



# The Green Sheet

DEDICATED TO THE EDUCATION AND SUCCESS OF THE ISO AND MLS

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## Opening the CDHC payments window

**T**he era of generous, employer-funded health-care plans is swiftly going the way of the family-doctor house call. An increasing number of people, even those with full-time jobs, have no or minimal health insurance, and they are being forced to pay health-care expenses out of pocket. This has given rise to a new array of consumer-driven health-care (CDHC) options that are changing the face of health-care spending yet again.

As employers struggle to rein in escalating employee health-care costs, employees grapple with sky-high deductibles, lower insurance caps, and sharply increasing discrepancies between the actual cost of medical services and the amount insurance plans are willing to allocate for them.

Meanwhile, doctors and other medical practitioners wrestle with ways to collect the higher amounts owed by their patients. And discerning ISOs and merchant level salespeople (MLSs) are devising solutions to facilitate this transition in health-care payments.

**The government steps in**

To address the health-care crisis, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which created tax-advantaged health savings accounts to complement high-deductible health plans (HDHPs). The legislation permits consumers to own health-care assets and to carry them from employer to employer.

The lower cost to employers of CDHC options – combined with a concentrated push by the Bush administration, which considers these plans "market-driven solutions to the health-care cost crisis" – has led to a slowly growing popularity of plans like flexible spending accounts (FSAs), health savings accounts (HSAs) and health reimbursement arrangements (HRAs).

Such plans have the potential to profoundly affect the \$2 trillion health-care industry. They may also have a profound effect on the payments industry, particularly on those who specialize in the health-care market.

**The market grows**

According to the health insurance lobbying group America's Health Insurance Plans, more than 3 million people now have HSAs. That's triple the approximately 1 million people who were covered by HSA-compatible insurance policies in March 2005. Those 3 million enrollees represent only about 1.5% of the approximately 198 million people with health insurance. Nonetheless, they represent a growing market.

TowerGroup, a MasterCard Worldwide-owned research firm, projects the total

See CDHC payments on page 67

## **Has Your Processor Grown Too Large to Perform for You?**

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## NotableQuote

**"The successful realize it's not always how you start but how you finish."**

See story on page 82



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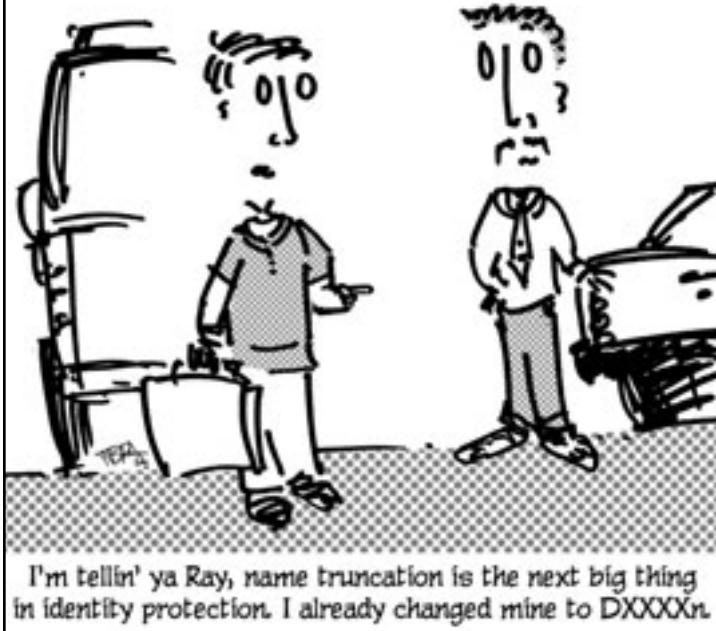
# Forum

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Todd Norvell  
Positive Feedback Software

### Should merchants break the rules?

In the article "Fraud matters to ISOs and MLSs" by Peter Kulik (*The Green Sheet*, Sept. 11, 2006, issue 06:09:01), one of the points ... is actually a violation of Visa/MasterCard regulations.

When talking about training employees to verify customer identity, the author mentions that checking a second form of ID is becoming more common. While this may be true, it is only allowed by the card Associations when there is a suspicion of fraud. It's not allowed as a general policy unless ID is required for other non-credit-card payment options. Some states also regulate whether this is allowed and if the merchant is allowed to record the ID or not.

It's tough, because from a possible fraud perspective, it's not a bad idea, but it does encourage merchants to violate card Association regulations. It is one of those cases in which the card

Associations need to change their regulations to keep in step with society. But until they are changed, we are obligated to [uphold] the regulations of our industry.

Frank Haskett

*Editor's note:* We asked Peter Kulik to respond to this letter, and he did so with the following:

"Mr. Haskett is absolutely correct. Merchants should always comply with card Association rules. This includes consistent and reinforced training of employees on the situations in which it is appropriate to check a second ID. Such training is becoming more consistent across the industry, leading to more ID checks – a positive trend to make fraudulent cards more difficult to use and thereby helping to prevent fraud."

We thank both gentlemen for this dialog. Support for Haskett's claim is in "Rules for Visa Merchants: Card Acceptance and Chargeback Management Guidelines" on page 34 of the following PDF:

[http://usa.visa.com/download/business/accepting\\_visa/ops\\_risk\\_management/rules\\_for\\_visa\\_merchants.pdf](http://usa.visa.com/download/business/accepting_visa/ops_risk_management/rules_for_visa_merchants.pdf).

Support is also in "MasterCard Merchant Rules" on page 48 of the following PDF:

[www.mastercard.com/us/wce/PDF/12999\\_MERC-Entire\\_Manual.pdf](http://www.mastercard.com/us/wce/PDF/12999_MERC-Entire_Manual.pdf).

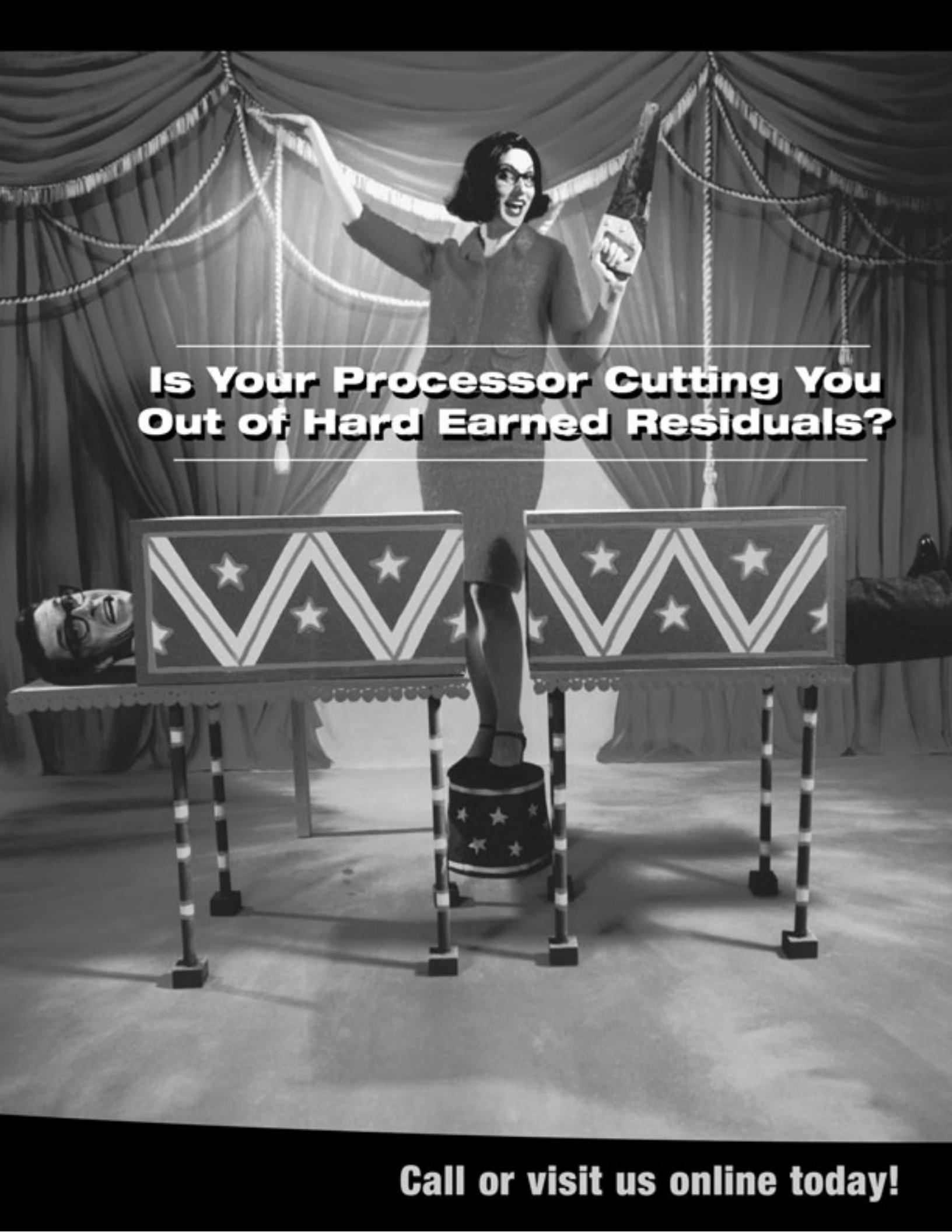
Editor

### Talk to us!

We want to hear from you. Did you like (or even dislike) a recent article or issue of *The Green Sheet* or GSQ? Do you have an idea for a story? Send your questions, comments and feedback to [greensheet@greensheet.com](mailto:greensheet@greensheet.com).

### Correction

The article "Branding matters" (*The Green Sheet*, Oct. 9, 2006, issue 06:10:01) was co-authored by Marcelo Paladini of Cynergy Data and Steven L. Savino of Savino Global Group LLC. In our printed publication we cited only one author. We regret the error.



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# QSGS

YOUR NEWS IN A HURRY

**Short on time? This section of *The Green Sheet* provides a quick summary of nearly all the articles in this issue to help keep you up to date on the latest news and hot topics in the payments industry.**

## Cover Story

### Opening the CDHC payments window

Consumer-driven health-care options have the potential to profoundly affect the \$2 trillion health-care industry. They may also have a profound impact on the payments industry, particularly on those who specialize in the health-care market.

Page 1

## View

### Learning lessons from the Aussies

Anyone in this business who thinks the bank-card interchange debate has been overblown would be well-served to look to Australia. That country's central bank just mandated steep cuts in the interchange fees assessed on Visa and MasterCard credit and debit card transactions.

Page 26

## Feature

### Skimming, ram raids pose ATM's greatest threats

From *ATMmarketplace.com*. Mainstream media reports have flooded the airwaves and headlines with stories of high-tech breaches that have compromised ATMs and POS devices. But experts agree it's the low-tech external attacks of which consumers and deployers should be wary.

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## Feature

### A success by any standard

Since there are a variety of ways to measure achievement, just about anyone can be deemed a success. However, one person in our industry who has realized success by multiple standards is Bob Carr, Chairman and Chief Executive Officer of Heartland Payment Systems Inc.

Page 34

## News

### First Data takes POS terminal to the streets

Expressing dissatisfaction with the market's current POS terminal offerings, First Data Corp. struck out on its own. In late September, the mega-processor introduced its own terminal, fulfilling the organization's promise to "get very nimble at the street level."

Page 51

## News

### Mobitex reprieve gives merchants breathing room

The day after POS device manufacturer ExaDigm Inc. announced a Mobitex conversion program for wireless terminals, Sprint gave the network a one-year reprieve, extending it through at least the first quarter of 2008.

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## News

### Visa charts new course

Visa International announced plans to restructure and merge Visa U.S.A., Visa Canada and Visa International into Visa Inc., in preparation for an IPO. This appears to validate MasterCard's similar move earlier this year, providing much food for thought about the future of the industry.

Page 57

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## News

**Court puts kibosh on Qchex business practices**

The U.S. District Court of Southern California ordered Qchex to temporarily stop its method of processing customer payments because it allegedly allowed Internet scammers to write fraudulent checks. The FTC, which initiated the action, wants the halt to become permanent.

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## News

**Luck runs dry for U.S. online gambling**

Congress passed legislation prohibiting U.S. banks and processors from accepting or transferring payments in connection with online gaming. Tacked onto the Safe Port Act, it was signed into law Oct. 13. So how is it affecting processors' businesses?

Page 62

## Education

**Street Smarts<sup>SM</sup>: Sales in the off season**

As we approach the late fall, it is getting darker earlier, the leaves are falling, and for many of us, the summer season's boon is coming to an end. For many people, the brisk fall days present excellent opportunities to sell merchant services.

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## Education

**Are you a winner?**

Is your goal to be average, mediocre and barely able to get by? It's doubtful you answered yes to that question. Many sales professionals, however, choose that path through their everyday activities. There are real and specific differences between successful MLSs and those barely making it.

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## Education

**After a buyout, who services my merchants?**

You may one day envision selling your portfolio, collecting a fat check and playing golf into the sunset. But much work and worry lie on the road to that goal. This article highlights important things to keep in mind when negotiating new contracts or buyout agreements.

Page 88

## Education

**The skinny on chargebacks and disputes - Part III**

When a company receives a chargeback or dispute, a record is maintained within the payment system. Many merchants do not realize the ratio of disputes and credits is also monitored. Sharing your knowledge with merchants about the chargeback process may provide you with a competitive advantage.

Page 92

## Education

**Sidestep pesky spam filters**

If you send out a regular newsletter to customers, prospects and vendors, it's important this e-mail not be filtered out as spam. This brings up an interesting question, How can you make certain your e-mail messages get through?

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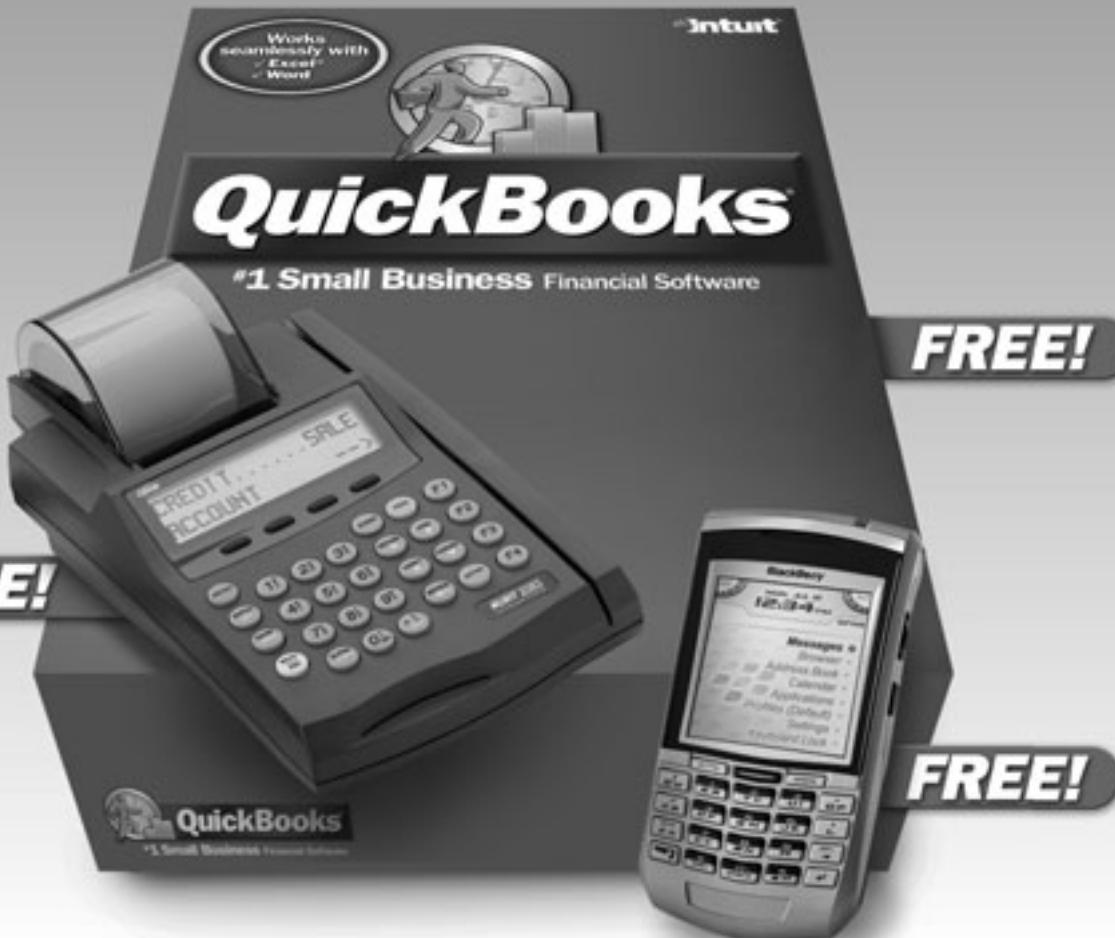
## Inspiration

**Can objections ever be valid?  
You bet**

You've learned how to handle just about any objection. However, sometimes objections are valid. It's your job to differentiate true objections from ploys and handle each accordingly.

Page 109

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# Industry Update

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## NEWS

### Iron Triangle Payment Systems renamed NPC

**Iron Triangle Payment Systems** has been renamed **National Processing Co.** The announcement accompanied news that Iron Triangle and **GTCR Golder Rauner LLC** closed their acquisition of **BA Merchant Services'** ISO businesses, which include NPC and **Best Payment Solutions**. BA Merchant Services is the card processing division of Bank of America Corp.

NPC will now represent the combined operations of those acquired assets, as well as the assets of **Retriever Payment Systems**, which was Iron Triangle's sole subsidiary. NPC will continue to support multiple brands in the market, including Retriever and the registered marks of its ISO clients, according to the company.

