding the rules will become more crucial.

"Federal Deposit Insurance Corporation (FDIC) deposit insurance, when is it a deposit, who is covered, and related Regulation E [the automated clearing house rule covering electronic fund transfers] decisions around this are clearly out for comment right now," Jacob said.

Building Credit Through Prepaid?

Another big question: If SVCs include asset- and credit-building components, does that change the nature of the products and take them from a simple transactional tool to a more complex credit-based one?

Part of the challenge is packaging the information from stored value products for the credit bureaus in a way that's equivalent to other financial information.

There's really no way to translate it and currently nowhere to put it because technically prepaid products are not bank accounts, and the loaded funds don't count as deposits.

But Jacob and Tescher said credit reporting companies are increasingly more interested in finding ways to incorporate some of the data on SVCs in their systems. For instance, this could include reporting the monthly maintenance fees for keeping some cards open and reloaded as a monthly bill paid on time.

One company, indiGOCARD LP of Fort Worth, Texas, offers a prepaid MasterCard-branded debit card. The company is unique among others in the industry for several reasons, according to Daniel Hines, President and General Partner of indiGOCARD.

One is its fee structure (it charges a flat \$9 monthly maintenance fee and says that all transaction fees on its end, including ATM fees, are free).

Another is that each card is tied to an individual, FDIC-insured demand deposit account in the cardholder's name. Funds for other cards receive FDIC coverage through placement in pooled accounts.

"Customers enjoy the highest level of protection against fraud and unauthorized transactions, as well as the same

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customer service features that typical bank customers receive," Hines said.

The company offers cardholders an overdraft savings protection program, where funds are segmented into a "wallet"; these savings accounts can be referenced on credit applications.

Hines said indiGOCARD hopes to introduce a program in conjunction with credit bureau Experian that will constitute a more reliable method to report a customer's information to reflect positively on a credit report.

"We will be looking primarily at recurring income to the cardholder's account and the various types of recurring payments, such as rent and utilities," he said.

"This program, hopefully, will be fully tested and ready to implement toward the end of 2005."

Customers in all 50 states and across all demographics use indiGOCARD's products. The cards are available on the Internet through payment services including PayPal or Yahoo Funds Transfer, as well as from retailer locations; Hines said most of the cards are funded through customer direct deposits.

How to Regulate It?

Prepaid cards are a relatively new segment of the payments industry, and some experts say that even though there haven't been any problems yet with companies closing down or consumers losing access to funds, the goal is to prevent that from happening in the future.

Then there are the issues regarding fees associated with most prepaid products. Several states have already enacted legislation dealing specifically with closed loop gift cards intended to protect consumers from losing card funds through inactivity or monthly fees.

But with payday lending and check cashing businesses coming under fire, this could be a fortuitous time for the prepaid industry.

We will cover specific regulatory issues behind the stored value product market in the next issue of The Green Sheet.

Applying Regulation E and other banking regulations, including FDIC coverage, to prepaid cards could have far-reaching implications for the way these products are marketed, sold, used and processed.

Other considerations include compliance with USA PATRIOT Act and card Association rules. Stay tuned.

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AgenTalkSM

Winning the Merchant Services Game

By Matthew Swinnerton

Merchant Services Direct

For this month's "AgenTalk," I interviewed "Coach" Bob Schoenbauer of Greenbelt, Md.-based Capitol Payment Systems Inc. If you spend any time on GS Online's MLS Forum, you've probably seen his comments posted.

Schoenbauer has had quite a career in the credit card processing industry and in life. Between coaching his sons to victory in sports and his sales reps to get the sale, he has found many successes. Keep reading to find out how.

Matthew Swinnerton: Why and how did you enter this business?

"Coach" Bob Schoenbauer: Before entering the merchant account business, I owned a few other successful companies: a Subway franchise, a building maintenance company and a home improvement business.

When I decided to start accepting credit cards in the home improvement business, it was nearly impossible to find someone offering this service. (This was the early 1990s.) No one offered this in the phone book, so I started calling local banks.

Finally, I found a manager at a small bank who said someone had been by and left a card. I called the number and a Cardservice International office sent an agent who leased me a Trans 330.

A few years later, I sold my last business and took a little time off to consider what I would like to do in the future. I always thought that I would like to be in a business like insurance where you collected ongoing residuals.

I had read somewhere that companies selling merchant services were also paid residuals. So I looked very hard at insurance and at merchant services. Also, I kept going back to how hard it was to find merchant services.

For me, the difference between the insurance business and merchant accounts was that I did not want the evening hours associated with insurance. I felt that most

"The name 'Coach Bob' comes from coaching [my sons in] Little League Baseball on and off for 10 years. My oldest son, Chris, played shortstop and pitcher and was clean-up hitter on our first team, which won the city championship that year ... "

- "Coach" Bob Schoenbauer

business owners would keep more traditional hours, which would allow me to attend my three sons' (Chris, Brad and Ryan) games.

I did some research and decided to watch the paper for a sales ad to try the merchant services business out first. I answered a local Cardservice ad and went in for an interview. (I swear the owner was wearing a chartreuse suit and purple tie.)

Anyway, he hired me and gave me some sort of training, which consisted of "The rate is 1.59% plus \$0.20. Here's a lead." I went out and sold the first lead. A few days later I sold the second one.

Soon after that I answered an ad for USB and went to work for Ted Ware, with whom I am still friends. Ted had in-house telemarketing, and I really wanted to see how that worked. I ran some leads and sold them.

At the same time, I'd made my decision about which company to become an agent for. This guy recruiting out of his house in Florida for a company in Texas had answered all of my questions and helped me choose Retriever Payment Systems. His name was Joe Natoli.

MS: What has kept you in the industry?

Coach: Residuals ... It is still exciting to see the residual report every month, although I still enjoy training new agents and merchant level salespeople (MLSs), along with talking to and selling to merchants. There is always something new every day.

MS: Do you focus on a certain market?

Coach: My primary focus is still the new business owner. I am able to help nearly all business types, although my portfolio is mostly retail.

"As far as new [olutions], I see contactless as the coming wave. Everyone that has a contactless card or device loves it. From the reports I've read, the major merchants using it have deemed it a huge success."

- "Coach" Bob Schoenbauer



MS: What's the story behind your title of "Coach"?

Coach: The name "Coach" comes from coaching [my sons in] Little League Baseball on and off for 10 years. My oldest son, Chris, played shortstop and pitcher and was clean-up hitter on our first team, which won the city championship that year ...

My middle son, Brad, played on a few city champion teams starting at shortstop, batting clean up and doing some incredible pitching. Ryan is my youngest at 11.

His team has been county champion the last three years.

Ryan plays first base [lefty], centerfield and pitcher and is our lead-off hitter.

Coaching is also what the development of new MLSs and agents is all about.

MS: What do you see on the horizon for our industry?

Coach: Check truncation is no longer new, but it's becoming more exciting every day. For me it has become an easy up sell, creating more revenue on both sides: equipment and residuals. Merchants are finally aware of and asking for it.

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As far as new [solutions], I see contactless as the coming wave. Everyone that has a contactless card or device loves it. From the reports I've read, the major merchants using it have deemed it a huge success.

In the near future, smaller merchants will need to follow suit, opening up an entirely new market. This should create a scenario in which existing merchants see a legitimate need to trade up to newer technology.

MS: How do you choose a processor?

Coach: This is a tough one. I think a big part of this is just the feeling I get from the owner. I have only dealt with a few companies over the years on an ongoing basis. In most cases, I negotiated with the owner, not a recruiter.