### Prepaid market survey released

**Mercator Advisory Group Inc.** released the first of three reports of its "3rd Annual Survey of the Prepaid Market." The first report reveals that open networks, including American Express Co., Discover Financial Services LLC, MasterCard Worldwide and Visa U.S.A, have established themselves in the in-store gift card market, once exclusively controlled by closed systems.

The report found the total volume on all prepaid segments in 2005 was \$165 billion, an increase of

\$18.46 billion over 2004. Also, the average growth rate in all segments was 31%.

### Financial professionals' salaries increase

The average salary of financial professionals is more than 30% higher than the national average, according to the **Association for Financial Professionals'** 2006 compensation survey.

Of the 27 job titles included in the study, 25 garnered more than the national average salary increase of 3.3%. Managers realized the greatest increase in base salary: 5.3%. Executive-level financial professionals received the largest average bonuses, valued at 34% of base salary, or \$46,500. More information is available at [www.afponline.org](http://www.afponline.org).

### American workers prefer health benefits and want paychecks processed in U.S.

More than half of U.S. workers, 54%, believe health benefits are more important than higher wages, according to the **American Payroll Association's** 2006 "Getting Paid in America" survey.

Additionally, more than two-thirds of respondents indicated they would be unhappy if their company processed paychecks overseas; 84% are not confident their private data would be properly protected. For survey results visit [www.nationalpayrollweek.com](http://www.nationalpayrollweek.com).

### Debitman receives patent

**Debitman Card Inc.** has been granted U.S. Patent



- Nonstore retail sales continued to show year-on-year gains in September, rising 12.9% over September 2005 figures, the **Department of Commerce** reported. Total retail and food service sales (excluding autos) rose 5.5% over the same period a year ago. Clothing and accessories stores sales showed an increase of 10.7% over September 2005. A steep drop in gasoline prices led to an overall decline in retail sales figures over the previous month.
- Since Oct. 17, 2005, when bankruptcy reforms took effect, bankruptcy filing rates have fallen to an average of 14,521 per month, according to the **American Bankers Association**, based on figures from the **Administrative Office of the U.S. Courts**. Bankruptcy filings had averaged 137,000 per month for several years (not including the three months before reforms took effect, when citizens rushed to beat the deadline).
- The U.S. Consumer Sentiment Index rose to 92.3 in October, from 85.4 in September, according to **University of Michigan** researchers.

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**Industry Update**

No. 7,104,443, "Method and System for Facilitating Electronic Funds Transactions." The patent covers Debitman's business model for enabling the use of interoperable merchant-branded consumer debit cards.

**Reserve Bank newsletter, paper available**

The Federal Reserve Bank of Philadelphia released a new discussion paper and the latest edition of its *Update* newsletter. The paper summarizes key highlights from a Payment Cards Center conference, "The Role of Electronic Payments in Disaster Recovery: Providing More Than Convenience." The publications are available at [www.philadelphiadfed.org/pcc/index.html](http://www.philadelphiadfed.org/pcc/index.html).

**PrivaCash receives patent**

PrivaCash Inc. received a U.S. patent for instant-issue debit cards. Its solution enables consumers to receive their cards instantly and have instant access to the funds they load to make PIN or signature purchases at more than 30 million retailers and through a network of over 900,000 ATM locations.

**White paper examines rent payment**

PropertyBridge Inc., a provider of automated payment processing services to real estate owners and managers, released "The True Cost of Processing Resident

Payments Using Traditional Methodologies." The white paper examined the costs of traditional rent payment processing and the opportunity presented by automated and centralized initiatives. The paper can be viewed at [www.propertybridge.com/white\\_papers.aspx](http://www.propertybridge.com/white_papers.aspx).

**Contactless payments not well known**

Contactless payment is a success with consumers who have tried it, but the method is still not well known, according to research conducted by **Javelin Strategy & Research** for the **Smart Card Alliance**. Of the consumers surveyed, 13% have already used contactless payment; of those who have used it 95% say it is easy and fast, and 84% say it is as safe or safer than using credit cards. However, 62% of respondents rated themselves as not familiar with the technology.

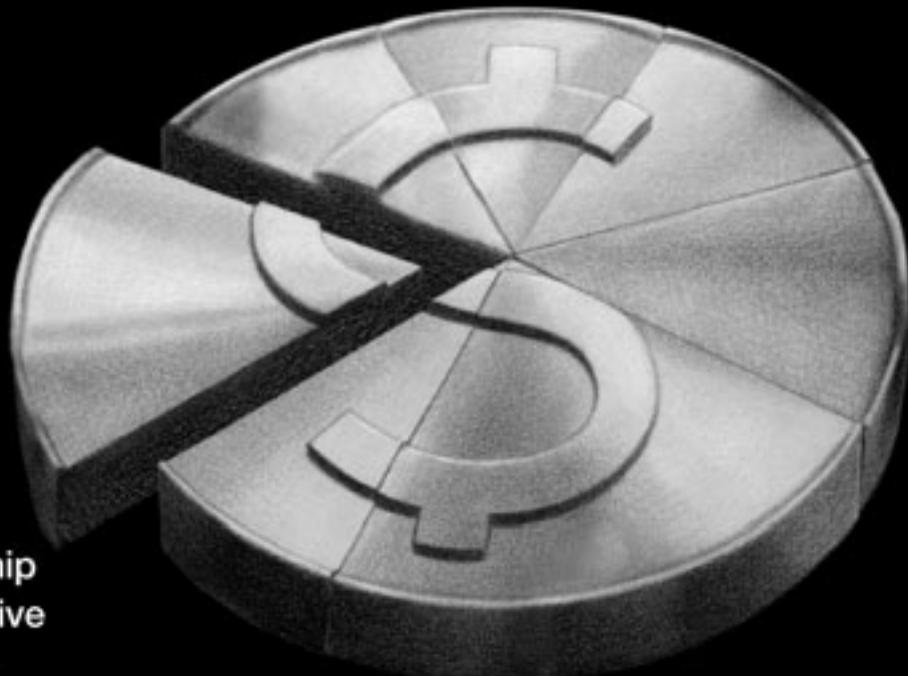
**Mobile contactless payments studied**

Research and consulting firm **Strategy Analytics** released a report analyzing payment for goods or services using phones instead of cash or credit and debit cards. The report, "Mobile Contactless Payments – Growth on the Horizon," projects that mobile contactless payment will be used to drive sales of \$36 billion by 2011.

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**TowerGroup examines rewards programs**

A new report from research and consulting firm **TowerGroup** analyzes how rewards have an impact on U.S. banks' profitability and card programs. The report, "Card Rewards: Profits, Pitfalls and Promises," found that although credit cards remain the most profitable product for banks, an overall decline in bankcards is signaling the need for banks to evolve their rewards strategies.

In 2005, only 0.3% of target consumers responded to issuers' mailed solicitations, the industry's lowest historic response rate. As customer acquisition costs continue to rise, the industry's dependence on rewards features will increase. TowerGroup expects that within five years, 90% of consumers with a general-purpose card will have some form of rewards.

**Debit paper released**

**Jonathan Zinman**, Assistant Professor of Economics at Dartmouth College, published a paper entitled "Debit or Credit?" It explores consumer response to the costs of debit versus credit card transactions. He found that debit use is "significantly higher among consumers facing a relatively high cost on marginal credit card charges: those who revolve debt, those who face a binding credit limit constraint and those who lack a credit card."

Zinman also revealed consumers do not use debit as a means of self-control; many use debit to save time. And many debit users lacking a credit card do so by constraint, not by choice. The paper is on the Web at [www.dartmouth.edu/~jzinman/Papers/Zinman\\_Debit%20or%20Credit\\_aug06.pdf](http://www.dartmouth.edu/~jzinman/Papers/Zinman_Debit%20or%20Credit_aug06.pdf).

**ANNOUNCEMENTS****AdvanceMe opens new office**

**AdvanceMe Inc.** opened a new office in Las Colinas, Texas. **Luke Schmille**, Regional Vice President, and **Louis Rubin**, Regional Sales Manager-MidSouth, are charged with serving customers while developing partnerships within the local communities.

Schmille brings more than 18 years of experience in merchant services from his work with First Data Corp. and Equifax Inc. Rubin has 12 years of experience in payment processing after working with Equifax, First Data/TeleCheck and Global Payments Inc.

**CFSI announces roundtable members**

**Citigroup, eFunds, Experian, H&R Block and Wells Fargo & Co.** are the five inaugural members of the Center for Financial Services Innovation

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## Industry Update

Innovators Roundtable. Each company made a two-year commitment, including a financial contribution, to participate. The goal is to work together to identify and optimize the business models, products, channels and processes to make the underbanked market segment profitable.

### **Helgeson recognized as rising leader**

**Merchant Warehouse** President **Henry Helgeson** was selected as a recipient of *The Boston Business Journal's* 40 Under 40 honorees for 2006. The award recognizes Greater Boston's 40 top emerging business leaders under the age of 40.

### **Regulus opens new remittance operation**

**Regulus Group LLC** opened a new remittance processing facility in Atlanta. The 36,000-square-foot facility is located near a major U.S. Postal Service hub as well as the Atlanta airport. The facility is large enough to accommodate substantial future expansion.

### **Retail Broadband Alliance membership rises**

Retail Broadband Alliance membership now exceeds

200 companies. Membership is open to firms that rely on broadband connections in retail locations and whose core products and services target the retail industry.

### **Smart Card Alliance presents awards**

The **Smart Card Alliance** announced the 2006 awards for "Outstanding Smart Card Achievement" in the North American smart card industry. The **U.S. Department of State** was named Outstanding Issuer Organization; **Gemalto** was named Outstanding Supplier Organization and **Neville Pattinson**, Director, Technology and Government Affairs for Gemalto North America, received the Outstanding Individual Leadership Award.

### **UBC adds multilingual support**

**United Bank Card Inc.** now provides customer service and technical support in more than 150 languages. The free service is available to UBC's merchants 24 hours a day.

### **Visa reaches technology milestones**

**Visa U.S.A.** recently achieved major technology milestones. It completed a five-year initiative to re-engineer its global authorization engine, the Visa Integrated Payment platform. Additionally, Visa accomplished



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## Industry Update

the migration of applications to its new data center in the central United States. For the first time since launching VisaNet, its global payment processing network, more than 35 years ago, Visa is running multiple authorization engines under one roof.

## PARTNERSHIPS

### Apollo Hosting, ScanAlert provide free compliance services

**Apollo Hosting Inc.** and **ScanAlert Inc.** formed a partnership to provide a complete Payment Card Industry (PCI) Data Security Standard compliance validation service. The service will be offered at no cost for one year to Apollo's e-commerce hosting customers. The partnership includes quarterly vulnerability scanning, an interactive self-assessment questionnaire and technical support.

### Chase Paymentech signs license agreement with IP Commerce

**Chase Paymentech Solutions LLC** signed a license agreement to use the Internet-protocol (IP) payments framework of **IP Commerce Inc.** Chase Paymentech will use IP Commerce's open payments network to

provide a spectrum of payment processing choices to its merchants.

### Qualtex becomes VAR; partners with Dash ATM

**Qualtex Corp.** joined the Value-Added-Reseller program of **Triton Systems**. This program enables Qualtex to provide Triton's financial-institution-based ATMs to banks and credit unions. Additionally, **Dash ATM**, a manufacturer of high security ATM enclosures, entered into a partnership with Qualtex to provide ATM and kiosk solutions for banks and credit unions in Illinois, Indiana and Wisconsin.

### Gordmans extends agreement with First National Merchant Solutions

**First National Merchant Solutions** extended its 18-year relationship with Midwest retailer **Gordmans**. The retailer will continue to use First National Merchant Solutions' credit and debit card processing services to accept consumer payments at more than 60 stores in 15 states.

### SLIM CD recertified with Global Payments

**SLIM CD Inc.** recertified with **Global Payments Inc.** for

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**Industry Update**

its Slim CD software and gateway services. It now supports Global's secure sockets layer gateway.

**Valutec certified on Optimum T4100**

**Valutec Card Solutions**' gift and loyalty card products received Class A certification on **Hypercom Corp.**'s Optimum T4100 payment terminal. The certification will enable merchant acquirers and ISOs to offer Valutec applications on the T4100.

**National Bankcard Systems selects WAY Systems**

**National Bankcard Systems** selected **WAY Systems'** Mobile Transaction Terminal as its preferred wireless solution for prospective mobile merchants.

**NOVA certifies RDM Synergy platform**

**NOVA Information Systems** granted Class A certification to **RDM Corp.**'s RDM Synergy payment and check-imaging device.

**Vormetric and TruComply update free PCI information**

**Vormetric Inc.** and **TruComply** updated their free PCI information service to reflect the recently

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released PCI Version 1.1. The free service includes a combination of quarterly newsletters, blogs by leading PCI experts and PCI-related news and updates.

**ACQUISITIONS****Keycorp acquires Optimal Services Group**

**Keycorp Limited** acquired **Optimal Services Group** from **Optimal Group Inc.** for a total investment of \$3 million. OSG is Canada's largest service provider to the payments and POS industry, according to Keycorp.

**APPOINTMENTS****Equifax names CFO**

Lee Adrean is the new Chief Financial Officer of **Equifax**. Adrean brings 30 years of senior financial management experience to the company. Most recently, he served as Executive Vice President and CFO for NDCHealth Corp. Previously he held senior level positions at EarthLink Inc. and First Data.

**EFTA elects officers**

The board of directors of the **Electronic Funds Transfer Association** elected executive officers for 2007. **Ronald V. Congemi**, Senior Vice President of Strategic Industry Relationships for First Data, is the new Chairman.

Elected to serve as Vice Chairman was **Raymond T. Crosier**, President and Chief Operating Officer of Online Resources Corp. **Sandra Hartfield**, President and Chief Executive Officer of Palm Desert National Bank, and **Lynne Barr**, a partner in the law firm of Goodwin Procter LLP, were elected Treasurer and Secretary of the Board, respectively.

**Moneris names Cohen President**

**Moneris Solutions Corp.** named **Gregory C. Cohen** President of its U.S. business, Moneris Solutions Inc. Cohen previously served as Senior Vice President of Third Party Services for Global Payments Inc. Previously Cohen held senior leadership roles at Vital Merchant Services and BankServ Check Services.

**Global Electronic Technology hires Daniels**

J. Larry Daniels is the new Executive Vice President of **Global Electronic Technology Inc.** Over the past 23 years, Daniels has held a number of management and executive management positions on the merchant acquiring side of the electronic funds transfer business. He has worked for First Data, BancTec Payment Systems, Card Systems and Concord, among others. ■

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Insider's report on payments

## Learning lessons from the Aussies

By Patti Murphy

The Takoma Group

**A**nyone in this business who thinks the bankcard interchange debate has been overblown would be well-served to look to Australia. That country's central bank just mandated steep cuts in the interchange fees assessed on Visa International and MasterCard Worldwide credit and debit card transactions.

That's right: The government, not the markets, dictates bankcard pricing in Australia. The country's latest pricing benchmarks will be effective for three years, beginning Nov. 1, 2006.

In a statement released in late September, the Reserve Bank of Australia announced an interchange benchmark of 0.50% for Visa and MasterCard credit card transactions. In other words, the weighted-average interchange rate across all categories of those transactions cannot exceed 0.50% for at least the next three years. Today, the fees average just under 0.55%.

The central bank also set a benchmark of AUD \$0.12 for Visa debit card transactions, which is substantially less than the current average fee of AUD \$0.44 (approximately AUD \$1 = USD \$0.744).

Visa has been supporting a branded debit card program in Australia, while MasterCard debit cards weren't introduced in that market until after the Reserve Bank embarked on its price-setting program in 2002.

MasterCard has since launched a branded debit card there, and the Reserve Bank said MasterCard has agreed to set debit card interchange at or below the central bank's announced benchmark beginning Nov. 1.

In Australia, debit card interchange flows differently, depending on which network is used. The card-issuing bank pays interchange to the merchant-acquiring bank when transactions clear through the nation's primary EFTPOS network. In the Visa debit system (and the soon-to-be launched MasterCard debit system) acquiring banks pay interchange to card-issuing banks.

Credit card interchange in Australia, like in the United States, flows from the merchant to the card-issuing bank.

The Reserve Bank's latest announcements come on the

heels of a ruling this past spring in which the Aussie central bank struck down Visa and MasterCard "honor all cards" rules. Those rules require, for example, that merchants accepting Visa credit cards also accept Visa debit cards. A similar rule, imposed by Visa and MasterCard here in the United States, was struck down in federal court several years ago.

In a speech before an international banking conference, held in Sydney earlier this month, Philip Lowe, Assistant Governor at the Reserve Bank, justified the government's efforts to regulate card pricing. He suggested that free market forces were being hampered.

"These fees are not subject to the normal forces of competition and were set at levels that were distorting payment patterns in Australia," Lowe said, adding that "voluntary [industry] reform has not proved possible."

The Reserve Bank is Australia's version of the U.S. Federal Reserve. A key difference between them, though, is that the Fed doesn't concern itself with the nuts and bolts of bankcard system pricing and operations, as the Reserve Bank does.

In the United States, the courts have been called on to resolve contentious bankcard issues, such as pricing. And more recently, Congress has been pulled into the debate.

No one in Washington expects Congress to do much about interchange. In part, I suspect, that's because few folks working in Congress (lawmakers or staff) actually understand it. But pressure is building for changes to the way interchange is set in the United States – pressure from continued litigation and from the court of public opinion.

In a report released earlier this year Celent LLC, a bank research and advisory firm, counseled the industry to take a fresh look at interchange.