The programs and contracts were all similar. My decision ... came down to three things: "feel," customer service and checking the owner's background as closely as possible.

How could I really judge the service from the outside? I called the switch board and asked for the agent and merchant support numbers.

Over the next few days, I would call both numbers a

few times to see how fast they would pick up and if merchant support could answer a simple question.

If they passed this test, I would then look into the owner. Has he been involved with another merchant account business before? How did that end? What business did he come from? I would also call the processor he uses to see if he is direct or going through someone else.

Over the years this process led me to Retriever, Cardservice, Total Merchant Services and Electronic Exchange Systems. Joe Natoli, Steve Duniec, Ed Freedman and Jamie Garfield have all had a positive impact on my business.

Although I haven't [worked] with Steve in five years, I can still count on him for solid advice when I need it.

MS: How has The Green Sheet helped you?

Coach: Way back when I first started out, I had no idea how to find a company to represent. I went online and stumbled upon The Green Sheet Resource Guide. Without that, I never would have found Retriever. It also led me to Ed Freedman.

I saw an article [in The Green Sheet] about how Ed had



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AgentTalk

worked his way through college cleaning boats; he built up his boat cleaning business and then sold it when he graduated. He even lived in Annapolis, Md. for a while. I could relate!

MS: Do you attend any industry trade shows?

Coach: I have been to the [Electronic Transactions Association's (ETA) Annual Meeting and Expo], and I think everyone should attend. I also hope to attend one of the regional shows in 2005.

MS: What would you like to see more of in our industry?

Coach: Integrity. I would like to see our business governed in the way the insurance industry is. With the incredible stories you hear from merchants of what salespeople have told them, I think we are badly in need of rules with strict enforcement.

This would, of course, include governing the ISO community to alleviate the always-present fear of not getting paid that seems to permeate our industry.

MS: What is the biggest mistake you've made in this business?

Coach: The closet thing to a big mistake was selling off most of my residuals in 2000. Don't ever do this if you don't have to.

MS: Describe a typical day in your life.

Coach: A day in my life is very ordinary. Remember, my family was a big part of my choosing this business. I usually [get to the office] at 8:00 or 8:30 a.m. and leave at about 4:30 or 5:00 p.m. If Ryan has a game, I leave at 4:00 p.m.

I spend my day talking with or training agents, dealing with merchants and my processor, and shuffling papers. It's better than it sounds.

MS: What goals do you have for your business?

Coach: As far as goals, mine have always been the same. I don't have the need to be a mega ISO. I want to continue building a solid, medium-sized organization that can take care of its agents and merchants and that my kids can grow into and become a part of.

MS: Is there anything else you'd like to add?

Coach: For the newcomers to this industry, I would like to end on a positive note. I have seen many people write about how hard it is to make it in this business. They also wonder why they got in it or why they're still here. I couldn't disagree more.

We continually have new agents come on board who are able to make a good living starting without residuals. There is still money to be made in equipment while you are waiting for your residuals to grow.

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You will also be very surprised how fast your residuals will grow with the right company. Whether they are new businesses or large accounts, either way they add up fast. Before long, the importance of the equipment sale will decrease and residuals will become the backbone of your business. I love the business, and it's been a great venture for me and my wife Joy of 22 years. Thanks again to Joe, Steve, Ed and Jamie.

Thanks, Bob for all of your insight. I always enjoy meeting people in our industry who balance family time and work well. I know this has contributed to your success.

Matthew Swinnerton of Merchant Services Direct has sold credit card processing solutions for the last seven-plus years as an independent agent. To find out more about Merchant Services Direct, visit www.msdirect.net or e-mail Matthew directly at matt@msdirect.net or call him at 512 255-9791.

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Ernest P., Austin, TX

Pricing and Attrition in Merchant Acquiring

By Marc Abbey and David Woynerowski

First Annapolis Consulting Inc.

It's seductive to consider that attrition issues in merchant acquiring are a result of pricing and increasing competition; many in the industry do believe that pricing is the essential attrition driver.

However, recent research by First Annapolis Consulting Inc. suggests that this widely held view is only partially correct and that attrition is much more of a multivariate problem.

In recent research, First Annapolis used regression analysis to estimate the relationship between pricing and attrition. In essence, we plotted a line statistically through a series of data points relating pricing and attrition rates.

The y-intercept (the value at which this plotted line crosses the y-axis) is attrition in a given segment even if the price was zero. In other words, it's price-independent attrition.

By comparing this price-independent attrition rate to total attrition for a given segment, we can estimate the percent of total attrition that pricing and non-pricing factors generate. This relationship is illustrated in the graph on page 75.

For example, pricing drives 25% – 35% of attrition from merchants with annual processing volumes in the \$100,000 to \$1 million range, whereas pricing drives more than 90% of merchant attrition among merchants with volumes of \$20 million or more.

Smaller merchants have much higher gross attrition rates than larger ones; however, the reasons behind small merchant attrition vary, and pricing appears to be the driver in a significant minority of cases.

An inflexion point exists in merchant behavior at approximately \$2 – \$3 million in annual volume; pricing issues increasingly affect merchants above this threshold in their selection of an acquirer.

For merchants in the mid-market and higher, pricing is the overwhelming reason for attrition. However, that is not to imply that an acquirer's investment in personalized service for larger merchants through relationship management is foolhardy.

Rather, these investments are table stakes in a market segment where the players perceive service to be undifferentiated and the cost of conversion is relatively high. Making the "switch versus stay" analysis at the end of each contract term is often a purely financial one.

With respect to the smaller merchant segment, these observations mean good and bad news for the average acquirer. The good news is that small merchants do not appear overly price sensitive, which underscores the industry's universal assumption that acquirers enjoy their best profit margins in these segments.

The bad news is that acquirers have difficulty managing small merchant attrition given the following multifaceted reasons:

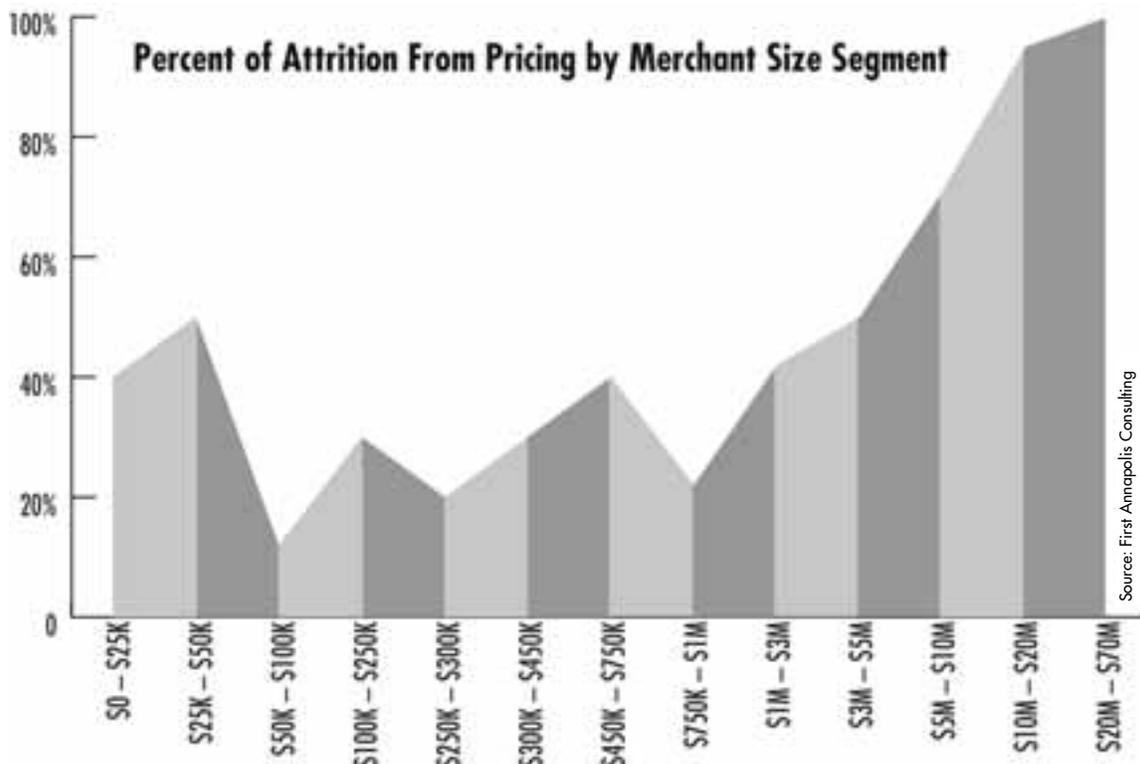
Service Disruptions

Negative service events, whether in the ordinary course of business (a poorly handled chargeback) or an extraordinary event (a systems conversion), are key causes of attrition. Acquirers' merchants are theirs to lose in many respects. Service events create a reason for them shop around for a different service provider.

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External Factors

Merchants might attribute any poor service to their acquirer simply because they are unhappy with events in the payments industry. Recently we completed an analysis in which we evaluated the correlation between an acquirer's customer satisfaction tracking, its absolute operational and service performance, and its relative performance (that is, relative to industry competitors).

We concluded that there was a weak correlation between customer satisfaction and actual performance and that external issues such as interchange increases better explained changes in customer satisfaction.

Life Cycle Issues

Acquirers might do everything right and still suffer from attrition simply because events have changed for their customers. Merchants open additional outlets, someone new takes over the business, they hire a professional accountant, etc.

The larger the acquirer, the more difficult it is to maintain a close relationship with customers and to know about and react to these changes.

Banking Disruptions

Whether or not an acquirer is part of a bank, a disruption at merchants' banks can trigger attrition. Disruptions can range from re-pricing a commercial

demand deposit account (DDA) to a servicing event. If a merchant changes banks, the new bank (or its non-bank partners) will have a nice "at-bat" or opportunity to sell to that merchant.

Technology/Product Offerings

As acquirers' service offerings become more complex including check services, gift cards, PIN debit and other services (in addition to credit acquiring), we have noted an increase in attrition caused by inadequate service offerings.

On the bright side, the opposite is also true. A strong gift card offering, for example, can greatly improve an acquirer's retention performance relative to the population of merchants without a gift card or with a gift card from another provider.

Managing attrition in acquiring is more a game of infield singles rather than home runs. Effective management begins with a strong understanding of merchant behavior and ends with targeted tactics to address the factors that affect acquirers' customers. This is much more easily said than done. ■

David Woynerowski is a Senior Consultant and Marc Abbey is a Partner at Baltimore-based First Annapolis Consulting, a consulting and merger and acquisition advisory firm. E-mail David at david.woynerowski@firstannapolis.com; e-mail Marc at marc.abbey@firstannapolis.com .

NCR to Pay \$10.2 Million for Tidel's ATM Business

NCR Corp. and Tidel Technologies Inc. announced an agreement on Feb. 25, 2005 through which NCR will acquire Tidel's ATM business.

NCR will pay \$10.2 million for the acquisition and will complete the transaction by the end of Q4 2005.

Tidel faced growing financial troubles since 2001, when its largest and longtime customer, ISO Credit Card Center (CCC), collapsed. According to ATMmarketplace.com, Tidel made 70% of its ATM sales to CCC in 2000 and 2001.

Following the demise of CCC, Tidel reported it lost \$26 million, including \$18 million in Q3 2001 alone.

Tidel, based in Houston, started out in the ATM business in 1992 as a division of the Southland Corp., which is now 7-Eleven Inc. Tidel developed its products primarily for use in stores and other off-premise locations.

NCR could be hoping that the Tidel line will fill out its own product roster to expand markets and strengthen the company's foothold in an increasingly shaky business.

While the acquisition happens at a time when the volume of ATM usage at installed machines is decreasing because of such issues as market saturation and competition from debit and cash-back POS options, NCR apparently has plans to develop its off-premise business.

At the ATM Industry Association (ATMIA) Conference East, held in Miami Feb. 14 – 16, Daniel Palczynski of NCR discussed several initiatives the company has in the works.

He mentioned mobile ATM solutions, including NCR's new "Cash Drop" machines. Deployers place these kiosk-like machines on a temporary basis for events as promising ways to bring ATMs to locations where a cash machine would be the last thing people would expect to find.

Palczynski showed slides of the highest altitude ATM, at 13,200 feet somewhere high in the Himalaya mountain range, and of a solution devised for the 2004 Olympic Games in Athens, Greece where vans equipped with ATMs were placed and moved strategically to serve cash-strapped customers. ■

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Interchange Confusion

I am an educated man, and I've worked in the merchant services business for a decade. I understand interchange, but I have to tell you that when Visa U.S.A. and MasterCard International announced plans to increase interchange again, I was bewildered. My first reaction was "What! Are they crazy? How many basis points did they increase?" However, the issue is not as simple as an increase in basis points because Visa decided to create an entirely new category of interchange.

Visa introduced a new card type called Traditional Rewards for consumer credit cards that meet rewards

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thresholds. Beginning in April, Visa will view existing consumer credit cards not offering rewards as traditional cards and will qualify these at existing interchange categories. Visa will qualify the new Traditional Rewards cards at new categories that have higher interchange rates (11 basis points higher).

Visa will also modify the qualification flow for signature and infinite cards, eliminating the existing signature electronic and signature standard interchange programs. Visa will also introduce a new consumer credit and debit interchange program for utility merchants as well as modify reclassification logic for restaurant and service station transactions.

Visa made the following changes to various interchange programs, effective April 1, 2005:

- Consumer Electronic Interchange Reimbursement Fee (EIRF) Credit will increase from 2.14% + \$0.10 to 2.30% + \$0.10.
- Consumer Standard Credit will increase from 2.63% + \$0.10 to 2.70% + \$0.10.
- CPS Retail Debit Tier IV will decrease from 1.05% + \$0.15 to 1.03% + \$0.15.
- CPS Supermarket Debit Tier IV will decrease from 1.05% + \$0.15 to 1.03% + \$0.15, with a \$0.35 cap.

Changes to the current Visa Interlink debit card rates include:

- Interlink Standard will increase from 0.65% + \$0.12 (\$0.45 max) to 0.75% + \$0.15 (\$0.50 max).
- Interlink Supermarket will increase from \$0.22 to \$0.24.

To further complicate matters, MasterCard also

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announced rate changes, also effective April 1, 2005. A few highlights include:

- Merit III Credit Base will increase 0.09%
- Key-Entered Credit and Merit I Credit will increase 0.05%
- Corporate Face-to-face will increase from 1.54% + \$0.10 to 1.95% + \$0.00 (This follows the Visa commercial card program that does not have a lower interchange rate for swiped transactions.)
- Corporate Data Rate III will increase 0.10%
- Corporate T&E I and II will increase 0.05%
- Corporate T&E III will increase 0.10%
- No changes to consumer debit rate programs

A recent thread of comments posted on GS Online's MLS Forum addressing interchange shows just how confused we all are about this topic. Here are a few of the comments:

"It appears MasterCard is raising retail nine basis points, while Visa remains fixed. I've always priced MasterCard and Visa the same. What are your thoughts for the future and for current business? Raise both? Only charge more for MasterCard? Any thoughts?"
– rosendahlb

"Visa is not remaining fixed. They are introducing the

new rewards card interchange categories, which will be a disaster six months to a year from now when the issuers start feeling the heat from [American Express Co.] AmEx. The rewards card interchange category was released by Visa to enable the issuers to offer a more competitive rewards system comparable to AmEx's current program.