"What has often saved interchange in the past is the inability to prove that it is harming the market, that a better pricing alternative exists and that society would be better off [with] regulation," said Ariana-Michele Moore, a Celent Senior Analyst. "However, the markets are maturing, and the old arguments in support of interchange are losing ground."

The message hasn't been lost on Visa or MasterCard,



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both of which are establishing new corporate structures. MasterCard became a stock corporation earlier this year (MasterCard Inc.), with its board restructured to include just three members from card-issuing financial institutions. This is pertinent because the MasterCard board helps set interchange.

Just this month, Visa announced it, too, is considering a restructuring – scrapping its member-owned status in favor of the suffix "Inc." Officially, Visa said the move aims to increase "access to capital markets that will accelerate growth by facilitating greater investment in existing and future opportunities" (see "Visa charts new course," in this issue of *The Green Sheet*).

MasterCard explained its move in a similar fashion.

Fair enough. But there's an obvious corollary at play here. For at least the past 20 years, interchange has funded significant innovation in bankcards – high-speed authorization networks, new card products, etc.

But as interchange becomes more contentious, Visa, MasterCard and the financial institutions that issue credit and debit cards bearing those brand names have had to rethink business models. Going public and reducing the

role of banks in interchange price setting is a huge step in that direction.

And it should fend off government intervention on card pricing here in the United States.

That should prove to be good news for merchants and for consumers too. The general feeling over the past several years in Australia has been that government caps on interchange have raised costs for bankcard-carrying consumers, as issuing banks began hiking annual fees and slashing rewards programs to compensate for dwindling interchange streams.

Merchants, meanwhile, should benefit from the greater transparency in pricing and rule setting that public ownership brings. Lack of transparency has been a key complaint from merchants, especially in the United States.

So, if one lesson is to be learned from the Australian experience with bankcards, it's that change is inevitable; it's just a matter of whether the change comes from within or is invoked by outside forces. ■

*Patti Murphy is Senior Editor of *The Green Sheet* and President of The Takoma Group. E-mail her at patti@greenSheet.com .*

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**Feature**

# Skimming, ram raids pose ATM's greatest threats

**By Tracy Kitten, Editor**

ATMmarketplace.com

This story was originally published on ATMmarketplace.com, Sept. 11, 2006; reprinted with permission. © 2006 NetWorld Alliance LLC. All rights reserved.

**F**rom card compromises and identity theft to network-security breaches and the potential for encryption hacks, mainstream media reports have flooded the airwaves and headlines with stories of high-tech breaches that have compromised ATMs and POS devices. But experts agree it's the relatively low-tech external attacks that consumers and deployers should be wary of.

The tried and true methods of ATM attack are still the most popular among fraudsters.

## Skimming is still No. 1

Anna Istnick, Senior Product Marketing Manager for North Canton, Ohio's Diebold Inc., says card-skimming is by far the world's No. 1 ATM-related crime.

In the United States, Boston-based TowerGroup estimates that financial institutions (FIs) lose almost \$1 billion annually to stolen cards and skimming at the ATM and POS. And regardless of efforts to combat skimming, the U.S. Secret Service estimates that fraud losses from skimming cost about \$350,000 a day in the United States (TowerGroup: "Turning Phishing into Cash: Criminal Convenience at the ATM?" August 2005).

Andreas Pollklaesener, a Banking Security Specialist for Paderborn, Germany-based Wincor Nixdorf International, says card-skimming at the ATM and POS continues to grow throughout the world. And as long as use of the magnetic stripe lingers, card compromises will continue to grow.

"This crime is increasing all over the world," he said. "Many in the world still use the magnetic stripe at the POS and ATM to get consumer data and the PIN. And the two together can be used to create cards, which are being sent over the Internet and can be used at any type of ATM to get money. This kind of crime is still growing, so skimming has a major effect."

Why is skimming so prevalent? Because it's easy, Pollklaesener said.

Fraudsters have learned how to manipulate the system by leaving a skimming device on an ATM for only 30 to 45

minutes. By the time an FI detects anything, the skimming device and the criminals are long gone.

The dawn of the Internet age has only fueled the problem.

"It used to take one or two weeks for the duplicated card data to be transferred to another country – now it takes only one to three days," Pollklaesener said. "And then the data is only used one to two months, so it's hard for networks to track. The trend is copy it fast, use it fast."

Manufacturers have responded to skimming problems with security features like "jitter" or "enhanced card drive," which varies the direction and speed of the card as it's read by the ATM. The varied motion scrambles the magnetic-stripe data as it's read so that only the FI can read it. If the information is copied, it's illegible.

But opinions about jitter's effectiveness are divided.

Even with the jitter, says Wincor's Pollklaesener, cards can still be skimmed.

"Jitter is a security feature, but it helps only for simple skimmers," he said. "With motorized skimmers or extended skimmers, only a sensory solution will protect them."

Rob Evans, Director of Industry Marketing for Dayton, Ohio-based NCR Corp., said ATM security should be approached holistically.

"Jitter is very effective, but jitter is not all NCR recommends," he said. "We also recommend the Fraudulent Device Inhibitor," which automatically sends an alert to the FI when one of its ATMs has been tampered with. The inhibitor also prevents cards-trapping. NCR's Intelligent Fraud Detection plays a similar role in that it detects changes to the ATM's fascia and actually prevents a skimming attack.

Evans and Pollklaesener agree that using sensory technology to detect when something has been attached to an ATM is a good idea. With such technology an FI can be alerted when a change occurs, and it can then decide whether to take the affected ATM offline.

"We think that the best thing to do is to make the ATM the least attractive target," Evans said.

## Ram raids come in a close second

Where card skimming is primarily an FI ATM problem, ram-raid attacks are a retail/ISO problem. And in the

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**Feature**

States, blunt-force attacks on the ATM have edged their way into first place among ATM-related crimes.

Off-premises machines, by their nature, are skimming deterrents, since they are always within eye-shot of a store clerk; but they're prime targets for ram raids.

Like card-skimming, industry experts try to stay ahead of the ram-raid curve, but it's a challenge since the frequency of attacks tends to ebb and flow.

"It's just hard times," said Diebold's Istnick of the rise in ram raids. "It's just a reflection of desperation."

The industry is making strides to deter ram raids with ink-stain packs that explode when cassettes are removed, bullhorn-like alarms that go off when ATMs are shifted or moved, and by bolting ATMs more tightly to floors and foundation.

But common-sense approaches, like ensuring ATMs aren't located next to plate-glass windows or doorways – prime targets for ram raids – usually have the greatest impact, Evans said.

Increased awareness about some of those vulnerabilities

has brought the industry together, Evans said. Though their vulnerabilities tend to differ, figuring out how to address ATM security from an industry perspective has narrowed the chasm between them.

"If the card-carrying public says, for instance, 'I don't feel good about pulling out my debit card here at the bar and using the ATM,' it's a problem that affects all of us," he said. "It's a general consumer concern that really is bubbling up right now. You asked why now? Well that's why. Consumers are just picking up on this stuff."

Because of that "bubbling up" effect on public perception, NCR launched its NCR Secure initiative, a consulting service designed to help retailers and FIs up their ATM security.

Diebold initiated a similar effort last year with the launch of Playing It Safe, a Web site geared toward consumer safety at the ATM.

"One [ATM] problem is no more great than another," Evans said. ■

*Link to original article: [www.atmmarketplace.com/research.htm?article\\_id=26577&pavilion=4&step=story](http://www.atmmarketplace.com/research.htm?article_id=26577&pavilion=4&step=story)*

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# Industry Leader

## A success by any standard

**T**here are a number of ways to measure success. Certainly, it can be measured in terms of financial assets. However, success can also be gauged by the quality of one's relationships with peers, employees and customers.

Some people appraise achievement by the extent of admiration they receive from friends. Others measure success in terms of their ability to build a stable home life and raise well-balanced children. Still others assess accomplishment through their contributions to community life or improvements to a business sector.

Since there are a variety of ways to measure achievement, just about anyone can be deemed a success. However, one person in our industry who has realized success by multiple standards is Bob Carr, Chairman and Chief Executive Officer of Heartland Payment Systems Inc.

Carr has had an impact on the financial services industry on many levels. Over the past 20 years he's been an independent sales agent, written payment software, founded a company and led it through a successful initial public offering. He has also served in leadership roles at industry associations.

### Success is serendipity (and hard work)

Carr was one of the nation's first college graduates to earn a degree in computer science. After graduation, he wrote software for small business owners. "Some of my customers were oil jobbers with unattended fuel pumps," he said. "One of them asked me to write software for these fuel pumps for fleet cards, and then another asked me to do the same for bankcards. That's when I learned the true meaning of recurring income."

In 1987, Carr founded Credit Card Software Systems Inc., an ISO that focused on the travel and entertainment industry. CCSS processed over \$400 million annually. Since he entered the industry, Carr's recurring

monthly revenue stream has grown from \$1.58 to more than \$20 million.

Even though Carr worked diligently and educated himself, he still attributes some, if not all, of his success to luck. "Serendipity brought me into this business," he said.

"I was in the software business before the term 'software' was even coined. The software business allowed me to find a niche in the payments world. I was incredibly lucky to be in the right place at the right time."

### Success is a thriving company

In 1997, Carr founded Heartland Payment Systems with an initial investment of \$1 million. Four years later his company received a \$40 million private equity investment. In August 2005, Carr took his company public.

Heartland reports it is now the nation's sixth-largest payment processor, with over \$45 billion in annual processing volume. The company's more than 1,900 employees provide card processing services to over 130,000 merchants.

### Success is respect for all

Carr believes he and Heartland must serve employees' needs before serving the needs of merchant customers. This employee focus is a direct result of his belief that if employees are taken care of, they will take care of customers.

Carr's business philosophy was formed early in his life. "Every important thing I needed to know about business was taught to me by my mother who worked as a waitress for 35 years to raise six kids," he said.

"She taught me that I am no better and no worse than every other human being on this planet, and I have always believed and done my very best to act upon every word of that."

**Carr has had an impact on the financial services industry on many levels. Over the past 20 years he's been an independent sales agent, written payment software, founded a company and led it through a successful initial public offering. He has also served in leadership roles at industry associations.**



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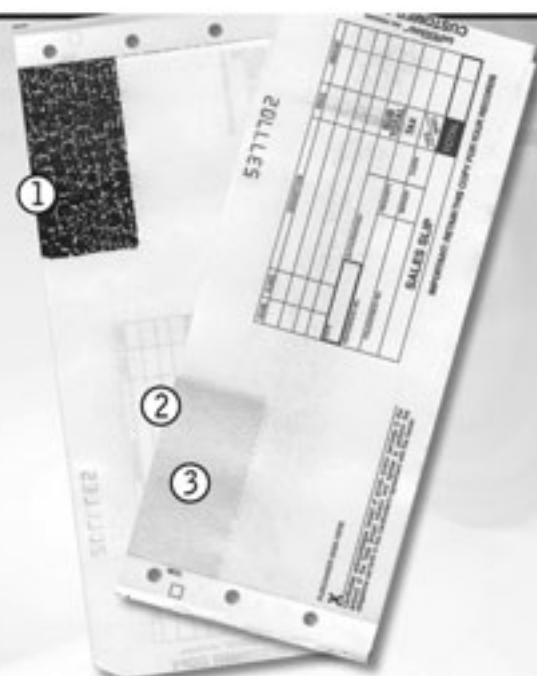
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## Industry Leader

In May, Heartland broke ground on a 91,000-square-foot facility. It will include features to continue taking care of employees, such as a health-care center and a child-care center.

Carr said he's excited about the \$40 million expansion because he and the Heartland team expect the company will be "a survivor in the business with all of the consolidation."

Carr treats employees well, but he is also fair to customers. "I am very pleased to have worked with the other Heartland leaders, like Don Lassiter, over the years to create a viable business model ... that is fundamentally fair to employees, customers and owners alike," he said.

"I have been very fortunate to have lived the American dream and to have many others live that dream along my side. It doesn't get much better than that for me."

### **Success is a balanced life**

Carr's actions have not gone unnoticed. He has received numerous awards, including the Greater Philadelphia Venture Group's 2006 Walter M. Aikman Entrepreneur of the Year Award. Ernst & Young honored him as the 2004 New Jersey Entrepreneur of the Year in the financial

services category. He also received the 2003 Midwest Acquirers' Association Lifetime Achievement Award.

Carr appreciates the accolades but is especially pleased to have created a balanced life. "I am most proud of my amazing wife and my six independent and outstanding children, and of creating jobs for almost 2,000 Heartland team members and their families – good jobs that are getting better," he said.

### **Success is bettering the industry**

Carr's focus on employees and customers extends beyond the Heartland umbrella. Through his involvement in industry associations, he has worked to champion the independent sales agent.

He was a Founder and a three-year Vice President of the Bankcard Services Association, the precursor to the Electronic Transactions Association. He also served on the ETA's ethics committee.

Carr believes our industry's biggest challenge is its acceptance of the notion that unethical practices are the norm, and this is "causing the industry to be attacked on many fronts."

He said the industry is also at risk due to thieves "who work to steal confidential data for their own dishonest profits. I think both of these are pretty big problems that need a lot of work to get fixed."

Unethical business practices coupled with the need for merchant education are two of the reasons Carr created the recently debuted Merchant Bill of Rights. "The expense of taking credit and debit is enough that merchants need to understand what they are paying for," Carr said. "Many don't take it seriously, and they are getting taken advantage of."

The Merchant Bill of Rights is an actual document as well as an interactive Web site. The goal is to inform and educate merchants of all sizes, but especially small and mid-sized merchants, about the costs of accepting payment cards.

"My goals are to use my position to make the payments world more user-friendly for my fellow entrepreneurs, the small and mid-size business owners of America," he said.

### **Success is solid opportunities**

Carr predicts that the industry will undergo further consolidation, and only businesses that treat merchants fairly will survive. "Merchants will demand to be treated right," he said. "The games people play will be less and less accepted by the merchant community."

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**IndustryLeader**

Even though Carr is well aware of our industry's risks and shortcomings, he feels the positive aspects far outweigh any negative ones.

"The industry's future is bright," he said. "The marketplace will force the industry to clean itself up (with appropriate pushes in the right places) and to tighten security enough to protect consumers as well as the industry players. Electronic payments will continue to thrive and businesses of all sizes will benefit from their growing acceptance."

Carr expects the next few years will be rich with opportunities. "It will be a great place to have a career for many decades to come, in my view," he said.

**Success is community stewardship**

Carr's contributions of time, money and energy extend well beyond the financial services industry. Over the past several years, he and his wife, Jill, started and improved several kinds of scholarship programs.

Earlier this year they formed the Give Something Back Foundation. The foundation awards scholarships to disadvantaged youth. Both Carr and his wife had financial challenges while attending college. "We wanted to leave

a reasonable inheritance to our kids and then, after that, use the money in a way that is making a contribution," he said.

The foundation's goal is to give \$100 million to help disadvantaged students attend and graduate from college. "When I retire from this industry down the road, I will spend a lot of my time expanding these scholarship programs and possibly writing about topics that I think might be of interest to others," he said.

Carr has succeeded on many levels. He founded and fostered a financially successful business while creating programs that enhance the lives of employees and customers alike.

He raised a stable family and created educational opportunities for students who might not otherwise have them. He's been honored by his colleagues. And he intends to contribute to the betterment of our society far into the future.

When asked what he would like his legacy to be, Carr responded, "I would like people to think we ran a great business and created value for our employees and our customers." ■

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# Company Profile



## First National Merchant Solutions

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Diana Mehocho  
President  
Phone: 402-633-2024

Bryan Wine  
Vice President of Business Development,  
ISO and Third-party Sales  
Phone: 888-269-7388  
E-mail: [bwine@fnms.com](mailto:bwine@fnms.com)

### Company address:

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## Tradition in action

If you recall the time of knuckle busters (manual card imprinters) it may seem that credit card processing has existed for eons. In reality, the bankcard processing industry is relatively young. But changes in both technologies and the industry overall have been dramatic and rapid.

**"Our goal is to allow our customers to focus on their core business, while we process their payments in the most cost-effective fashion."**

— Diana Mehocho, President  
First National Merchant Solutions

In our industry, if an entity has been in business for more than a decade, it's on the verge of veteran status. So, what do you call a company that has more than 50 years of experience? First National Merchant Solutions.

First National Merchant Solutions, a wholly owned subsidiary of First National Bank of Omaha, began processing transactions in 1953 for 125 merchants.

Today its 500 employees make up the nation's fourth largest bank-owned credit card processor, handling more than 500 million transactions for more than 160,000 locations annually, according to the company.

Transactions include credit, debit, automated clearing house (ACH) and check processing, as well as stored value products.

First National Merchant Solutions has both an inside and a direct sales force at its Omaha, Neb., headquarters and over 65 sales offices nationwide. One specialized group focuses specifically on ISOs, agent- and referral-bank programs, and other third-party relationships.

### Customer-centric expansion

The company recently expanded in the Chicago area, and plans include expansion in Texas and California. The company also offers solutions in Canada and is considering other international opportunities.

When asked if it will eventually have a presence in every state, Diana Mehocho, company President, said while First National Merchant Solutions

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constantly evaluates expansion opportunities, "It is not a goal to be in every state.

"We want to make sure we have the resources where needed and appropriate to support our customers' needs and expand our client base."

First National Merchant Solutions is focused on helping merchants process payments in the most cost-effective and efficient manner. Therefore, its products and enhancements zero in on just that. For example, it has integrated the ability to process ACH and credit card transactions in the same batch file, increasing efficiency and saving time.

Merchants are also able to respond to chargebacks online. And the processor offers alternative payment methods such as Bill Me Later. These and other programs are attracting clients. "Several large new customers in the ISO, retail and parking industries have signed with the company," Mehochko said.

**Sagacious, spot-on service**

First National Bank of Omaha has been in business for more than 140 years and is the third-largest family-owned bank in the nation.

"With a combination of longevity, a proven track record of customer retention and status as a privately held company, First National Merchant Solutions is very unique in an ever-changing and consolidating acquiring industry," Mehochko said. "We control our own destiny. We are very nimble. We don't have to go anywhere to get a decision."

First National Merchant Solutions is one of the few remaining in-house processors. This freedom enables it to respond to customers' needs with a comprehensive approach to service – and do so quickly.

"The experience and tenure of our employees, who know payment processing from the inside out, allows First National Merchant Solutions to provide the high level of service that customers have come to expect," Mehochko said. "By continuing to identify, understand and meet their needs, the majority of First National Merchant Solutions' customers have chosen to stay."

One of the processor's missions is to deliver superior client service to nurture long-standing relationships. "Our goal is to allow our customers to focus on their core business, while we process their payments in the most cost-effective fashion," Mehochko said.

The company realizes ISOs are customers, just as much as merchants are. First National Merchant Solutions'

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definition of a client includes agent banks, merchants and ISOs.

**Totally tight teamwork**

As part of its customer-centric philosophy, First National Merchant Solutions has implemented a full-service Account Management Team concept. "The Account Management Team is always there to answer questions," Mehochko said. Employees also travel to client locations, as needed, to offer education and training in person.

The concept was developed to meet each customer's changing business needs. "All team members are dedicated to customers for immediate problem escalation and resolution," Mehochko said.

The Account Management Team is responsible for all types of support, including operational, technical and conversion support. It encourages employees to consult with one another, as well as their customers, to help customers grow their business.

"Employees from across the company regularly pull together to solve customer issues, and as a result, the tenure of both employees and customers is far greater than the industry average," Mehochko said. Additionally, the company's help desk is staffed 24/7 by qualified and experienced support personnel.

In keeping with its emphasis on customers, First National Merchant Solutions offers First Focus seminars annually. These include education and training for merchants and ISOs. They provide information related to chargebacks, fraud and security and include representatives from Visa U.S.A. and MasterCard Worldwide.

**Up close and personal**

These face-to-face meetings provide an opportunity for merchants to share experiences, receive training on equipment and talk about strategies and initiatives. It's also an opportunity for First National Merchant Solutions to receive valuable input from its clients. Such meetings are open to all customers, including ISOs.

A company doesn't remain at the top of its industry for more than five decades by resting on its laurels. First National Merchant Solutions is always looking ahead, determining how to continue to best serve all its merchant, bank and ISO clients far into the future.

"We are always looking at products and services as related to their ability to conduct business," Mehochko said. "It all centers around promoting our relationships with clients and prospective clients. ... We have an exceptional story to tell." ■



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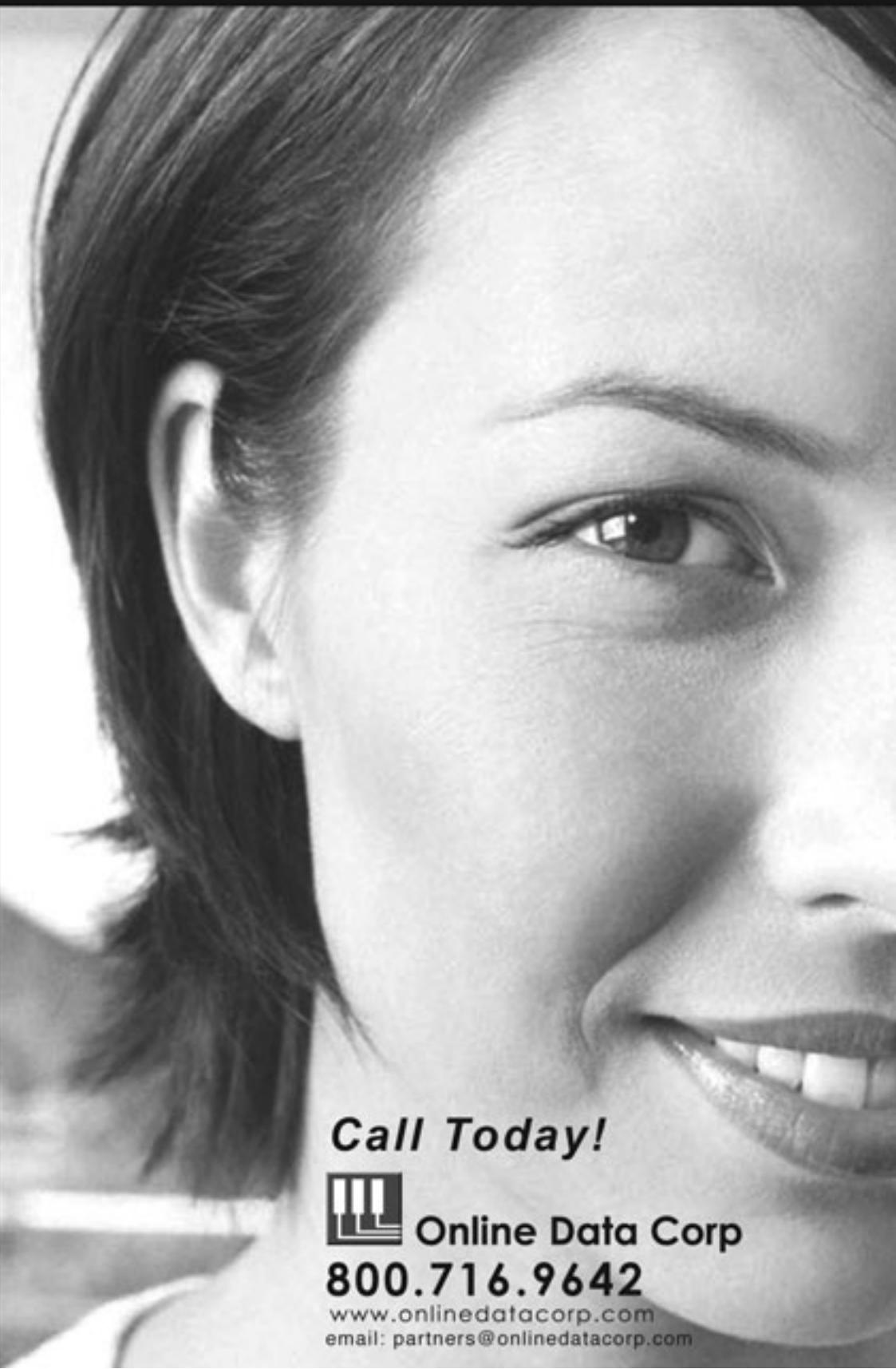
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## First Data takes POS terminal to the streets

**E**xpressing dissatisfaction with the market's current POS terminal offerings, First Data Corp. struck out on its own. In late September, the mega-processor introduced a proprietary terminal, fulfilling its promise to "get very nimble at the street level."

In early 2006, First Data announced plans to spin off Western Union, its money-transfer network, and reorganize the company. (The spinoff was completed Sept. 29). A result of that restructuring would involve a shift to a sales-oriented, sales-supportive culture and a refocus on small and mid-sized merchants, said Ed Labry, head of First Data Commercial Services.

Taking its new feature-laden terminal, the FD-100, to "mom and pop" merchants fits that strategy, according to the company.

"The scale and buying power of First Data is being leveraged to bring this ... terminal to merchants," said Kim Fitzsimmons, President of First Data Independent Sales Services. "[A]s the payments industry evolves, we needed a feature-rich and cost-effective terminal that small and mid-sized merchants can utilize in the marketplace today."

The FD-100 replaces First Data's LinkPoint AIO terminal.

Fitzsimmons declined to discuss the new terminal's price to ISOs, but said the FD-100 will have an attractive price point, enabling ISOs to set the price to merchants.

When asked what First Data would have to charge ISOs for a comparable terminal from a traditional vendor, she said, "We don't believe there is another terminal with the combination of features and benefits" offered by the FD-100.

The new device has 64 megabytes of memory, "faster download speeds of six to 10 seconds, five USB ports, two RS-232 ports and a true 32-bit [200 megahertz] processor," said Eric Nelson, First Data's Vice President of Product and Business Development for Terminals and Hardware Solutions.

It also has a touch screen, Internet-protocol connectivity with dial back-up, and secure sockets layer encryption protocols, all as standard features.

The product is built upon the Microsoft Windows CE operating system.

"When you combine all that [with its] sheer power and memory ... there is no other comparable device in the market," Nelson said. "Once you start bundling this all together, you can see why we went down this path."

"It is a mini-PC in the skin of a terminal," he said. The five USB ports let merchants add a keyboard, a PIN pad, or a reader for contactless cards, checks and MICR [magnetic ink character recognition]. The ports provide scalability for future expansion of applications, without forcing merchants to choose between peripherals.

First Data pushed PIN-entry out to a peripheral device, because merchants have reported that PIN pads are too cumbersome for terminal integration, Nelson said.

The hitch to merchants is a lack of portability. The device is proprietary to First Data and not transferable to other processors, according to the company.

### Vendors react

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can't easily switch processors, said Scott Holt, Director of Marketing for terminal manufacturer ExaDigm Inc.

Whether merchants will opt for the self-branded terminal depends on how much information they are given by their ISOs and merchant level salespeople.

"One thing I'd like to highlight is First Data's announcement is unfounded in terms of claims," Holt said. ExaDigm's XD2000 terminal approximates the FD-100, having a 32-bit ARM processor (operating at 100 megahertz), the option for 64 megabytes of RAM, a host USB port and a PC-based system.

ExaDigm has sold the PC-based terminal with a Linux operating system for over five years. Embedded device manufacturers often shun Windows operating systems in favor of Linux platforms, which are generally viewed as more stable.

The distinguishing factor for ExaDigm is the lack of a touch screen, which is in development for the next terminal upgrade, Holt added.

"Is [First Data's] real agenda to deliver a terminal to provide the greatest number of features and benefits that everyone can use?" Holt asked. The answer is no, he added.

A statement released by terminal manufacturer VeriFone said, "Our experience has been that proprietary terminals have not been widely accepted, as they lock a merchant into a single processor, which reduces the value of the merchant portfolio down the road."

Fitzsimmons would not disclose the manufacturer of the new terminal. "We work with a variety of suppliers to meet [customer] needs. ... And we will work with a multitude of suppliers to meet our demands," she said. She did not rule out the possibility of an expanded terminal line in the future.

Fitzsimmons said First Data did not have price conflicts with vendors. "As the technology across the board demands better, faster, cheaper, the terminal manufacturers, when possible, have passed on savings."

### **Peripheral-friendly world**

Dan Schatt, Senior Analyst with Celent LLC, sees First Data's move as positioning itself for the future – to take advantage of multiple new technologies as they reach a tipping point. These include contactless devices and mobile phone payments, tied in with near-field-communication (NFC) marketing.

"First Data is setting itself up for the longer term here. If

their POS devices are positioned appropriately, there's a lot more they can do with payments and loyalty rewards together," Schatt said.

With the spinoff of Western Union, First Data is under the gun to come up with new markets, he said. As banks have moved their card processing to TSYS Acquiring Solutions or taken it in-house, First Data has found it increasingly difficult to play an effective role, he added.

"One opportunity for them is to position themselves ... to grow their product pipeline. If they can roll out terminals with innate capabilities that can be leveraged, they can continually cross-sell new products and services," Schatt said.

Multiple USB ports on a terminal would support many peripherals, as technologies prove themselves with consumers. "Contactless readers are still in their nascent stage, but the reality is convenience will win the day," Schatt said. "Early pilots are confirming customer acceptance of mobile as a payment vehicle."

And after NFC comes into its own in 2011 or 2012, he predicted, the technology will enable merchants to send targeted, location-based promotions to mobile phones in



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the neighborhood. By then, First Data could have a large installed base of peripheral-friendly terminals. ■

## **Spinoff complete, Western Union goes public**

**A**t the end of September, First Data Corp. completed the spinoff of Western Union, enabling the venerable telegraph company – founded in 1851 – to go public on Oct. 4. Western Union stock is listed on the New York Stock Exchange under the ticker "WU" and is a member of Standard & Poor's 500 Index. At press time, WU was trading between \$18 and \$20 per share.

With 271,000 locations worldwide, Western Union is the largest money-transfer network. It is bigger than its closest competitor, MoneyGram (89,000 locations), or any other retail chain, according to Analyst Tien-tsin Huang of JPMorgan. By comparison, McDonald's has only 31,886 restaurants. ■

## **Mobitex reprieve gives merchants breathing room**

**T**he Mobitex network is a case of here today, gone tomorrow. But when will tomorrow come? The day after POS device manufacturer ExaDigm Inc. announced a Mobitex conversion program for wireless terminals, Sprint gave the network a one-year reprieve, extending it through at least the first quarter of 2008. Sprint Nextel Corp. bought Velocita Wireless LP and its Mobitex network in March 2006, primarily to use its wireless spectrum for another service.

In a Sept. 28, 2006, letter to Mobitex customers, Velocita Vice President Eric Eife stated the company had received extensive customer feedback indicating "most notably how satisfied you are with Velocita's service and value and your desire to maintain that service for as long as possible."

"The fact that they've moved the date is a blessing in disguise," said Scott Holt, Director of Marketing for ExaDigm. "Merchants and our ISOs will not be pressured into making as hasty a decision." The new date will give terminal manufacturers, processors and ISOs a chance to build comprehensive conversion programs, encompass-

ing hardware and software, with input from the wireless service providers, he said.

Mobitex "was the wireless network of choice by customers," said Bulent Ozayaz, Vice President of Marketing for POS terminal manufacturer Lipman USA. After Sprint announced the eventual phase-out of Mobitex, the industry began to move toward newer third-generation (3G) systems. But Lipman (which will be part of VeriFone after Nov. 1) will continue to sell Mobitex-enabled terminals as long as the market wants them, he added.

ExaDigm hopes to switch the merchants using some of the 120,000 active Mobitex terminals to its modular XD2000 wireless terminal, Holt said. The unit allows merchants to switch out modems, enabling them to change wireless service providers if they choose.

### **Eeny, meeny, miny, Mobitex**

The key open-format wireless alternatives to the older, proprietary Mobitex protocol are code division multiple access (CDMA), employed by Verizon and Sprint, and global system for mobile (GSM) and general packet radio service (GPRS) technologies, both used by Cingular and T-Mobile. These formats are 3G, operating at speeds faster than Mobitex, a second-generation (2G) technology.



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## News

In general, 2G networks have transaction times of 10 seconds, compared with 12 seconds for dial-up, according to Paul Coppinger, President of Apriva, which integrates POS hardware, software and network connections. POS transactions on 3G networks through systems set up by Apriva average three seconds, he added.

Merchants are already moving away from Mobitex to 3G systems because network performance and coverage are better, Holt said. The downside to open-protocol telecom giants is their lack of concern for the merchant market.

"We're not driving the technology; the technology is driving us," he said. When cellular carriers "announce the latest standard, we will have to adhere to it." If a carrier were to change protocols, modems may cease to be interoperable.

Whereas consumers replace cell phones every year or two, "in an industry such as ours, a terminal can sit on a countertop for 15 years," making the impact of a technology upgrade much more costly, Holt said.

Modular modems that can be switched in the field can help merchants guard against future network changes and downtime, he added. Should the network car-

riers upgrade their technologies, for example, offering an advanced version of CDMA that is incompatible with current-generation modems, merchants can keep their terminal.

"We as an industry have been very slow to move," Holt said, citing the phase-out of an early cellular network that forced merchants off early wireless terminals. "When CDPD [cellular digital packet data] shut down, people continued to buy products that didn't have the modularity and flexibility to meet needs as the technology changes."

### The velocity of transition

While manufacturers say they have not received reports of any downgrade in the Mobitex service this year, Sprint's intention to devote the spectrum to another service could become an issue. "There is concern Sprint will start taking power down on Velocita," Ozayaz said.

Sprint spokesman James Fisher said the remaining Mobitex customers should not experience any service issues due to dual use of the spectrum. Many Velocita users have been moved to other Sprint services.

"We've looked at the whole group of users and set aside 20% of Velocita's spectrum for [Mobitex] customers who need to stay on it longer," although they should not count on it beyond early 2008, he said. The recent letter to customers was meant to counter disinformation in the market, he added.

The spectrum used by Mobitex is also used by Sprint's iDEN, a voice application and "bandwidth hog," Coppinger said. "As iDEN grows, Mobitex disappears at twice the rate." Coppinger expects Sprint to give preferential treatment to iDEN users because it is a more lucrative application.

Seven months ago, several processors still supported Mobitex as their only wireless technology, Ozayaz said. But with Sprint's announcement that it was phasing out the Mobitex service, most made transition plans. If Sprint pulls the plug, Lipman will help its customers choose between CDMA and GPRS and support them through the installation and integration process.

Merchants select networks based on three criteria: which network has the best coverage in their areas; the cost of network service; and which technology is supported by their acquirer bank or processor. The pricing of network data plans shifts constantly as costs come down, Ozayaz said.

Ingenico has few Mobitex-enabled terminals in the U.S. market, according to Grant Drummond, Ingenico's

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Director of Marketing Communications. At the end of 2006, the vendor will bring its i7910 wireless terminal to the U.S. market. Already available in Europe, the i7910 will come with the merchant's choice of a GPRS or CDMA modem.

Apriva supports all generations and formats of wireless, IP-based technologies, according to Coppinger. "One nice thing about Mobitex was security, because it could not be directly connected to public networks. It was safe from hackers," he said.

While 3G formats are faster, they're also more subject to intrusion, making it crucial that providers support security in wireless terminals on open networks. The Payment Card Industry Data Security Standard guards data at rest, Coppinger said. MasterCard Worldwide has recognized that data is also vulnerable while it's moving, issuing a mandate – the POS Terminal and Security program – requiring *all* terminals in the field to support encryption by Jan. 3, 2007. (The encryption deadline for all *newly* deployed wireless and IP-enabled terminals was Sept. 1, 2006.)