"These rates are dramatically higher than the current Visa interchange, especially in traditional low-risk merchants like restaurants, retail and supermarkets. To answer the nine basis points question, the best thing to do is blend the card types. Visa has a superior transaction count to MasterCard ... you could increase both card types by five basis points and more than cover yourself with MasterCard." – ubc

"Any clue what percentage of Visa rewards cards are in circulation? Paymentech sent something around claiming 38% of all Visa cards are rewards or signature, not including business or debit." – amsprocessing

"I think there will be a bit of wait and see. How many cards are in circulation? What is the financial impact to the merchant? What is the average ticket spent on the cards? Do we downgrade the rewards interchange to mid or non? And if so, how much more are we making on these cards versus losing on the CPS/Retail and Merit III categories (if we didn't raise them)?"

"Merchant statements are going to be more and more complicated if 38% of all cards are rewards cards. Merchants probably won't stand for downgrades and savvy reps are probably going to try to break them out higher individually or to the mid qual category, while at the same time increasing the CPS/Retail and Merit III rates and lowering check cards. That's going to be a nice [end of month] statement." – empire

"Most ISOs are going to throw rewards into mid- and non-qual buckets and probably make a killing." – amsprocessing

"Speaking of hating us more, I was talking to an executive from a large industry bank, and he was saying that he thinks it will get to the point where Visa/MasterCard might get up to what AmEx is (over 3%)." – SwipeNGo

"It's funny. AmEx claimed Visa had an unfair advantage with issuing banks. These unfair advantages made it so they couldn't compete. Then as soon as the issuing doors are opened for AmEx, rates start dramatically increasing with Visa/MasterCard. It appears that sometimes a 'monopoly' does actually keep prices down. Go figure." – PaynetSystems

"PaynetSystems, you're right. Now competition is going to put the big issuers in a race for market share among the cardholders. End result: Acquirers and merchants will pay for it." – ubc

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"Actually, consumers will ultimately pay for it." – scaine

"Just had my friendly MasterCard customer service [rep] ask me if I wanted to add a rewards program to my card. [I] turned them down as the interest rate was 3% higher for the rewards card. [I] did not feel like going from 8% to 11% today. I think everyone will pay; who pays the most remains to be seen." – SCStevens

"The 2004 data just distributed by Visa: Visa says five out of every 10 cardholders carry at least one rewards card in their wallets. Eight out of every 10 affluent cardholders carry at least one rewards card.

"Visa currently estimates that \$300 billion in credit volume resides on rewards-based products (including Visa signature volume). They have a major marketing program in the works. Hopes this helps. They went over this information in-depth at the Visa Acquirer conference." – ISOqueen

As you can see, interchange increases weave a web of confusion. Why is this happening? How can Visa and MasterCard get away with this? Will Visa and MasterCard start charging as much as AmEx charges?

I believe that the general consensus is that Visa impelled

this latest interchange increase, but MasterCard also wants to keep ahead of its new competitors. Yes, I just used the word "competitors" in regard to the industry that these two card Associations have essentially controlled.

The Wal-Mart lawsuit and the recent lawsuit that AmEx won in order to have banks issue AmEx-branded or other types of credit cards will have an impact on us and our merchants.

Visa and MasterCard now need to stay competitive with interchange rates offered to banks. Banks can now do business with companies such as Amex and Discover Financial Services. So in order to stay competitive, Visa has opted to create a new category of card, the Traditional Rewards card, and increase its rates for its "best" rewards card, the signature card.

MasterCard kept it a little simpler and only raised its rates in almost the same amount without creating an additional type of rewards card. Either way, the cost to the merchants just went up again.

As a merchant level salesperson (MLS), you might need to explain the differences in credit cards to your customers. Merchants use personal credit cards. They likely have cards in their wallets that have no rewards (traditional cards) as well as some that do offer rewards (traditional rewards or signature cards).

Merchants understand that there's an additional cost for these rewards programs. However, they might be surprised to learn that the card issuers have very little interest in paying for these rewards programs.

Instead, they'd rather see the merchants pay for them. You have to hand it to issuers; it's a pretty creative approach.

In my opinion, merchants will eventually get angry enough to stop accepting Visa and MasterCard. We're not there yet; however, if these price increases continue, the merchants will figure out a way to revolt, such as by only accepting PIN-based debit cards or Discover cards. At this point, the jury is still out.

Then there's the question of what will your ISO partner or processor do? I received the following information from someone at Global Payments Inc. Visa provided some expected volumes on the breakdown between traditional, rewards and signature:

Credit Card – all merchant category codes (MCCs):

- 19% Signature
- 18% Rewards
- 63% Traditional

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- 60% Traditional

Everyone wants to know how much of the Visa sales volume will fall into the new "Rewards" category noted above. It looks like about 30% of the credit card sales volume, excluding signature cards.

This means that about 40% of credit cards have some type of rewards program (20% signature plus 20% traditional rewards) and about 60% have no rewards program (traditional cards).

When you do an analysis, consider whether you're doing a proposal for a specific merchant or simply trying to create general minimum rates that apply to your portfolio.

From a portfolio basis, based on its mix, we use 70% Visa and 30% MasterCard and 80% credit and 20% check cards. If you use these assumptions, then the interchange rates for retail/restaurant processing merchants increase approximately seven basis points for "qualified" transactions.

In addition, the Associations will likely downgrade more

transactions to mid-qualified as well as make several significant increases to bigger interchange categories (specifically, Visa EIRF: 16 basis points; and MasterCard Merit I: five basis points).

My guess is that we'll see a few different approaches. Some people will only raise the qualified discount rate from nine to 11 basis points.

Some people will raise the qualified rate from seven to nine basis points and then make other increases to mid- and non-qual surcharges. We might even see some give out two different retail rates: one for traditional cards and another one (likely 11 basis points higher) for traditional rewards cards.

They'll also continue to downgrade the signature cards. The best approach depends on how much detail MLSs want to give their merchants.

Merchants that are larger and do more sophisticated processing might require a full explanation on all different types of credit cards and the cost of accepting them.

Smaller merchants will more likely need to know that the cost of accepting credit cards just increased another x basis points.

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Now you know why the title of this column is "Interchange Confusion." If you're still confused, I don't blame you. I recommend that you take time to reread this article. I also recommend that you ask your ISO partner what its plans are in response to the interchange increase.

The funny thing is that as MLSs, you will probably bear the brunt of merchants' anger. You'll hear: "How dare you raise my rates again!"

My advice is to tell your merchants, "Please don't shoot the messenger" and explain the reasons behind the card Associations' latest actions.

My next article will be my final offering to "Street Smarts" before I turn over the column to a new host. As always, your comments are invaluable. Please send them to streetsmarts@totalmerchantservices.com.

"Today, if you are not confused, you are just not thinking clearly."

- U. Peter

See you next time where the rubber meets the road.

Ed Freedman is founder and President/Chief Executive Officer of Total Merchant Services, one of the fastest growing credit card merchant account acquirers in the nation. Freedman is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available.

To learn more about Total Merchant Services, visit the Web site at www.totalmerchantservices.com. To learn more about partnering with Total Merchant Services, visit www.upfrontandresiduals.com or e-mail Freedman at ed@totalmerchantservices.com.

The Green Sheet is pleased to announce that the National Association of Payment Professionals (NAOPP) will sponsor our "Street Smarts" column beginning April 2005. Members from NAOPP's Board of Directors will write the articles. As has been done in the last two years, the authors will continue to solicit comments and ideas using GS Online's MLS Forum. The Green Sheet thanks Ed Freedman for his commitment to the column and for a job well done.

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Education (continued)

Marketing 101

Mistakes Happen

Here's How to Get Back on Track

By Nancy Drexler

Cynergy Data

Have you ever heard the expression "Hope for the best, expect the worst"? I believe it was meant for marketers. In even the most perfect marketing campaigns, mistakes happen. It's not always your fault, but it's your job to correct them as quickly and effectively as possible.

In this column, I'll describe some of the most common mistakes marketers make and explain how to face them head-on so you end up smelling like a rose.

Mistake: Rushing Into a Long-term Relationship With a Bad Idea

You come up with a marketing message that's so brilliant, creative and original that you're absolutely certain it will drive sales sky-high.

You spread your new message everywhere: full-page ads, direct mail, your Web site and maybe even in a new corporate tagline. You wait for accolades, but they don't come. No one calls. No one writes. No one cares.

You double check to make sure that your office phone is still plugged in and that your e-mail account is still active.

Unfortunately, it's clear the message that initially thrilled you and seemed like such a great idea simply isn't working. It happens all the time. Brilliant creativity doesn't necessarily move product off the shelves. In the best advertising, the product is the hero, not the Creative Director.

To recover, use caution next time. Start out with a single ad, promotion or mailer that ties in to a new message. Test the waters very carefully before embarking on a full-blown campaign, or prepare for spectacular disappointment.

Mistake: Blowing Half the Budget on One Media Buy

It happens to everyone. Maybe an ad salesperson has a

persuasive pitch. Maybe a new publication or media outlet seems like a perfect fit. Maybe a list broker convinces you that she has the names and addresses to deliver major results on a direct-mail promotion.

Before you know it, you've signed a contract that eats up half your marketing budget for the year and, worse yet, doesn't produce.

Now is the time to get creative. If you can't get out of the contract, start thinking about low-cost ways to supplement those purchased ads.

Kick the public relations machine into high gear, and get free press for your company. People believe what they read in the editorial sections of publications more than the marketing materials anyway.

Work the phones and start reaching sweet-spot prospects directly with your company's message. You're a great communicator, so you can handle marketing, right?

Take a long, hard look at your Web site; look for ways to update it to get new messages out for free. Look into low-cost or no-cost blast e-mail services to reach the right people without over-spending.

Companies with no marketing budgets manage to get results all the time. If you've overspent your budget, it's time to get reacquainted with the basics of free marketing.

Mistake: The Marketing Contains Conflicting Messages

Have you ever set out by car to a place you haven't been in awhile, hoping to rely on your keen navigational skills and photographic memory to get there?

If you're anything like me, you probably arrived at your destination two hours late because you stopped to ask practically every service station attendant along the way for directions.

The same thing applies in marketing. Don't begin a marketing plan without a clear map. This will not only eliminate budget headaches, it will help unify efforts to spread the same essential message everywhere.

For example, you place an ad in a publication touting your company as a boutique sales organization that provides individual, customized service, the kind of place where everybody knows the customers by name.

Meanwhile, you've been working for a few weeks with an editor at the same publication to get a story printed about your company's runaway success: It tripled in size, added 200 staff members and now processes for eight times as many merchants as it did only a few years ago.

If potential clients read the article and look at the ad, which message will they get? You have an enormous, successful company that's raking in cash and adding staff as quickly as it can set up new cubicles?

Or, you have a small, personalized mom-and-pop operation where clients have personal relationships with every employee?

Neither. They will get the message that, at best, you have no idea who you are. Go back, plan carefully and emphasize the same messages in every marketing channel.

Mistake: Thinking You Can Do Too Much on Your Own

Do you believe that you are personally responsible for every marketing decision made? Do you single handedly create, write, design and produce every piece of collateral that leaves your office?

If you're the boss, it's easy to start thinking this way, but hold up, Lone Ranger. I'm here to tell you that you can't do it alone.

I'm not saying that you need to hire additional staff (or any staff at all). What you do need to do, in order to prevent mistakes, is solicit outside opinions and put more sets of eyes on your work as often as possible.

It's all too easy to read, reread, edit and re-edit a piece of writing a dozen times and never catch an error that an outside reader will notice in seconds.

Co-workers and contacts serve as valuable sources of ideas and feedback in almost every situation. Make use of them. It's as easy as walking down the hall and asking someone to take five minutes to proofread.

Mistake: Still Moping About the Last Mistake

Apologies will only get you so far. The quickest way to make people forget your failures is to give them successes to remember.

If you've made a mistake, quickly explain you are accountable (this is not the time to dramatically vow that you'll never mess up again or send a company-wide e-mail explaining your failures and how very sorry you are) and immediately start working on a new project that will succeed.

Do something for which others will praise you, and you'll be shocked how quickly they forget your slip-ups. Try to learn from your mistake and move on to the next great marketing campaign. ■

Nancy Drexler is the Marketing Director of Cynergy Data, a merchant acquirer that distinguishes itself by relying on creativity and technology to maximize service. Cynergy offers its ISOs VIMAS, a cutting edge back-office management software application; TrackIt, a ticketing system that makes responses to customers fast, accurate and efficient; Brand Central Station, a Web site of free marketing tools; plus state-of-the-art training, products, services and value-added programs. Cynergy designed all of these to take its ISO partners from where they are to where they want to be.

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Identity Theft and the ISO/MLS

By David H. Press

Integrity Bankcard Consultants Inc.

The Federal Trade Commission (FTC) and the Better Business Bureau (BBB) have both estimated that more than 9 million American consumers fall victim to identity theft each year.

In its annual report on consumer fraud, "National and State Trends in Fraud and Identity Theft," released Feb. 1, 2005, the FTC reported that Americans lost nearly \$548 million to identity theft and consumer fraud in 2004, with the Internet providing new ways for consumers to fall victim to age-old scams.

The median monetary loss reported was \$259, although 41 consumers reported losses of \$1 million or more.

Most likely, consumers lost significantly more than the amount reported because fewer than half could pin an actual dollar figure on their losses, and the losses probably continued after the initial report to the FTC.

The FTC also stated that it received more than 635,000 consumer complaints in 2004. Identity theft topped the list with nearly 247,000 complaints, up 15% from the previous year.

Beware of the Internet?

More than half of the complaints (53%) were Internet-related. Criminals selling nonexistent products through online auction sites; shopping with stolen credit card account numbers; using fraudulent Web sites; or "phishing" through unsolicited e-mail contributed to the problems. ("Beware the 'Phishermen,'" by David H. Press, The Green Sheet, July 12, 2004, issue 04:07:01).

However, the "2005 Identity Fraud Survey Report," released on Jan. 26 by the BBB, shows that more cases of identity theft actually result from crimes that occur offline or with "paper" than from crimes that occur online.

Internet-related fraud problems are less severe and less costly than losses resulting from lost or stolen wallets and checkbooks, dumpster diving, mail theft, etc. The BBB reported that these paper-based losses were eight times greater than Internet-based losses.

Regardless, consumers and merchants should still show caution when using the Internet. Fraudsters are developing insidious techniques for tricking users into providing

account information and other personal data.