Apriva submitted its AprivaTalk proprietary messaging format to MasterCard for certification, Coppinger said. The card brand's approval is all but assured: the National Security Agency already uses AprivaTalk for all its e-mail traffic running through the Apriva data center, including classified messaging. ■

## Visa charts new course

**V**isa International's announcement this month of its intention to become a public entity is an implicit acknowledgement that its "governance structure was wrong and MasterCard's was correct," said Celent Senior Analyst Dan Schatt.

Visa plans to restructure and merge Visa U.S.A., Visa Canada and Visa International to create Visa Inc., prior to an initial public offering (IPO). Visa Europe will remain a member-bank Association and operate as a licensee of Visa Inc., according to Visa.

The boards of directors of Visa's six regions and Visa International approved the restructuring plan, which is still subject to approval by Visa members and regulatory authorities. The Association left many questions unanswered, including in what region the company will be publicly listed and when. MarketWatch.com quoted Visa Chairman William Campbell and Peter Hawkins, Visa's Restructuring Committee Head, as saying they expect the IPO to take place in 12 to 18 months.

Also unclear was the role of Visa U.S.A. Chief Executive Officer John Philip Coghlan post-reorganization. Visa did not respond to requests for information.

The decision to take the Association public, replacing its member-bank-controlled board structure with outside directors, three months after rival brand MasterCard's IPO, is expected to shield the organization against future claims by merchants that its governance structure violates antitrust laws.

A class-action merchant lawsuit is pending in U.S. District Court, the Eastern District of New York, against the two leading card brands' methods of setting interchange rates. The creation of an independent board will reduce Visa's legal liability because it will no longer be a coalition of banks, Schatt said.

"Visa tried to take a hybrid approach to governance, with an independent board setting pricing, but banks controlling everything [else]," Schatt said. "Kudos to MasterCard for being the first to admit" its governance structure was wrong. "Visa as a second mover will still gain ... because it is still the largest" credit card brand in volume, Schatt added. Visa will likely reap benefits from reduced legal exposure and increased competitiveness.



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### More players at the party

To now, Visa has been regional "siloed organizations that are completely bank-controlled," Schatt said. Visa needs to involve nonbanks and other interested parties in pricing and overall policy moving forward, he added.

"If you open that to other parties like mobile players and third-party technology providers, you can be much more effective in guiding a course for Visa that ensures that whatever way consumers move in payment patterns, Visa will stay relevant," Schatt said.

The trend toward mobile-phone payments is real, making mobile carriers a player in the payments process. As an entity answerable to outside shareholders, Visa will be more attractive to outside parties, which are more important now that Visa is trying to hold market share.

In the Internet world, an increasing number of merchants and customers are funding their accounts with the automated clearing house (ACH) system. PayPal was once funded 100% by credit cards, but that has dropped to 52%, Schatt said.

Nonbank third parties such as First Data Corp. now play a much larger role in processing card transactions. First

Data's attempt to leverage on-us transactions outside the Visa network told the Association that all nonbanks were looking for a way to settle at lower cost, Schatt said.

The competitive pressure from credit and debit products like Bill Me Later and Debitman and from FastLane, which provides merchants with an ACH solution, threatens to make Visa less relevant, Schatt added.

### Europe prefers the status quo

Visa Europe exempted itself from the reorganization, opting to remain as an Association with continued ownership by its 4,500 European member banks, which will operate as a licensee and shareholder of Visa Inc. The structure will enable Visa Europe to focus on the formation of the Single Euro Payments Area (SEPA), Visa stated.

According to Schatt, European banks want to integrate more tightly to find ways to lower the cost of moving money across borders. "Visa Europe can certainly play a role in unifying the payments capabilities," he said.

The consolidation of the other Visa regional entities will enable Visa to operate on a larger scale, finding synergies across a single platform, Schatt said. As banking and payments become ever more cross-border, having a cohesive set of policies, rates and platforms makes sense from both a technology and business-market perspective, he added.

### Theories abound

Buzz began on the GS Online MLS Forum when the Visa news was announced. MLS Forum member jcolvin asked why Visa would agree to share the wealth. "No one goes from owning the universe to sharing ... Does Visa see a 'tops' ... or [do] they want to share the debt-failure rate they see coming on the horizon? Or do they see legislation coming no one sees?"

MLS Forum member hipoint stated, "Visa is figuring out that the time is right to try to establish dominance in emerging markets and is tapping into the public trough for the money to finance this effort. China's looking good right now (among others)." ■

## Court puts kibosh on Qchex business practices

Judge William Q. Hayes of the U.S. District Court of Southern California has ordered the San Diego-based online payment processor Qchex to temporarily stop its method of processing customer payments because it has allegedly allowed Internet scammers to write fraudulent checks.

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**News**

The FTC sued Qchex on Sept. 19, 2006, alleging the company's practices violate federal law. It asked the court to issue a permanent restraining order to halt the company's practices. On Sept. 22, Qchex voluntarily agreed to a temporary restraining order; services were suspended as of Sept. 27, according to a notice posted on the Qchex Web site that morning.

Qchex had allowed users to create electronic checks that could be e-mailed and printed out by recipients. The FTC said that Qchex failed to verify its customers' authority to write checks on identified accounts. In some cases, when notified by account holders whose accounts were illegally debited, Qchex continued to create and deliver checks on those same accounts.

The FTC has received more than 600 complaints from consumers who say their accounts were illegally debited. But it said most of the complaints about Qchex came from businesses defrauded by con artists who paid them with a Qchex check that was eventually deemed worthless.

The FTC said that before September 2005, Qchex did not make "any effort at all" to verify that customers had authorization to write checks from the accounts they identified as their own, and in fact, even created and delivered checks for customers whose names differed from the names on accounts they used.

Since September 2005, the FTC said, Qchex's security practices have been "haphazard and ineffective." Its motion said Qchex has refused to add verification procedures to its site, and Qchex has "persisted in their course of conduct, even after being notified repeatedly and from numerous quarters of the substantial injury it causes."

According to the FTC, Qchex's practices have harmed both the account holders whose bank accounts have been debited and individuals and businesses who received fraudulent Qchex checks as payment for goods or services.

Qchex checks were also allegedly used in overpayment schemes. Con artists overpaid individuals or business owners for products or services and asked them to wire back the difference between the price of the item or service and the amount of the bogus Qchex check.

When the checks initially cleared, recipients of Qchex checks wired the excess funds, as requested. Unauthorized checks later bounced, and the amount previously deposited was debited from the victim's account.

CNET News reported that on Monday Oct. 2, Qchex "...stated on its Web site that its service was suspended until further notice 'due to maintenance.'" But a cached copy of the Qchex Web site data, dated Sept. 27, 2006,

indicated Qchex had suspended service until further notice in "agreement and response to an FTC request." At press time, the domain name [qchex.com](http://qchex.com) was for sale. The FTC said it will seek a permanent halt to Qchex's business practices and an order requiring that defendants give up their "ill-gotten gains."

Defendants named in this case are Neovi Inc., doing business as Neovi Data Corp. and Qchex.com; G7 Productivity Systems Inc., doing business as Qchex.com; and their principals, James M. Danforth and Thomas Villwock. All the defendants are based in San Diego, Calif.

Representatives of Qchex did not return phone calls placed for this story. ■

## **Luck runs dry for U.S. online gambling**

**C**ongress made good on its threat to shut down Internet gaming with the passage of the Unlawful Internet Gambling Enforcement Act of 2006 (H.R. 4411). The legislation prohibits U.S. banks and processors from accepting or transferring payments in connection with online gaming. Tacked onto the Safe Port Act, it was signed into law Oct. 13.

The law directs the Federal Reserve and U.S. Treasury to draw up regulations to identify and block illegal transactions. Christiansen Capital Advisors estimates that U.S. online gaming revenue reached \$12 billion in 2005 and was expected to double by 2010, according to the American Gaming Association. An estimated 23 million people gambled online last year.

According to Mark Jensen, Chief Executive Officer of MGN Technologies Inc., the number of Americans gambling online has grown 20% every year, and Americans now wager \$6 billion annually. MGN created a free sweepstakes online gaming platform where players compete for points and prizes. While many U.S. processors and ISOs have already gotten out of this high-risk category of transaction processing, a few remain.

### **Internet wallets**

Electronic Clearing House Inc. (ECHO), a provider of back-end payment processing services to merchants across many industries, announced it is working to identify the impact of the law on its "Internet-wallet" merchants, as well as on its own business. Internet-wallet merchants permit consumers to use their stored funds to engage in gaming over the Internet, according to the company.

Based in Camarillo, Calif., ECHO estimated that Internet-

wallet services accounted for less than 10% of its total revenues. It expects losing that revenue will hit its business hard. ECHO subsidiaries include Merchant America and XPressCheX Inc. As of Oct. 12, ECHO had found that several of its Internet-wallet merchants planned to stop U.S. consumers from using funds to gamble online. In addition, the company stated "some merchants will gradually phase in those restrictions before the expiration of the 270-day regulatory determination period."

ECHO has also decided to phase out any services related to check processing for Internet gaming before the nine-month determination period elapses. The company was aware the law would impact its Internet-wallet merchants and recognized its check-processing business would also take a hit, stated Joel M. Barry, ECHO's Chairman and CEO.

"However, with the continuing growth of our credit card processing volume and our sales focus on building other channels for new check processing revenue, we anticipate being able to recover the lost check revenue from the Internet wallets in the coming year," he said. At least one small ISO in Las Vegas, American Merchant Systems, which caters to high-risk merchants, still advertises services to online-gaming merchants. President Jack Daryanani, reached by phone, confirmed the legislation would affect his business.

Outside the United States, processors publicly acknowledged the pain the law would cause their operations, which were heavily dependent on U.S. customers. One of the hardest hit is Optimal Group, based in Canada. Its FireOne Group subsidiary announced it would immediately suspend process settlement for transactions that may be viewed as online gambling originating from U.S. consumers. The law has pushed the company into a restructuring of its operations, according to FireOne.

UK-based DataCash Ltd., a payment processor for authorization and settlement of credit and debit cards, direct debits and online cash, stands to lose nearly one-third of its revenue due to the act.

Anticipating the legislation, DataCash redirected its marketing, reducing the U.S. share of its revenue from 45% to 30% since December 2005. U.S. gaming still accounted for 26% of revenue growth, but non-U.S. gaming grew at a much faster pace, accounting for 74% of new revenue.

PartyGaming Plc, which claims to be the world's biggest online gambling concern, suspended its real-money gaming activities for U.S. customers Oct. 13. The majority of the group's revenue up to now has been generated by U.S. players. ■

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**CDHC payments from page 1**

number of HSAs and FSAs will rise to nearly 29.1 million by 2010, up from just 17.3 million in 2005.

"If past history is any indication of future performance, then all of the consumer-driven health-care accounts will continue to grow, to become more widely ingrained in the American consumers' mindset and easier to use," said James S. Gandolfo, Senior Director/Vice President of PFPC, a solution provider to the global investment industry.

"There has been a wide acceptance of these products, partially because of credit cards," he added. "American consumers want to choose and control how and when they spend their money, and that has carried over into their health-care spending. But employers are also embracing these accounts as a way to help influence and control health-care costs."

### New financial products needed

Gandolfo compared this era in consumer-driven health care to the early days of individual retirement accounts. "Explaining the benefits to the consumer is the biggest challenge, but I don't think it will be for long," he said.

The growth of these plans has created a need for new financial products, including vehicles to invest, track and access the accumulated balances, and payment vehicles to help consumers finance their \$1,000 to \$2,000 of personal responsibility each year. Health-care benefit debit cards, for example, are becoming an essential part of the health benefits mix.

The number of consumers reporting they had used credit or debit cards for medical purposes grew by 50% between 1998 and 2003, according to TowerGroup. By 2010, 71% of those with FSAs, HSAs and HRAs, and 95% of those with HSAs, may rely on payment cards.

Opportunities for payment processing professionals exist in two areas: on the employer side, for products such as prepaid debit cards, and on the receiving medical-office side, for payment processing services.

"The continuing shift of those costs to consumers' shoulders is creating an important new pool of payment funds for which financial service industries are in a position to compete," said Dennis Moroney, Senior Research Analyst with

TowerGroup and the author of at least two reports on HSA opportunities.

"What's more, a growing percentage of health-care savings accounts is moving from a paper-based reimbursement environment to a plastic payments card, reducing associated costs and eliminating the delays or receipt collection seen with reimbursement," he said.

### Shifting the physician's mindset

That dynamic has been observed in the medical field: In May, the *American Medical News* reported physicians might find they need to adjust their practices to the business realities of CDHC. It suggested no amount of technology would help if a practice does not get into the habit of collecting payment upfront from patients.

That's an uncomfortable shift for many doctors who would prefer to see themselves as their patients' advocate rather than their patients' biller.

"There is really no difference between writing an application for a doctor's office and, say, a bagel shop, but doctors would really rather not think that way," said Jeffrey Shavitz, Executive Vice President of Charge Card Systems Inc., an ISO focusing on the medical field. "Some of the

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best doctors are the worst businessmen. Medical offices frequently outsource their accounting, so they don't always see day-to-day the impact collection has on them.

"If you do an analysis to show when a doctor is actually getting paid, they're frequently surprised – and unhappy – to see that the average [time it takes to get paid] may be 90 or 100 days. They may say they don't want to look like a retail shop, or they don't want to pay an extra 2%, but once they compare asking for a credit card and getting next-day funding to [waiting] 100 days, you've got their attention."

**Tapping an untapped niche**

Medical offices often use technologically advanced medical equipment but have dinosaur payment systems. This could mean this sector is one of the last, great untapped markets for ISOs and MLSs.

Bill Bartzak, Chief Executive Officer of MD On-Line Inc., a real-time insurance eligibility and payment collection service, said 48% of doctors in offices with one to five practitioners still submit claims by paper. "There's a lot of market left to reach," he said.

According to Christy Corey, President of TransFirst Health

Services Inc., most health care practices use stand-alone systems to process patient payments, and these systems are neither efficient nor cost effective. "Health care has been lagging in certain segments of technology largely due to the fact that there has been little need to address private-pay collection," she said. "It simply represented an insignificant percent of overall revenue."

With the upsurge of HSAs and HDHPs and an increasing number of uninsured patients, that percentage is quickly becoming significant. However, many experts suggest success in this market lies in further specialization.

"There are differences in billing practices between the specialties," Shavitz said. "They may seem like small differences to us, but to the doctors, those differences are important. If you can establish yourself as a specialist for dermatologists or plastic surgeons, you can really mine the niche. And doctors very much understand the concept of giving referrals."

**Ironing out CDHC wrinkles**

There is opportunity in this growing field, but there are also obstacles to widespread adoption of CDHC products. Consumers are reluctant to abandon traditional managed plans, for which employers bear the brunt of expenses.

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They are also reluctant to embrace consumer-driven plans, which give employees more choice but also expose them to more financial risk.

Employers offering FSAs find less than 20% of their employees take advantage of them. Those offering HRAs – less than 5% of all U.S. companies – find an even lower percentage: less than 10%. Still, these types of products are in their infancy.

"Early versions of health-care accounts, such as the health reimbursement arrangement and the medical savings account, had little uptake because they were highly restricted in terms of usage, asset ownership and year-to-year rollover capabilities," Moroney said.

For example, those who did not spend the money in their FSAs lost the money at the end of the year. In May 2005, the Department of the Treasury approved FSA holders to carry over unused account balances for 2.5 months into the following year, which is still not as generous as the current crop of HSAs (balances for newer accounts carry forward indefinitely).

While the new carry-over terms help fund medical treatments early in the year, mitigating a major drawback to

FSA use, these accounts work best for people who can schedule medical procedures later in the year when their accounts are already funded.

Also, FSAs began primarily as paper-based systems, requiring users to save receipts, fill out forms and be reimbursed several weeks later. A 2003 IRS ruling allowing FSAs to be paired with prepaid cards has created a growing pool of card-based FSAs. TowerGroup estimates that by the end of 2004, 20% of the 14.2 million existing FSAs were card based.

Partly because FSAs were not as well-received as hoped, many employers have moved slowly and gently into the realm of CDHC. Most continue to offer traditional insurance at a slightly higher price to their employees. Many experts anticipate employers will eventually phase out the more expensive insurance plans, which will hasten the growth of CDHC plans.

**HIPAA headaches**

Another factor complicating the widespread adoption of CDHC plans is the Health Insurance Portability and Accountability Act (HIPAA), whose creators did not envision the need for coordinated health and financial service products. Service providers fear liability in the event of

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data breaches involving systems that can access consumer medical and financial records simultaneously.

Data-sharing regulations within HIPAA and the Gramm-Leach-Bliley Act (financial modernization legislation) make partnership between the health-care and financial-services industries problematic.

Obstacles to cooperation could lead to competition. According to Moroney, health-care providers and the consumer payments industry may cooperate to reach this burgeoning market, or they may compete for the growing pool of health-care account business.

Virtually all products now offered have been developed since HIPAA was approved, and are likely to meet HIPAA guidelines. But as the use of technology becomes more ubiquitous, the medical field will begin to demand the efficiencies in payment processing that other industries experience: 24/7 help, online access to account information, and the ability to cross reference both medical and financial data within one consolidated system.

Heightened privacy concerns about access to confidential medical records could lead to greater and stricter regulation of CDHC products and payment vehicles designed to accommodate them.

But the opportunities may well outweigh the obstacles. "Consumers, politicians and businesses are exerting their influence, each flying their traditional flags of consumer protectionism, public interest and profit," said Sarah Phelps of First Annapolis Consulting.