One method involves the use of spam and phishing, where fraudsters hoodwink prospective victims into clicking their way to their phony sites. Fortunately, consumers are quickly catching on to this trick.

Another and more devious method involves "domain name system (DNS) poisoning" or domain hijacks to redirect users to fraudulent Web sites.

The hoax is called "pharming" and it supersedes the need to coax users into responding to junk e-mail alerts. The attacks also occur across a broader front, potentially misdirecting all e-mail and Web traffic away from victims.

Now reports exist of "evil twin attacks," which occur when a "cracker" sets up an attack computer as a duplicate public access point in a cafe or airport, mirroring the actual settings but with a much stronger signal.

An unsuspecting patron then simply accesses the Internet using the stronger but fraudulent signal. The user still connects to the Internet, but through the cracker's system. This allows the cracker to sniff or read any data that the victim sends via the Internet, such as a login ID and password for an online bank account.

People who surf the Web only to look for sports scores or news aren't at too much of a risk. However, individuals who purchase goods or services or balance their checkbooks online might fall victim to identity theft.

Acquirers, ISOs and MLSs Are at Risk, Too

Identity theft is not only a problem for card issuers; it also affects acquirers/ISOs and merchant level salespeople (MLSs) where it hurts them the most: the bottom line. For example, acquirers are responsible for the risk of loss in the following scenarios:

Foiled by the "Bust-out Merchants"

These types of fraudulent merchants use a person's stolen name and then run credit card numbers either obtained through the practice of phishing or compromised through other means such as at the point of sale.

Terminals are portable and "bust-out" merchants can use them almost anywhere. When they finally close their merchant accounts, the fraudsters simply take the money and run.

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Education

Web to conduct such business as submitting online merchant applications and granting instant approvals. ISOs/MLSs are then stuck with the chargebacks. Even ISOs/MLSs who don't take this risk could get stuck with the loss through the indemnity clause of their merchant program/marketing agreement or agent agreement.

Attack of the Chargebacks

Using a list of stolen cardholder account numbers, these criminals attack legitimate online merchants (or mail order/telephone order merchants) who are selling a product in high demand.

Unless ISOs/MLSs have provided merchants with all the protection tools available, the crooks can bombard merchants with the stolen account numbers. The result to the merchants is an administrative nightmare with a load of chargebacks, fees and potential fines from the card Associations.

In a worst case scenario, merchants are faced with all the problems above, plus the loss of valuable product that they've already shipped to the fraudsters. This forces them out of business, and ISOs/MLSs are stuck with a huge loss, too.

These two scenarios can be very costly to merchants and ISOs/MLSs as well. ISOs/MLSs need to protect themselves and their businesses with proper underwriting and the use of the appropriate fraud and risk tools.

A New Security Standard

Since I submitted my last article concerning CISP and SDP ("A Must for 2005: CISP and SDP Compliance Reviews," The Green Sheet, Jan. 10, 2005, issue 05:01:01), the card Associations have made their long anticipated announcement regarding the alignment of their cardholder data programs, which help protect their customers' account information.

Visa U.S.A. and MasterCard International announced their endorsement of a new Payment Card Industry (PCI) Data Security Standard ("PCI: Card Associations Unite to Fight Fraud With Collaborative Standard," The Green Sheet, Feb. 14, 2005, issue 05:02:01), and other major card brands are expected to adopt the standard as well.

The standard is a result of cooperation between the card Associations to create common security requirements for the industry. While each Association will continue to have its own program, all will abide by the same 12 agreed upon requirements.

View a list of the requirements at:

http://usa.visa.com/download/business/accepting_visa/ops_risk_management/cisp_PCI_Data_Security_Standard.pdf?it=il/business/accepting_visa/ops_risk_management/cisp.html | PCI%20Data%20Security%20Standard

Remember, Visa members as well as their merchants must use service providers that are CISP compliant. For more information, visit:

http://usa.visa.com/business/accepting_visa/ops_risk_management/cisp_service_providers.html?it=l21/business/accepting_visa/ops_risk_management/cisp%2Ehtml | Service%20Providers

Also visit the following Web sites for more information:

- Visa's CISP Program (A URL listed on ETA's Web site): www.electran.org/docs/cisp-flyer-v4.pdf
- MasterCard's SDP Program: <https://sdp.mastercardintl.com>
- Discover's DISC Program: www.discoverbiz.com/merchant/resources/data/security_features.html



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Education (continued)

The Benefits of Strategic Planning

By Garry O'Neil
Electronic Exchange Systems

Businesses often fail because they don't have a strategic plan in place, or if they do, they haven't implemented it well. If a business has little idea of where it's headed, it will wander aimlessly; priorities will change constantly, and employees will become confused about the purpose of their jobs.

Without a plan, a company creates expectations in a void where there is little or no alignment with common goals.

A strategic plan helps provide a specific direction and focus for all employees. It points to specific results to achieve and establishes a course of action for achieving them. A strategic plan also helps the various work units within the organization align themselves with common goals.

Businesses often develop strategic plans, but fail to implement them, or lack focus to stay committed to the corporate strategy.

No matter how small or large an organization, all businesses will benefit from strategic planning. And more importantly, the process of developing a plan will prove rewarding for all parties involved.

It will help develop stronger communications between upper management and the rest of the company.

Once a company develops a strategic plan, the keys to making the plan work are a commitment to seeing the plan through and a sound implementation of it.

Businesses often develop strategic plans, but fail to implement them, or lack focus to stay committed to the



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Making a decision to plan is the most direct way for any business to achieve immediate return on investment. But more importantly, planning develops a process for a high level of accountability; it also defines boundaries for expectations and performance that all tie into financial, customer, competitive and market intelligence.

corporate strategy. One of the reasons for a lack of focus is the inability for managers to understand that planning is a process, not a single event or one-time effort.

If companies fail to plan, then they are planning to fail. The goal of any business is to achieve long-term prosperity. In order to do this, it needs to have a roadmap for that goal.

Making a decision to plan is the most direct way for any business to achieve immediate return on investment. But more importantly, planning develops a process for a high level of accountability; it also defines boundaries for expectations and performance that all tie into financial, customer, competitive and market intelligence.

Furthermore, strategic planning helps set up an early warning system that might reveal success or identify impending failure.

Through strategic planning, businesses will be better prepared to gain the most benefit with clearly defined and understood performance goals.

In addition, organizations develop a sense of security among employees that comes from helping them to better understand and adapt to the company's changing environment and growth.

Although strategic planning does not guarantee success every time, it's better than doing nothing at all.

Garry O'Neil is President/Chief Executive Officer for Electronic Exchange Systems (EXS), a national provider of merchant processing solutions. Founded in 1991, EXS offers ISO partner programs, innovative pricing, a complete product line, monthly phone/Web training, annual seminars and, most of all, credibility.

For more information on EXS, please visit www.exsprocessing.com or e-mail Garry O'Neil at garry.oneil@exsprocessing.com.

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Card Associations Prohibit Minimum Card Purchases

The days of merchants requiring minimum purchase amounts when customers use credit cards could be drawing to a close. Factors contributing to the demise of the minimum purchase include new payment technologies that speed up transaction times, new markets that now accept payment cards for purchases, and the card Associations lowering levels and lessening restrictions for transaction requirements.

"The Washington Post" reported in February 2005 that Visa International, MasterCard International and other card companies are doing their best to make sure that retailers and businesses will accept plastic cards for purchases that were once eligible only for cash.

It's been a common business practice for years: Customers could not charge small purchase amounts because of the transaction fees that merchants paid to credit card companies and processors. It wasn't cost effective, for example, for merchants to spend \$0.55 in fees on a \$2.25 transaction.