"This power play is creating an opportunity for financial services companies to introduce efficiencies into the health-care industry that may help rein in these escalating costs," she added. "There is no time like the present to assess the health-care market and design the approach that makes the most sense for your organization." ■



## Glossary of terms

**Consumer-driven health care (CDHC):** Also known as self-directed health care or defined contribution health care, this term describes a number of plans in which employees share rising health-care costs with their employers, while exercising greater control over their health-care spending.

**Flexible spending account (FSA):** Established in 1977, this type of account is typically funded by an employee's pretax salary. FSA funds can be used to pay for certain expenses not covered by an employer's health insurance plan. Employers may contribute, but few do.

Types of FSAs include health-care accounts, which cover medical expenses and health-related items such as over-the-counter drugs, co-payments, glasses, etc., and dependent care accounts, which fund services like day care for dependents.

While employees using FSAs can pay for medical care with pretax dollars, they forfeit unused funds at the end of each calendar year. Funds may be lost on termination of employment. FSAs are not available to self-employed individuals, partnerships or LLCs. Not necessarily linked to HDHPs, FSAs may be linked to debit cards.

**Health reimbursement account (HRA):** Established in 2002, this type of account was designed to assist with larger health costs than those paid for through FSAs. HRAs are employer funded and may roll over year to year. They are, however, lost on termination of employment. When the funds in an HRA are exhausted, the employee must pay the difference between the balance due for medical services and the employee's deductible.

HRAs cannot be used by self-employed individuals, partnerships or LLCs. These accounts may be linked to debit cards.

**Health savings account (HSA):** This type of account must be linked to a high-deductible health plan (HDHP), and funds roll over year to year. Employees can make tax-free contributions up to the age of 65. Thereafter, money can be withdrawn penalty-free for any reason, but if the funds withdrawn are not used to cover medical expenses, taxes apply.

HSAs may be established by individuals without involving employers and by the self-employed. Like 401(k)s, they are portable and may be kept by an employee after termination of employment. HSAs are usually linked to debit cards.

**High-deductible health plan (HDHP):** This is a lower-cost insurance alternative for employers because employee-funded deductibles cover an increased share of health-care costs and thereby reduce employers' monthly premiums. Individuals can also purchase HDHPs independently.

**HIPAA:** This is the acronym for the 1996 Health Insurance Portability and Accountability Act, which established standards for electronic storage of patient data; unique identifiers for health-care providers, health plans and employers; and strict guidelines for security and privacy of patient data.



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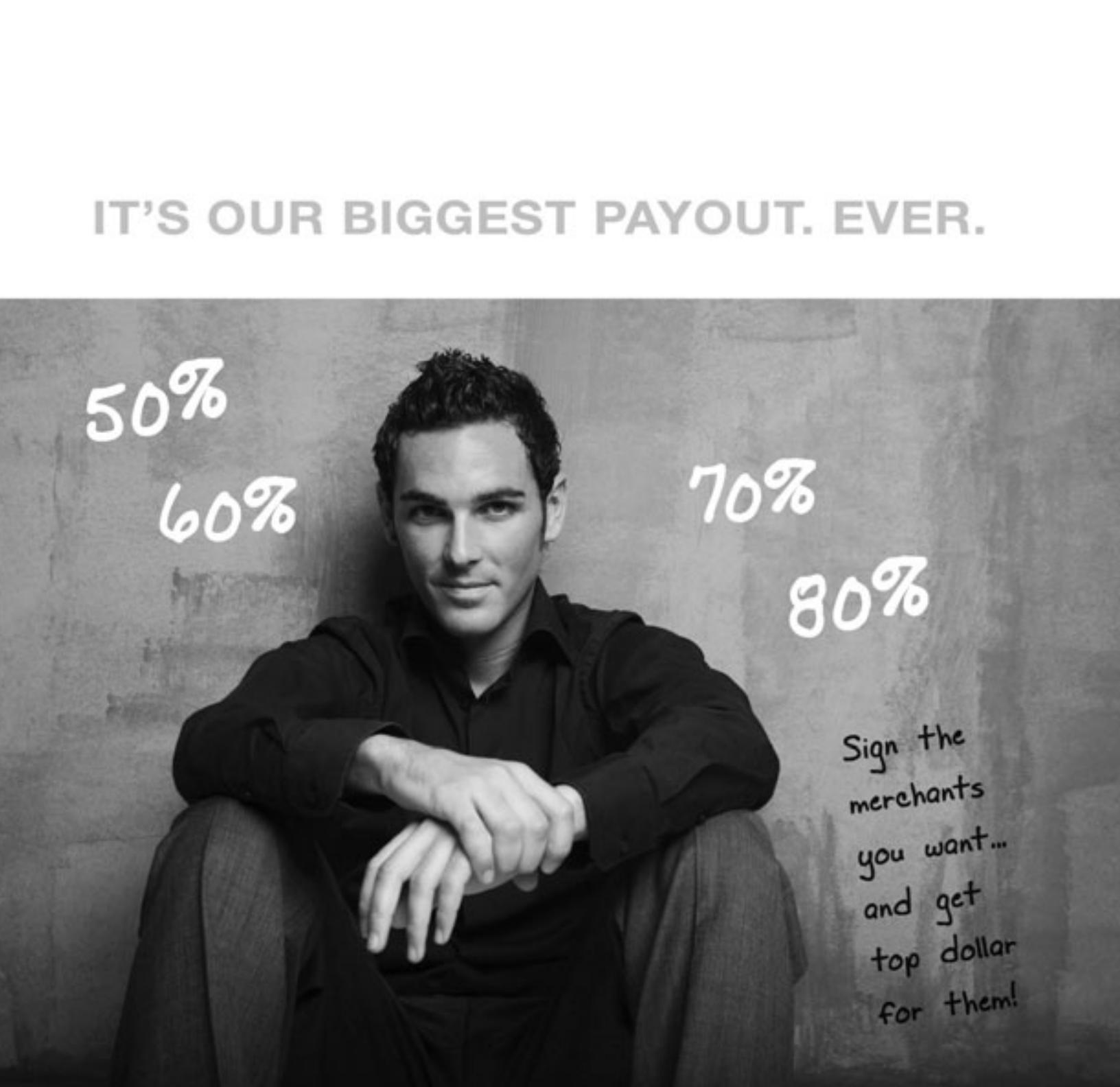
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# Education

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### Sales in the off season

By Michael Nardy

Electronic Payments Inc. (EPI)

**C**ounter-culturist Timothy Leary coined the phrase in the 1960s, "Turn on, tune in, drop out," as encouragement to the youth of America – who were increasingly detached from the social hierarchies of the time – to further remove themselves from the cultural norms that were prevalent in the preceding decade.

While Leary advocated the use of drugs to achieve a counter-cultural revolution, the framing in which he proposed his ideas can be adapted for modern-day ISOs and merchant level salespeople (MLSSs).

As we approach the late fall, it is getting darker earlier, the leaves are falling and, for many of us, the summer season's boon is coming to an end. Indian summer days are fewer each week, but that doesn't mean our warm-weather mentality needs to fall by the wayside or our summer fun is over.

For many people, the brisk fall days present excellent opportunities to sell merchant services. Like the changing seasons, businesses, too, have times in which they are busier than others. Knowing when to tune in and take advantage of those opportunities can help groom you into a better salesperson.

#### Seasonal sales funk

There is no worse thing than a sales funk, but knowing how to overcome some of the issues with a sales trend running shallow or a pipeline running dry is one of the ways successful salespeople differentiate themselves from those who are fair-weather ISOs and MLSSs.

The most common type of sales funk is seasonal – like that just described – when the seasons change, and those cheery summer days are no longer fueling your sales machine. The colder it gets, especially for sales professionals north of the Mason-Dixon line, the harder it is to feel the reward of a long day of trudging around as a feet-on-the-street MLS going door to door.

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Especially when sales calls don't always convert into new merchants, it's tough to get the inspiration to continue hitting the streets. But it's important to look at each changing season as a new door and opportunity to drop in and make a sale.

#### Hidden treasures in a dual-season market

Now is the time to "hit upon" businesses that may do a brisk summer business as well as a nice amount of winter business. The ideal candidate for a sales call is a business owner with ample free time to digest what you, as the ISO or MLS, propose. But keep in mind the seasonality of the business you approach.

Soliciting a flower shop on the day before Valentine's Day – a mistake that I once made – will ultimately result in embarrassment and a business owner who probably won't be open to future sales calls, despite better timing in the future.

Keep keen mind to the season, and you will be rewarded by the available and willing business owners who, during the height of their season, don't want to change a thing but, during their off-time, will think carefully about moving to your services.

Some great businesses, which I call hidden treasures, are garden centers. These gems are usually in full swing during the summer and then have a lull in the fall before they pick up for the winter holiday season.

Indeed, so, too, are taxi and limousine companies, bakeries (surprisingly, many have seasonal fluxes from summer to winter), landscaping services (especially those doing

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snow removal in the winter), and fuel dealers delivering propane and heating oil.

Focusing on locations, such as bed and breakfasts from different areas, is a great alternative as well. Many B & Bs are busy during the summertime in typical summer tourist areas (those that are cold in the winter), and others are booming in the winter. (Check out those close to ski resorts or in the northern climes.)

Nearly every business has a time in which it is slower and more receptive to sales calls. Don't ignore a business that may have ignored you during your prime selling season. Instead, keep a log of businesses that may have turned you away on an initial call, and come back at a more appropriate time.

Persistence is a key quality of successful salespeople. And sometimes a little levity helps them stay in game when it looks like an arctic blast has frozen all of their leads solid.

### Sales as a fishing analogy: A fish for all fishermen

The GS Online MLS Forum is filled with fishermen and fisherwomen alike. Many of you post links to your boat pictures or talk about your most recent fishing trips. Well, now that the season is winding down, let's bring back a bit of the summer fishing fun with an analogy. Look at sales as a form of fishing: We have surf-casting, bottom-fishing, trolling, fly-fishing, deep-sea fishing, bread on a hook, and the unfortunate snagged-lure method.

- **Surf-casting** is the method used by most ISOs and MLSs: They cast their sales lines over and over and are able to catch all sorts of merchants – retail, restaurant, MO/TO, Internet, etc. – but the percentage of closings can vary just as the tenor of the sea does.
- **Bottom-fishing**, as the name implies, occurs when a sales professional goes after the bottom-tier merchants.

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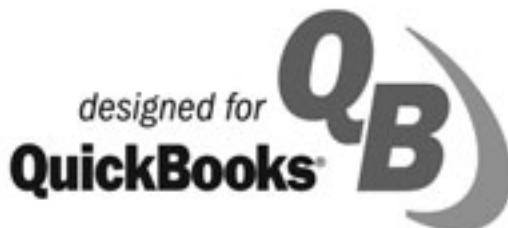
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**StreetSmarts**

- **Trolling** is a nonconfrontational approach to soliciting new merchants. It involves leaving door hangers, doing mailings and stop ins (in which you quickly stop in and leave material for a business owner to read), and pursuing other passive methods of sales.
- **Deep-sea fishing** is the method used by sales professionals who either go on long journeys to sell merchant services or work on proposals for larger merchants for whom deals can take several months to materialize. These two kinds of selling often go hand in hand.
- **Fly-fishing** takes place when a sales professional casts a lure with some bait – as in a free-terminal program, rebates and incentives, and the like – to sell services to a merchant.
- **Bread on a hook**, also known as the dumbest-luck method of sales, describes times when a merchant just falls into your lap, and you make the sale with ease (i.e., the equivalent of when we were kids and put bread on a hook and still caught fish).
- **Snagged lure** describes times when sales professionals work so hard to make the sale, think they have the "big one," and it turns out the big one is a tiny merchant doing one-eighth the processing anticipated (like

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when you just end up with a clump of leaves instead of a fish.)

As with any fishing trip, sometimes even the best fishermen can get skunked and end up without a catch. I use this fishing analogy because a sales slump or slow time can often be very similar to times on a fishing trip when everyone is coming up without any fish. The last thing to do in a slump is reel in your line and return to port.

### **Boost your confidence with referrals:**

#### **Turn fish into food**

During slower times, it's always a good idea to revisit some long-time merchant accounts that have had success using your services. It isn't unprofessional to visit with a pre-existing merchant customer and say, How are things? or, Is there anything I can do for you?

Inevitably, many of these customers will also talk to you about your business and ask how things are with you. Use any current customer's question about your business pace as an opportunity to ask for a referral of a friend or colleague who is in a similar business.

Let's say you visit with Joe, who owns a pizza restaurant. When there, ask, Is there any possibility that you know another business owner I can call upon?

Fishing for business comes in many forms. There's no shame in revisiting a place where you already caught a fish and asking about other locations to cast your line.

#### **Turn on, tune in, drop in**

At the heart of this article is one mantra: Get back on the streets. Salespeople can't sell without hitting the streets, the phones, the mail, or your favorite lake, river, stream or brook.

Use what Timothy Leary was advocating to get back to a higher tune of perception and rebel against your usual surroundings.

Go after a new market or a new town or city that you haven't attempted to sell before, or hit upon that new merchant or a new market you previously avoided. Turn on your sales radar, tune into the needs of your businesses and drop in. You'll be surprised by the results. ■

*Michael Nardy is Chief Executive Officer of Electronic Payments Inc. (EPI), a founding sponsor of the National Association of Payment Professionals and one of The Green Sheet magazine's Industry Leaders. EPI is one of the nation's fastest growing privately held payment processing companies offering ISOs and MLSs profitable partnership programs and cutting-edge tools to help their portfolios grow. To learn more about partnering with EPI, visit [epiprogram.com](http://epiprogram.com) or e-mail Nardy at [mike@elecpayments.com](mailto:mike@elecpayments.com).*



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## Education (continued)

MILLIONAIRE IN YOU

### Are you a winner?

By Jason A. Felts

Advanced Merchant Services Inc.

**I**s your goal to be average, mediocre and barely able to get by? I doubt you answered yes to that question. However, many sales professionals choose that path through their everyday activities. There are real and specific differences between successful merchant level salespeople (MLSs) and those barely making it.

The same is true with virtually everything in life, and I have studied the winning qualities of highly successful individuals in many fields.

For example, I believe the greatest quarterback in the NFL today is Peyton Manning. He probably spends more time studying and honing his craft than any other quarterback and, possibly, any other player in the league.

Would he have to spend that much time watching film, studying defensive schemes, etc. to be great? Probably not. Would he be the best if he didn't do this work? Probably not.

True greatness always includes careful preparation. It is never a coincidence. Two specific winning qualities guaranteed to make a difference in your sales career are focused attention and flexible adjustment.

#### Focused attention

Truly successful professionals in any field have focused attention. Simply put, they stay on track. They don't allow daily distractions to pull them away from their productivity. You cannot experience high levels of success without knowing how to effectively handle distractions and stay focused on the task at hand.

Consider these key components to finding success through focused attention:

- Focus determines mastery: To become excellent at something like closing, one must be attentive and focus on when and how to close the sale.
- Focus determines your energy level. The things you feed on and look at the longest become the strongest elements in your life. Are you applying yourself appropriately?
- Broken focus creates insecurity and instability in everything around you. It's amazing how many people fail because of perpetual distractions.
- Often we need to deny ourselves many things if we want to become great at one thing. Have you ever met a jack of all trades who makes \$300,000 per year? To be good at many things usually equates to not being great at anything.
- Focused attention means that when you don't have a specific or good reason for doing something, you have one great reason for leaving it alone and avoiding the distraction.

Without focus, you waste your creative efforts in a maze of mediocrity and inconsistency.

When your focus is clear, you become passionate about your dream and maintain the strength to accomplish it.

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## Education

► **Have you ever seen a team go into halftime 20 points behind only to come back and win the game? Why and how did they come back so strong? They made necessary, flexible adjustments.**

### Flexible adjustment

A critical quality of winning MLSs is their ability to adjust, realizing that sometimes change is necessary. They acknowledge the need for improvements, adjustments and corrections.

If you aren't happy with where you are today, does it make sense to continue doing what you've done for the past two years? For example, is emphasizing savings for the purpose of leasing terminals working for you? Chances are that the MLSs who are making over \$300,000 annually make frequent necessary adjustments to stay at the top of the bankcard field.

Have you ever seen a team go into halftime 20 points behind only to come back and win the game? Why and how did they come back so strong? They made necessary, flexible adjustments.

On the flip side, if they'd returned to the field and contin-

ued the same method of play as before, would they have won? Absolutely not. The same is true for us. We win or lose by the way we handle our circumstances. It's not the circumstances themselves that determine our results.

Consider these key components of flexible adjustment that will help you become even more successful.

- Great ideas still need change, adaptation and modification in order to flower and succeed.
- Success and growth are unlikely if you always do things the way you have always done them.
- When things consistently go wrong or sideways, it's time to adopt a different strategy. Wise people adapt; fools never do.
- The successful realize it's not always how you start but how you finish. Adjustment allows you to start wrong and still end up right.
- Your success can often be found within your mastery

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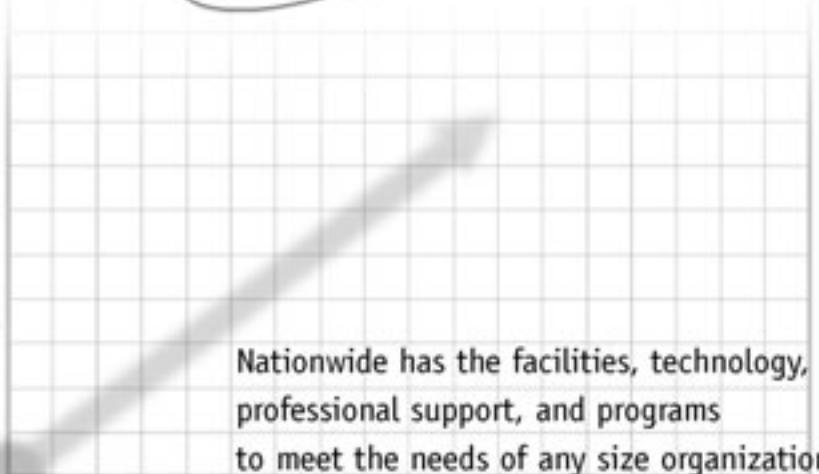
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**Education****Winners ...**

- Are always part of the answer
- Always have a program
- Say, Let me do it for you
- See an answer for every problem
- Say, It may be difficult, but it is possible
- When mistakes are made they say, I was wrong
- Accept responsibility and learn from their mistakes
- Realize rejection and failures are paramount to progress
- Challenge assumptions
- Have dreams
- Say, I must do something
- Are part of the team
- See the gain
- See possibilities
- Believe in win-win
- See the potential
- Ask for the order – again
- Choose what they say
- Make necessary adjustments
- Transcend traumatic experiences
- Invest
- Have clear goals with a specific purpose
- Create opportunity
- Use hard arguments but soft words
- Stand firm on values but compromise on petty things
- Follow the philosophy of empathy: Don't do to others what you would not want them to do to you.
- Make it happen
- Take risks
- Stay focused and attentive
- Are teachable, and they desire to learn
- Expect to win
- Have determination
- Make money.

**Losers ...**

- Are always part of the problem
- Always have an excuse
- Say, That's not my job
- See a problem for every answer
- Say, It may be possible, but it is too difficult
- Make a mistake and say, It wasn't my fault
- Blame others and always repeat their mistakes
- Take rejection personally and expect to continually fail
- Accept tradition blindly
- Have schemes
- Say, Something must be done
- Are apart from the team
- Only see the pain
- See problems
- Believe for them to win someone has to lose
- See the past
- Accept the first refusal
- Say what they choose
- Repeat the same mistakes
- Are fixated on old traumas
- Just spend
- Aimlessly float through life with no direction
- Complain about the lack of opportunity
- Use soft arguments with hard words
- Stand firm on petty things but are quick to compromise on values
- Do it to others before they do it to you.
- Let it happen
- Allow their fears to limit their success
- Are scatterbrained and allow distractions to roadblock their task
- Already know everything
- Don't know what to expect
- Are willing to accept mediocrity
- Make excuses.

of adjustment. Remember: Pain keeps you hurt. Pride keeps you ignorant. Blind spots keep you mediocre. Delusion keeps you out of touch with reality. Winners confront dysfunctions and boldly remove them.

- Most of the time, positive change can be achieved by simply adding or slightly adjusting something. When you refuse to make adjustments or improvements, you may as well wrap a chain around yourself; you will truly be restricting your own success. Don't let stubbornness and resistance to change destroy your career.
- Change is always hardest for people who are in a rut because they have scaled down their living to encompass only what they can handle comfortably. They welcome no change or adjustments that can lift them up. That is tragic.

Many of life's failures occur when people do not realize how close they are to success. They give up; they make excuses. They become losers when they are on the verge of winning.

Are you a winner? If you've read this entire article, you are either already a winner or have a clear desire to make significant improvements. True help, training and mentoring are often what's needed. Find someone far more successful than you are who can aid you in achieving your goals and dreams. ■

*Jason A. Felts is the Founder, President and Chief Executive Officer of Florida-based Advanced Merchant Services Inc., a registered ISO/MSP with HSBC Bank. From its onset, AMS has placed top priority on supporting and servicing its sales partners. The company launched ISOPro Motion, its private-label training program, to provide state-of-the-art sales tools and actively promote the success and long-term development of its partners. For more information, visit [www.amspartner.com](http://www.amspartner.com), call 888-355-VISA (8472), ext. 211, or e-mail Felts at [jasonf@gotoams.com](mailto:jasonf@gotoams.com).*

**Winners and losers**

"He that is good for making excuses is seldom good for anything else," Benjamin Franklin once said.

# Depressed? Suffering from ED?

New Treatment May Provide The Cure You're Looking For



**Studies have shown** that giving away your products for free is bad for your health and can lead to a condition known as: **Sudden Wimpy Sales Person Syndrome (SWSPS)**. Worse yet, if untreated, this condition can worsen causing **ED (Economic Dysfunction)**. The condition is highly contagious!! There is one known cure, however, from a California firm specializing in the cure of **SWSPS**. The cure is a procedure known as **Bankcard Warrior Inducement Therapy (WBIT)** and is administered by professionals highly trained in this procedure. We interviewed the department head Mr. T.L. Lien **GPPS (Gross Profit Performance Specialist)**, who shared these words about the procedure:

*"What we do is we shock the patient back into reality. We show them how much money they're leaving on the table and how to get it. This provokes an immediate release of endorphins in the system, creating a euphoric and invulnerable state in the patient- known as **IWTS (Immediate Warrior Transformation Syndrome)**. Once this state is achieved, we're able to exorcise any remaining **SWSPS** pathogens out of the subject. Interestingly enough, the effects of the therapy are long lasting, and we've cured many patients. There are unfortunately those we couldn't save, as the disease had already spread too deeply. Therefore it's good to catch it early and eliminate it."*

This publication thanks Mr. Lien for his breakthrough research in the area. Symptoms of **SWSPS** include any combination of the following: Sweaty palms when asking clients for money, an uncontrollable desire to give things away, frequent shortness of rent, constant irritability, reduced sex drive and or **ED (Economic Dysfunction)**.

If you're feeling the effects of this dangerous and lifestyle - threatening disease, we urge you to contact the professionals at the **Center for Wimpiness Control**, otherwise known as the **Center for Bankcard Warrior Inducement Therapy**.

Temporary relief may be obtained with doses of the drug: "F-it all", however this only relieves symptoms and is not a cure. For that, you must complete the **WBIT-therapy**.



## SIDE EFFECTS OF TREATMENT MAY INCLUDE:

A bigger house, nicer car, exceeding FDIC insured limit on savings accounts, kids in Ivy League school, overwhelming respect from other sales people, an inability to slack off, inability to give things away and overpowering drive to make profits.

**WARNING:** Euphoric effects of treatment may not subside and if lasting more than 4 years consult an investment advisor for immediate treatment.



Stuart H. Rosenbaum, Chairman of the **Center for Wimpiness Control**, aka, US Merchant Systems: "At US Merchant Systems we cure Sudden Wimpy Sales Person Syndrome. For the antidote join the Bank Card Warrior Team at USMS."



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## Education (continued)

### Legal ease

# After a buyout, who services my merchants?

By Adam Atlas

Attorney at Law

**M**any ISOs and merchant level salespeople (MLSs) envision one day selling their portfolios, collecting a fat check and playing golf into the sunset. As you know, much work and worry lie on the road to that goal.

When someone wants to buy your portfolio, the processor with which you have placed your merchants will inevitably be very concerned about the continuity of service to the accounts involved. This column highlights important aspects of merchant service that you, as ISOs and MLSs, need to bear in mind when negotiating new contracts or buyout agreements.

#### **Who decides?**

If you are an MLS selling a portfolio of 500 merchants, I'll bet you want the right to decide whether you will

continue servicing those merchants after you receive your buyout payment. For an MLS who wants to leave the business or retire, continuing to service the merchants is definitely not an attractive option. Consequently, you should always negotiate so that you will have the right to select who will service the merchants if you sell out.

#### **The candidates**

There are essentially three options a seller of portfolio rights will have concerning merchant servicing:

- 1) If the processor agrees, the processor may assume the servicing obligations in respect to the merchant portfolio.
- 2) If the portfolio purchaser and the processor both agree, the purchaser may take up the servicing obligations.
- 3) If the purchaser and processor agree, the seller may continue to service the merchants.

#### **Processor servicing**

If the processor agrees to take up the service obligations for the portfolio being sold, the processor is very likely to charge a per-merchant monthly fee in exchange for services. That fee will reduce the amount of residuals the portfolio's purchaser is likely to receive and therefore reduce the portfolio's value and purchase price.

Depending on the processor, having the processor assume servicing obligations can be advantageous to the buyer because the processor is already familiar with the merchant portfolio and the platform on which it operates. Processors may also see opportunity in this option because they can turn customer service into an additional profit center.

#### **Purchaser servicing**

Whether a purchaser is willing or able to assume merchant service obligations depends on the purchaser's individual circumstances.

Some processors are averse to having purchasers service portfolios because purchasers with a variety of portfolios do not always have the necessary expertise and knowledge of each specific processor platform in use. Thus, they often aren't equipped to adequately service all of the merchants in their portfolios.

Some purchasers are sophisticated, however, and have

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## Education

effective servicing skills that can complement most processing platforms.

Processors also may hesitate to let certain purchasers service their merchants because they may be in direct competition with one another. For example, large processor A would likely not want large processor B to be one of its agents or support providers.

Some portfolio purchasers will even pay residuals on new merchant locations for merchant accounts that have already been sold to them. This is an option processors sometimes withhold from ISOs and MLSs.

### Seller servicing

Sellers remaining in the business or selling only part of a portfolio are most likely to keep servicing the merchants involved after a sale. This kind of seller is probably looking for financing to grow an existing business.

For these kinds of sellers, servicing a portfolio would not result in a material increase in costs or inconvenience because they already know the merchants in question very well, and they are operating as ISOs or MLSs.



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Sellers exiting the business or retiring should not agree to continue to service merchants in a portfolio they are selling because that continued obligation defeats the purpose of selling out – which is to cash out of the business.

### Make it clear, in writing

A lot of ISOs and agents get to the point of signing a portfolio sale agreement without having given much thought to merchant servicing. The allocation of merchant service obligations should be set out clearly in any buyout agreement. This will help avoid disputes and unwelcome surprises.

Buyouts come in a range of forms. At one end of the spectrum is the simplest kind of buyout in which a buyer simply buys the residual stream of a sub-agent. At the other end is a buyout in which the buyer assumes all the contractual rights and obligations of the selling ISO or MLS and causes the outgoing acquiring bank to assign its interest in the merchant agreements to a new acquiring bank.

Where your deal fits into this spectrum will be a function of:

- 1) your business needs in the deal
- 2) the market's interest in the portfolio
- 3) your bargaining power vis-à-vis the processor and purchaser.

### Define obligations

Make it very clear in any buyout agreement exactly which obligations of the selling entity will be assumed by the parties concerned: the seller, the purchaser and the processor.

Buyers are actively shopping for portfolios. Each decision to sell is motivated by a variety of reasons, such as the need for financing; interest in exiting the business; a dispute or inability to make a new deal with a portfolio's processor; or other personal or business reasons.

Regardless of your reasons for a proposed sale, reflect on who will take over servicing the merchants in question. A portfolio that is not adequately serviced will not last long and will frustrate any purchaser. ■

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## Education (continued)

# The skinny on chargebacks and disputes – Part III

By Ross Federgreen

CSRSI

**W**hen a company receives a chargeback or a dispute, a record of this event is maintained within the payment system. Many merchants do not realize the ratio of disputes and credits is also monitored.

Contracts today often contain the 1-3-7 rule. This means over a given period – usually one month – the percentage of chargebacks cannot exceed 1%; the percentage of disputes cannot exceed 3%; and the percentage of credits cannot exceed 7% of a merchant's total transactions during that period.

Visa U.S.A. guidelines recommend that merchants continually monitor and track these and other ratios. Specifically, Visa suggests taking the following steps in monitoring chargebacks: 1) Track chargebacks and re-presentments by reason code; 2) include initial charge-

back amounts and net chargebacks after re-presentment; and 3) track card-present and card-not-present chargebacks separately.

### The orderly approach

The key to helping merchants successfully respond to chargeback notices is organization. Strongly encourage merchants to treat each notification seriously. As we discussed in the first part of this series, each response is driven by a specific time element. In addition, for each chargeback, merchants should know the jurisdiction responsible for the notification, the specific dispute code, the specific issuance bank and the specific request being made.

Here are 15 steps to take when looking at a chargeback notification:

1. Verify that the notification is addressed to the correct merchant.
2. Identify the jurisdiction.
3. Note the due date.
4. Note the case number.
5. Note the adjusted transaction amount.
6. Note the reason code.
7. Note the dispute type.
8. Review the case summary.
9. Note the issuance bank.
10. Review the original transaction detail information.
11. Review all attachments, including affidavits.
12. Determine if you have responded previously to the inquiry or taken action.
13. Decide if you want to accept or contest the adjustment.
14. Review required actions.
15. Complete the chargeback response.

Merchants should keep data organized so they can discern patterns and trends. The point is to reduce future chargebacks and disputes by analyzing the information to recognize emerging patterns. Issues that might surface include problems with fulfillment, problems with issued credits, customer service difficulties and a multitude of other concerns, including the possibility of fraud.

### The analytical angle

Trend analysis is critical. It provides merchants a view of not only a single chargeback in isolation but also, more importantly, an overview of the status of merchants'

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A black and white illustration of Uncle Sam from the famous "I Want You" recruitment poster. He is depicted with a stern expression, wearing his iconic top hat with a stars and stripes band, and a military jacket. He is pointing his right index finger directly at the viewer.

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**Education**

► Many merchants will ask you if there are resources that will provide these services. The short answer is yes. But you, as the ISO or merchant level salesperson, must be well informed about the quality of the provider.

specific operations. Frequently updating trend information with the knowledge of specific circumstances, such as seasonal variations, will provide merchants with a growing platform of reference data.

At the very minimum, merchants should track and understand the implications of the following on a monthly basis:

1. Number of chargebacks/total number of transactions
2. Number of chargebacks per card brand/total number of transactions per brand
3. Number of chargebacks per month
4. Number of disputes/total number of transactions
5. Number of credits.

Why bother with trend analysis? By establishing baselines of behavior you can more readily recognize aberrations. It's far better to take action related to a predicted increase in chargebacks than react to a situation identified by an outside source.

Many merchants will ask you if there are resources that will provide these services. The short answer is yes. But you, as the ISO or merchant level salesperson, must be well informed about the quality of the provider.

**The diligent defense**

Do not rely entirely on information provided by a given merchant's processor/acquirer. The information these entities provide doesn't account for the critical needs of a successful chargeback defense. The issuance bank is focused on accounting for the specific dispute or chargeback code or identifying specific credit cards that have been used to defraud the merchant in question.

A number of innovative programs have been developed in recent years that attempt to help merchants respond appropriately to chargebacks. Crucial to success is the development of custom responses, which are tied to three variable factors: the specific dispute code, the issuance

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## Education

bank and the specific elements the merchant can use when responding to the chargeback.

For example, it does no good to develop a response that requires merchants to use proof of delivery in the MO/TO or e-commerce space if they, for whatever reason, cannot do so. However, it's always important to provide this type of information so the most-informed business decisions can be made.

### The reliable response

Merchants ask many questions about chargeback and dispute regulation. The primary concern is consequences: What happens if they fail to respond or do not respond in a timely manner?

The simple answer is that all merchants should be taught to respond to all requests. Failure to respond is not prudent, except in cases in which the merchant accepts the account adjustment given in the chargeback notification.

Many merchants ask if there is a criminal component to a chargeback. Chargebacks are not, in themselves, evidence of criminal activity. However, patterns of chargebacks can lead to criminal prosecution after an investigation.

Reasons include evidence of the following: intentional failure to deliver product, delivery of banned items, intentional failure to issue refunds or other illegal activity.

The rules that govern chargebacks are set and governed by the card Associations. Through their corporate governance, new rules can be set or existing rules and regulations can be modified. This process is normally driven by the evolution of payment modalities due to the development and modification of platforms.

### The arguable advantage

As an ISO or MLS, it behooves you to be knowledgeable about the chargeback process and its governing rules and regulations. You can enjoy a very significant competitive advantage if you offer your merchant base meaningful and knowledgeable assistance in this area.

A word of caution: Do not offer advice if you are not familiar with the subject. Help your merchants obtain qualified help instead. Remember, if your merchants cannot get paid, they cannot survive. ☐

*Ross Federgreen is founder of CSRSI, The Payment Advisors, a leading electronic payment consultancy specifically focused on the merchant. He can be reached at 866-462-7774, ext. 23, or rfedergreen@csrsi.com .*

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<sup>1</sup> "How Consumer-Driven Health Plans Will Affect Your Practice," *Family Practice Management*, March 2006, p. 71.

<sup>2</sup> Lower rate offer applies to doctors who do not currently accept American Express, are office-based, and are a physician, eye doctor, plastic surgeon, or group practice. Does not apply to licensed specialists, chiropractors, veterinarians, hospitals, medical labs or long-term care centers.

## Education (continued)

# Sidestep pesky spam filters

By Joel Rydbeck

Nubrek Inc.

I have a love-hate relationship with my e-mail spam filter. On the one hand, I love the reduction of junk mail in my inbox each morning; but on the other hand, an e-mail I want to read can easily end up in my junk bin.

Sometimes the most frustrating part is when blatant junk mail wheedles its way through my spam filters, while legitimate e-mails from customers or friends are occasionally blocked.

At Nubrek we send out a regular newsletter to customers, prospects and vendors. In it we talk about new product offerings, new employees and other information that is helpful to our customer base.

It's important that this e-mail not be filtered out as spam, as we often reference this information in customer and prospect follow-ups. This brings up an interesting question, How can we make certain our e-mail messages get through?

### How spam filters work

Spam filters examine incoming e-mail messages and assign each one a spam probability. Spam filters are not Internet-based per se. Each company or e-mail server can deploy its own solution. Yahoo Inc., Google, and AOL LLC, for instance, have their own e-mail spam filters.