Now, with more markets taking electronic payments for

small purchase amounts, including QSRs, Internet sites for downloading music or ring tones, parking meters and vending machines, credit and debit card purchases under \$5 totaled \$13.5 billion in 2004.

And with so many people carrying cards instead of cash these days, in order to encourage merchants to accept the cards for smaller-value purchases, Visa eliminated its requirement for signatures on receipts for purchases of \$15 or less in 2003 and lowered the merchant fees it charges. Contactless payment solutions, which speed transaction times and add convenience for consumers, are another contributing factor. An increasing number of QSRs and drug and convenience stores, where transaction values are typically not high, have implemented the systems.

By some estimates, consumers spend \$1.32 trillion in cash on purchases under \$5 each year; until now, this has been an untapped revenue source for credit card companies. As the companies pressure merchants into accepting their credit and debit card products for transactions of all sizes, they might face an uphill battle convincing merchants of the benefits when all customers pay with plastic. ■

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PUBLIC SALE OF MEMBERSHIP INTEREST IN ERN, LLC, a Maryland limited liability company, formerly trading as Nationwide Check Services whose charter is presently revoked

Pursuant to a security interest granted by Rony Natanzon, a Maryland citizen ("Natanzon"), to Baron Financial Corp. ("Baron" or "Secured Party"), pursuant to a Memorandum of Understanding and Rider dated as of July 12, 2002 ("MOU and Rider"), default in performance of Natanzon's obligations having occurred under the MOU and Rider, which obligations are secured by a security interest in the membership interest of Rony Natanzon in ERN, LLC, a Maryland limited liability company whose charter has been forfeited, formerly trading as Nationwide Check Services ("ERN") and which formerly conducted a check guaranty and credit card processing business, and which membership interest is believed to be 100% of the membership interest of ERN, LLC, pursuant to Revised Article 9 as enacted in Maryland, the Secured Party will offer for public sale, by outcry auction, all of the right, title and interest that the Secured Party holds in, to and under the entire membership interest of ERN, LLC (collectively, the "Collateral").

Such sale will be held at the offices of Arnstein & Lehr, 120 S. Wacker Dr, Chicago, IL 60606 on Wednesday, March 23, 2005, at 10:00 a.m. prevailing Central Time, or at other such time and place which may be then and there announced, to which time and place the sale is adjourned. A minimum deposit prior to the commencement of the auction of \$40,000.00 is required, and in order to tender a bid, in addition, the amount by which 20% of that person's bid exceeds \$40,000.00 (the "Deposit"), in cash or by treasurer's check drawn on a national bank in good standing with the Comptroller of the Currency and payment in full by wire shall be due the day of the auction. The Secured Party intends to credit bid at least a portion of its debt secured by the Collateral which amounts to at least \$175,000 plus interest.

Any sale of the Collateral shall be deemed to be "final" and subject to any prior liens or security interests against the Collateral, including a lien granted to Sam Buchbinder under the MOU and Rider, and any defects in title to the Collateral.

ERN, LLC filed a chapter 11 on April 28, 2004 in the U.S. Bankruptcy Court for the District of Maryland (at Baltimore), and information on ERN, LLC's assets and liabilities is available via PACER. Any prospective bidder should examine the docket carefully, including to determine what assets of ERN, LLC still remain in the bankruptcy estate. A sale occurred of many of the assets, including the tradename Nationwide Check Services, on or about July 19, 2004, pursuant to order of the Bankruptcy Court entered on or about July 9, 2004.

A COMPLETE SET OF TERMS AND CONDITIONS OF SALE which shall govern the sale may be obtained from the undersigned.

/s/ Brooke Schumm, III, Attorney for the Secured Party Baron Financial Corp., Daneker, McIntire, Schumm, Prince, Goldstein, Manning & Widmann, P.C., One N. Charles Street, Suite 2450, Baltimore, Maryland 21201 (410) 649-4747

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Consumer Data Breaches Spur Legislators Into Action

Recent reports of a major security breach, and the resulting instances of fraud, at consumer data broker ChoicePoint Inc. have opened debates on protecting financial data. Lawmakers in Washington, D.C. hope to introduce legislation in the House and Senate that would require more federal regulation of companies that collect and sell consumer data.

Sens. Patrick Leahy of Vermont, Dianne Feinstein of California and Charles Schumer of New York have requested a Judiciary Committee hearing on whether the Federal Trade Commission (FTC) should provide more oversight of these types of companies, the Associated Press reported in February.

ChoicePoint announced on Feb. 15, 2005 that criminals had gained access to the personal information of nearly 145,000 consumers in all 50 states ("Thieves Gain Access to 145,000 Consumer Records," The Green Sheet, Feb. 28, 2005, issue 05:02:02). Thieves used stolen identities to create business licenses for what appeared to be legitimate check-cashing companies or debt collection firms in order to breach ChoicePoint's security system.

The crooks opened at least 50 accounts with ChoicePoint to access the consumer records, which included information such as names, addresses, Social Security numbers and credit reports. The criminals operated undetected for more than a year and used the stolen information to steal the identities of at least 750 people. Under pressure from attorneys general in 38 states to alert consumers, the company mailed warning notices to all those affected. ChoicePoint mailed the most notices, more than 34,000, to residents of California.

A California law provides consumers with more safeguards for protecting financial data than any other state: Companies must inform consumers if the systems that store this information have been breached. Legislators from New York, Texas and Georgia are looking at similar laws.

In December 2003, President Bush signed into law provisions to the Fair Credit Reporting Act (FCRA) of 1970. The provisions included amendments to help consumers better protect themselves from identity theft, but they also extended the FCRA's controversial section on credit reporting. This provision gives businesses the right to share and report data on consumers. Organizations such as the National Retail Federation and MasterCard International have argued this helps protect consumers and provides them with easy access to credit. The federal law preempts state law even if states offer consumers more protection.

Some state legislators are calling for even more stringent laws to protect people. For example, Feinstein has long argued that consumers should have more control over how their personal information is collected and used.

She introduced a national bill similar to the California law. She also wants to force data brokers to ask consumers' permission to sell their personal data.

In the FTC's annual report on consumer fraud, released in February 2005, the agency said that Americans lost nearly \$548 million to identity theft and consumer fraud in 2004. Both the FTC and Better Business Bureau estimated that more than 9 million consumers fall victim to identity theft each year.

Following ChoicePoint's news, Bank of America Corp. announced that it lost backup tapes storing the financial information of government employees in shipment to a data warehouse, CNET's News.com reported. And PayMaxx, a payroll processor, said that a glitch in its system left some of its customers' W-2 forms accessible to intruders on the Internet.

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ViVOtech, a payment solutions provider, wants to help limit the amount of payment products, whether they are cards or devices, that consumers carry. The company's new software platform uses radio frequency identification (RFID) technology to integrate loyalty programs with prepaid/gift card transactions.

ViVOtech's ViVOplatform will enable consumers to use only one card or fob to pay for the transaction but still benefit from merchants' rewards programs.

Not only can merchants speed up transactions at the checkout using contactless technology, but they will have a more efficient loyalty program.

Contactless transactions are usually 20% more in dollar value than cash transactions, ViVOtech estimates. The company also estimates that its technology will enable merchants to replace 23% of their cash transactions with contactless payments.

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Consumers' increased use of loyalty and prepaid programs means that merchants can collect certain marketing data to personalize their rewards programs and promotions for better targeting their customers.

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The system is flexible so merchants' customers can use a contactless card or key fob, combining both prepaid and loyalty programs.

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Protecting a Business's Vital Signs

Product: Vital Signs 3.2

Company: Ambiron LLC

For businesses that process, store and/or transmit credit card account information, compliance is a hot issue. Card companies all have their own data security initiatives, and Visa and MasterCard recently joined forces to help align these initiatives through the Payment Card Industry (PCI) Data Security Standard.

But how do businesses that handle sensitive data, including merchants, gateway service providers and processors, stay on top of all these rules and regulations? Ambiron, a data security and compliance management firm, released an upgraded version of its vulnerability and compliance management portal called Vital Signs 3.2.

Vital Signs validates compliance information with security-related regulations for enterprise and small businesses. Using the Internet, Vital Signs scans a business's IT environment for vulnerabilities and helps address any securi-

ty weaknesses. One feature of the software provides users with access to the card Associations' (PCI) Data Security Standard questionnaire. The answers to these questions help businesses prioritize areas in their systems that need attention.

The application also offers a database, updated daily, that covers more than 2,300 risk areas. Using this database as a reference, Vital Signs scans a business' system for vulnerabilities. The system also has a management portal for ISOs and acquirers, which provides a high-level view into merchants' compliance status.

Enhancements to Vital Signs 3.2 include an updated management portal, with new and improved search functions: search by company name, industry, merchant ID and compliance status. And the company added a grouping function that organizes merchants into user-defined groups.

The software now has a support system integrated into the help pages. Merchants submit a support request to Vital Signs' customer service department without calling the toll-free number.

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New Printer and Card Reader Solution for Wireless Payments

Products: A printer and credit card reader solution for wireless payment processing

Companies: AIRCHARGE and Infinite Peripherals

Two mobile payment solutions companies, AIRCHARGE and Infinite Peripherals, have joined forces to offer a printer and credit card reader solution for wireless payment processing. AIRCHARGE's J2ME software is now available for the TreoT 600 with the PP-55MS PDA printer from Infinite

Peripherals. The TreoT 600 slides into the printer/credit card reader to become a mobile credit card processing machine.

AIRCHARGE customers can also now use code division multiple access (CDMA) networks and additional global system for mobile communications (GSM)/general packet radio service (GPRS) networks to accept payments in areas where phone line access is limited or not available, such as at trade shows, flea markets and other outdoor commerce events.

Merchants use AIRCHARGE's payment processing software by loading it onto a mobile phone via the standard Palm HotSync operation or downloading it "over the air." The company said the system is compatible with the nine largest credit card processing systems in the United States. And four U.S. national wireless carriers currently offer the pa1mOneT TreoT 600. 

AIRCHARGE

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"Leadership should be born out of the understanding of the needs of those who would be affected by it."

- Marian Anderson

Building a Winning Team

If you are a supervisor, your responsibilities include managing those who report to you. But do you want to simply "manage" your subordinates, or do you want to lead a cohesive team that works efficiently to produce maximum results? If your goal is to work your way up the corporate ladder, you need to be a team leader.

A team that gets results is a winning team, and as a manager you want to be the one who leads it to victory. Not only will others recognize you for the team's accomplishments, but they will also recognize your skill and prowess as a leader and manager.

Following are a few ways to use your role as manager to build a winning team.

Create a Team Environment

The best and brightest might comprise the group, but if members focus solely on their individual tasks and responsibilities, your group might not work as efficiently or effectively as possible.

If members work in a vacuum, without an awareness or understanding of their function within the team, valuable opportunities are wasted.

Take some time to observe how your employees work. Remember that you are a member of this team; therefore include yourself in your observations. Do people work in groups or alone? Do they actively exchange ideas or questions?

Encourage your staff to work together. Set up workspaces, meeting rooms and break rooms in a way that



encourages collaboration and idea sharing. Provide opportunities, whether through meetings, e-mail or memos, for members to share information about events, accomplishments and goals.

Lead by Example

Your members look to you to serve as a role model, so it's important for you to function as a member of the team as well as the team's leader. Make efforts to include group members in your projects. Share your ideas and ask others for their input.

A leader's job is to make decisions and implement new ideas, but that doesn't exclude asking for your team's input or opinions. Not only will it help the group work better together, you might learn a thing or two.

Nurture the Team

Without your team, who are you leading? No one. Therefore it's in your best interest, and the best interest of your company, to take care of your team members and foster an environment of camaraderie.

Listen to them. Earn their trust. Support them. Treat them all equally. If you treat them with respect, com-

Inspiration



Electronic Transactions Association (ETA)

Expo Network

Highlights: For those in the payments industry who did not attend ETA's Annual Meeting and Expo in Las Vegas in March, there's always the scaled down format of the Expo Networks. These one-day events include educational sessions and an exhibition hall, providing attendees with networking and learning opportunities. The Expo Network events are scheduled throughout the year and in various locations across the country; they're also very affordable to attend. ETA intends to provide more access to industry events to as many interested participants as possible. Thursday afternoon, attend a half-day ETAU course, "A Day in the Life of a Transaction," taught by Donna Embry; registration for the course is separate. Friday includes sessions on effective sales techniques, interchange, chargebacks and business basics for ISOs/MLSs, lunch and a reception.

When: April 7 – 8, 2005

Where: The Sofitel Chicago Water Tower, Chicago

Registration: Visit www.electran.org

NACHA –

The Electronic Payments Association

Payments 2005 Conference

Highlights: Now is the time to learn about automated payments. In 2004, approximately 2.5 billion automated clearing house (ACH) payments were made; accounts receivable conversion (ARC) is the fastest growing payment application in the 33-year history of the ACH network. "Payments 2005" will cover issues and hot topics, including case studies on ARC, NACHA initiatives and pilots, electronic billing and more. More than 160 educational sessions along six tracks and workshops will feature speakers from financial institutions, private-sector companies and government agencies. An exhibit hall will showcase state-of-the-industry products and services from more than 90 vendors and suppliers. In the opening general session, John Stossel of ABC News' "20/20" will address the ideas of individual freedom, free markets, technology and our real and perceived threats to liberty. This year, a town hall-style meeting will give industry participants a chance to provide input for NACHA's Board of Directors' new strategic ACH plan now in development.

When: April 10 – 13, 2005

Where: Henry B. Gonzalez Convention Center, San Antonio

Registration: Visit www.nacha.org

passion and appreciation, they will be inclined to do the same for you and your company.

Invest in the Team

A return on investment requires an investment. If you want to get more out of your team, you will need to put more into it. Offer ongoing training and professional development opportunities. Seek out seminars or workshops that focus on team-building skills.

Offering team members added benefits increases team loyalty and dedication; it also reduces employee turnover.

Reduced employee turnover makes you look good to your boss not only because it means less new-hire training and fewer expenses, but also because it demonstrates that you are a manager employees like to work with.

Delegate

Now that you've spent time, energy and money creating a team, trust your employees to work on their own. Allow them to do what you hired them to do. Entrust them with decisions.

The fact that you have faith in them will make them feel more like part of the team and more invested in the project. Their increased emotional investment will benefit the project and the business.

We are all part of a team. Even if you only supervise one person, you are a team leader. Whether or not you are the person who hired or selected the team members, you are the one entrusted with maximizing their assets and increasing the bottom line.

If you demonstrate that you are capable of creating and leading a team that produces results, you will be more valuable to your current, and future, employers.

To reach that goal you will need to create a team environment, lead by example, nurture and invest in the team, and delegate when appropriate. If you do that, your roster will be filled with contented teammates working toward a united victory. ■

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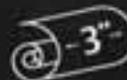
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