On the whole, spam filters are pretty good. But it's important to remember they make arbitrary decisions. These filters often assign a spam probability to distinct words, phrases and attributes of e-mail messages.

For example, words and phrases like "Viagra" or "get rich quick" boost the spam probability, while straightforward discussions bring the probability down. If intended recipients are listed in the blind copy field rather than the addressee field, the spam probability rises.

### Think like a spam filter

In researching this topic, I googled phrases I thought would give me keys to outsmarting sophisticated spam filters. Each search returned dozens of links about the pains and frustrations of spam as well as information about new and improved filters. The bulk of interest regarding spam is in how to stop getting it. I did, however, come across a few great Web sites and acquired some insider tips.

One easy step is to check outgoing messages for the following trigger words I found on *Inc.* magazine's Web site at [www.inc.com/magazine/20030801/marketing.html](http://www.inc.com/magazine/20030801/marketing.html):

Newsletter, Internet, mortgage, offer, live, pics, protect, now, free, solution, work, news and credit.

If your e-mail messages contain them, they will have a higher probability of being blocked.

You can also send your document as an image, making it harder for a filter to discern its content. However, some filters block large pictures automatically.

### Helpful resources

Lyris Technologies Inc. has a free spam checker on its Web site: [www.lyris.com/resources/contentchecker](http://www.lyris.com/resources/contentchecker). Simply enter the text from your next e-mail newsletter and Lyris will give you a spam rating.

I entered several paragraphs of text and received this message: "Based on Spam Assassin's criteria, your message scores 0 points. That means that your message will likely be delivered without incident if your list is confirmed opt-in."

If you want to send information to your customers regularly, you might want to use ChangeDetection's free service ([www.changedetection.com](http://www.changedetection.com)). With this, you post your document on your Web site, and your subscribers automatically receive an e-mail notifying them of updates to your page.

This approach has a drawback, though: An e-mail appearing on a customer screen is much easier to read than a document accessed by a link that may or may not get clicked.

AOL blocks about 95% of newsletters. But if you contact AOL each time you send out yours, it can validate that your e-mail is not spam and allow the message to pass through its filters.

Also, AOL and Yahoo, working with Goodmail Systems Inc., offer subscription services that allow you to buy your way past spam filters into consumer inboxes: At the cost of \$0.0025 to \$0.01 each, you can send e-mail guaranteed to reach intended, consenting parties. To set this up or for more information, go to [www.goodmail.com](http://www.goodmail.com).

While many argue that the age of free e-mail marketing is coming to a close, there are viable products and services providing professional help with e-mail marketing. These consultants are expert at navigating through spam filters to make sure messages reach intended recipients.

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## Education

Lyris' MTA Monitor will send your e-mail content to accounts at over 40 Internet service providers all over the world and will let you know if your messages are being blocked at any of them.

### Words to the wise

I'm not a proponent of spam. Nor are most of the other folks using the Internet. Nubrek and many other companies have opt-in e-mail policies.

We don't send mass unsolicited e-mail. That's it. (If we get your e-mail address from a friend or associate, we may send you a personal note, but we don't buy addresses and blast e-mails to them.) We also provide an opt-out link at the bottom of each of our newsletters.

If you have a large recipient list, be cautious. You could be reprimanded or blacklisted by your e-mail provider if it receives complaints accusing you of being a spammer.

In 2003, Congress enacted the Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act. It provides rules to restrict commercial spam.

Some CAN-SPAM restrictions on sending commercial e-mail follow:

- No false or misleading header information is allowed.
- No deceptive subject lines are permitted.
- All e-mail must have an opt-out method.
- Advertising must be identified as such and include sender's valid, physical postal address.

Violators are subject to fines of up to \$11,000. For complete details on CAN-SPAM, visit [www.fcc.gov/cgb/consumerfacts/canspam.html](http://www.fcc.gov/cgb/consumerfacts/canspam.html).

And good luck. Remember, many of your customers and potential clients want to receive your e-mails. Taking extra care to ensure this happens is well worth the time and effort. ■

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*Joel Rydbeck, Chief Technology Officer of Nubrek Inc., brings his strong background in e-commerce and business process automation to the merchant services industry. Nubrek offers eISO, a Web application for ISOs that tracks leads and provides automated residual and commission reports. For more information on eISO or to view a free demo, visit [www.nubrek.com/eiso.html](http://www.nubrek.com/eiso.html). E-mail Rydbeck at joel@nubrek.com .*

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The WAY System's cellular phone-based, wireless POS terminal weighs only 6 ounces, is easy to use and works on any GPRS network. Now you can offer your merchants this flexible and secure gateway that supports all major credit cards for FREE.

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To learn more about United Bank Card, contact:

Brian Jones, Vice President Sales and Marketing: 800-201-0461 x 136

Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145

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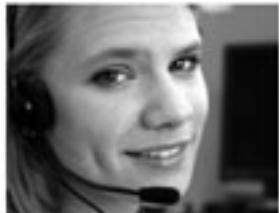
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# New Products



OmeroX Lite PIN pad

## Future-proofing merchants

### Product: OmeroX Lite PIN pad

*Company: PointPay USA Inc.*

If you've updated POS equipment to improve security, you probably wince at the memory of changing out terminals for your merchants and putting them all through the download process. The idea of doing it yet again could be hazardous to your health.

One example was the migration from Master Session to single data encryption standard (DES) derived unique key per transaction (DUKPT) key management.

And yet, triple-DES DUKPT key management may put you and your merchants through that pain – unless you already outfitted them with the OmeroX Lite PIN pad from PointPay USA Inc.

While the card brands do not yet require triple-DES encryption, Bill Reed, Vice President of Technology for PointPay USA, predicted they someday will. "The recent theft of account numbers and PINs and [instances of] debit fraud will force it," he said.

The PIN-pad companion to the OmeroX Lite terminal is lightweight and virtually future-proof, being single- and

triple-DES-capable. It has 32 indexes to hold different keys, Reed said. ISOs and merchant level salespeople should know the PIN pad is "compliant with current rules and fits nicely into proposed rules," such as triple-DES, he added.

In addition to its debit capability, the unit is EMV-smart-card ready, should the U.S. bankcard system adopt that technology, as well. Merchants in major cities could begin to need smart-card terminals to cater to European tourists after 2010, when Visa's European issuers will no longer be required to include mag stripes on their cards, he explained.

The OmeroX Lite PIN pad features:

- An RS-232 interface
- A two-line, 16-character display with backlight
- A privacy shield
- An integrated smart card reader
- A real-time clock/calendar with automatic leap-year handling
- A battery life of eight years, minimum
- 20 soft-touch keys with a liquid-resistant keypad
- Programmable function keys
- An audible beep to signal transaction sequences
- Support for single-DES and triple-DES under Master Session and DUKPT key management methods
- Message authentication code support.

The unit contains a dedicated crypto processor surrounded by a protection grid, encapsulated in an epoxy-filled box protected by tamper sensors. PIN management and security are compliant with ANSI X9.8 standards.

A C-based software development kit is available.

The OmeroX Lite terminal was recently certified with Global East to support MasterCard Worldwide's PayPass contactless program. It is Class B Plus certified with FDMS Omaha and Class B certified with Chase Paymentech Solutions LLC and TSYS Acquiring Solutions, as well as Global East.

It is also certified with value-added applications such as Valutec gift and loyalty programs; Global eTelecom Inc.

## NewProducts

electronic check services and gift/loyalty programs; and EZCheck.

### **PointPay USA Inc.**

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## **Avert identity crises and fraud with biometric finger scanner**

**Product:** TrueMe Internet biometric authentication service

*Company:* Pay By Touch

**N**ext time you're having an identity crisis, just slip a digit onto a finger scanner and get instant assurance that you are who you *think* you are.

Pay By Touch doesn't expect consumers to invest in finger sensors just to alleviate personal angst; but it does bet fingerprint sensors will become a hot way to authenticate online transactions.

The company announced TrueMe, a biometric identification system to give PC users a secure way to identify themselves for Internet transactions. It enables businesses to offer customers, partners and employees secure, authenticated access to their computers, desktop applications, and password-protected Web sites and services, such as online banking and e-commerce.

Pay By Touch has partnered with UPEK, which is among the first providers of finger sensors supported by TrueMe. The USB-enabled device connects to PCs that do not have built-in sensors. UPEK sensors already embedded into laptops are also certified to use TrueMe software.

"The same level of hardware-based security and convenience UPEK provides to millions of users for their personal and business computers can now be extended over the Internet by creating a trusted path between businesses and their customers," said UPEK President and CEO Alan Kramer.

Key data points of a user's fingerprint are encrypted inside the finger sensor and combined with the unique device ID before they are sent to TrueMe authentication servers. The user's information is never exposed to the

computer operating system or to the public Internet, according to Pay By Touch.

Authentication services decrypt and process the information, authenticate the user and ensure that he or she is authorized to use the specified device.

The user's identity is sent through a secure connection to the Web site or service the customer is trying to access. Multiple users reportedly can share the same computer by registering their individual fingers on the sensor, without compromising security.

Lenovo ThinkPads T60 and X60 are also certified to support TrueMe.

### **Pay By Touch**

415-281-2200

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

## **Taking the guesswork out of ID checks**

**Product:** ID-Check POS

*Company:* Intelli-Check Inc.

**Y**our merchants' authentication methods may be only as good as their ability to spot fake IDs. A hardware-software bundle for VeriFone terminals enables merchants to read, verify, parse, display and store machine-readable data encoded on government-issued IDs, such as driver's licenses and military IDs.

ID-Check POS software verifies the barcode's or magnetic stripe's authenticity to make sure it follows the specifications mandated by the issuing jurisdiction, according to Intelli-Check Inc.

If the software is unable to verify a format, it will not parse the data, and an explanatory error message will pop up.

The jurisdictional databases are self-contained on the ID-Check POS unit, according to Intelli-Check spokeswoman Nicole Versaggi. "We do have additional products that can hit multiple databases to verify a person's claimed identity."

Merchants selling regulated products such as alcohol, tobacco, firearms and ammunition; video games; or paints, sprays and glues may be interested in this

**NewProducts**

product to help protect their licenses to sell controlled products. Night clubs, restaurants and convenience stores are target users of the ID Check.

The product is also ideally suited for merchants engaging in certain types of financial transactions, including check acceptance, money orders and wire transfers, according to Intelli-Check.

ID-Check POS is offered as a bundled solution with the VeriFone Omni 3750, Vx 510 or Vx 570 terminal and the data capture module (DCM) 2D high-speed barcode reader.

Intelli-Check includes the DCM because readers scanning in two dimensions are required to provide a solution that works across all 50 states. Very few 2D readers capable of handling all driver's license formats are available, Versaggi said.

**ID-Check POS**

In special circumstances, the company can provide a standalone software solution with its software development kit. The software can also be downloaded to existing terminals.

The software prints verification that the ID in question has been processed.

It also provides flexible age-verification parameters and the ability to run multiple software applications. Software updates can be downloaded.

Intelli-Check works with barcode readers from Metrologic Instruments Inc., Symbol Technologies Inc., Hand Held Products Inc., and e-Seek Inc. ■

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# Inspiration

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## WaterCoolerWisdom:



## Can objections ever be valid? You bet

**A**s ISOs and merchant level salespeople (MLSSs), we've learned how to handle just about any objection. For example:

- When faced with a price objection, we offer a comparison to a lower priced, inferior product.
- If our prospect says he needs to speak to a colleague or superior before making a decision, we ask to speak to that decision maker, or ask for the person's phone number.

You know the drill. You've been well-trained to neutralize objections so they no longer impede sales. But tread carefully. Sure, sometimes objections are simply excuses to end the conversation or ways for prospects to procrastinate.

### Respond with respect

However, sometimes objections are valid. Sometimes a prospect really does need time to think over the purchase and isn't just stalling or attempting to broker a cut-rate deal. Consider the following:

- Perhaps a prospect hasn't pinned down what he wants to accomplish with his business in the next one to five years, and he is unsure if this purchase will fit into his plans.

**We are not retreating; we are advancing in another direction.**

- General Douglas MacArthur

- Maybe a potential customer is considering selling his business but hasn't shared that information with anyone yet.
- Perhaps the business is family owned, and your prospect needs to talk with a parent or spouse before making a decision. And the decision could involve personal factors the family doesn't want to discuss in your presence.
- Maybe the prospect is going through rough times and is too embarrassed to tell you about the pile of past due notices on his desk or the possibility that he might not even make payroll this month.

### Think long-term

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## Inspiration

by answering objections as you've been trained to do, you may end up severing relationships when you really want to build them long-term. You want to win business, but you also want your customers to feel they've made good decisions and haven't been strong-armed into signing contracts.

Here are some common objections followed by examples of ineffective and effective responses.

**Objection:** Let me think about it.

**Risky response:** What's to think about?

**Better response:** Is there anything I can show you, or are there questions I can answer for you that will help you decide?

**Objection:** I need to talk it over with someone.

**Risky response:** Here's the phone. Call him.

**Even riskier response:** Aren't you able to make decisions on your own?

**Better response:** What can I do to help with your discussion? Would you like to reschedule our meeting with all of us present, after you've had a chance to speak privately? (Offer brochures, testimonials and research data to help your prospect present the benefits of doing business with you.)

**Objection:** It's not in the budget right now.

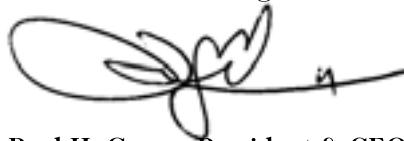
**Risky response:** Here's a payment plan and a pen. Just sign here.

**Better response:** Have you started your budget for next year yet? What can we do to get it in the budget for next year?

Objections can get emotional. It's your job to differentiate valid objections from ploys and handle each accordingly. Otherwise, even when you land a new account, you could end up with a disgruntled customer with a severe case of buyer's remorse. That would likely be fatal to the relationship.

On the other hand, a prospect who feels in control of the decision to use your services will likely turn into a happy customer who just might stick with you for years to come.

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## Mid-America Payment Exchange

Mid-America Payments Conference 2006

**Highlights:** The conference provides a regional opportunity for payment professionals to learn, network and build relationships. It examines changes to the industry and discusses their potential impact on business strategies. Industry leaders will share their hands-on experience and personal knowledge.

Keynote speaker Steve Ellis, Executive Vice President of Wells Fargo's Wholesale Services Group and Chairman of NACHA's board of directors, will share his vision for the future of the automated clearing house (ACH) network and electronic payments. Detective Michael Saylor of the Shawnee, Kan. Police Department will lead a general session on current trends in computer and financial crimes.

Track sessions will include: Lessons learned from Hurricane Katrina; back-office conversion rules and implementation; risk management; the ACH network and a changing regulatory environment; and an overview of the Payment Card Industry (PCI) Data Security Standard.

**When:** Nov. 1 – 3, 2006

**Where:** Marriott Muehlebach Hotel Downtown, Kansas City, Mo.

**Registration:** Visit [www.mpx.org](http://www.mpx.org) or call 816-474-5630.



## Electronic Transactions Association

Compliance Day

**Highlights:** Compliance Day is a forum covering the requirements and liabilities of the various players in the payment processing industry: banks, processors, ISOs and agents. Their key compliance issues, including sponsor and ISO registration, the due diligence process, merchant agreement requirements, risk monitoring, and PCI, will be discussed. Representatives from the four major card companies will be on hand to answer frequently asked questions, such as:

- What are the various industry players' obligations to the card companies?
- Who is required to register: the sponsor, ISO, agent, processor, their sales representatives or all of the above?
- What does the registration and due diligence process entail?
- What are the financial obligations and potential fines or penalties for noncompliance?
- What due diligence is required from the sponsoring bank, processors, agents and ISOs?
- What are the obligations regarding ongoing risk assessment of merchants?
- What is required for merchant agreements?

**When:** Nov. 6 – 7, 2006

**Where:** Crowne Plaza Chicago O'Hare, Rosemont, Ill.

**Registration:** Visit [www.electran.org](http://www.electran.org) or call 800-695-5509.



## Glenbrook Partners

Payments Boot Camp

**Highlights:** This intensive two-day boot camp provides an overview of the electronic payment systems landscape. It is ideal for payment company managers who need to understand how developments in other payment systems impact their offerings; product and sales managers who have responsibility for developing and selling products and services within the financial services industry; and financial services managers who want a broader perspective or are new to the business. The boot camp will address the core payment systems of cards, checking, ACH, cash and wire transfer. It will also cover emerging payment systems and technologies, key trends, different perspectives of payment system users, and banks' changing role in the system.

**When & where:** Nov. 7 – 8, 2006, Inverness Hotel and Conference Center, Denver

**Registration:** Visit [www.glenbrook.com](http://www.glenbrook.com) or e-mail Carol Coye Benson at [carol@glenbrook.com](mailto:carol@glenbrook.com).



## Western Payments Alliance

Payments Fraud Day

**Highlights:** Risk management operations require adjustment in today's payments environment, which is in transition due to regulatory demands, fraud, and aggressive movement to electronic check processing and image exchange. This half-day workshop will prepare participants for changes in the fraud arena and provide tools to reduce exposure and losses.

The course is intended for risk managers, compliance officers, ACH managers and security/loss-prevention personnel. Participants will learn about how to reduce today's fraud risks, emerging opportunities for fraud reduction and minimizing loss exposure.

Agenda topics will include:

- A financial-fraud update
- Risk drivers in the financial services landscape
- Best practices to achieve loss reduction
- Compliance and fraud management
- Identity theft and how to improve customer authentication techniques
- Reasonable commercial standards and their importance in loss avoidance
- New fraud detection in the not-so-distant future.

The course will be taught by Linda Haddad, Senior Vice

President, Bank of America, and Patty Presta, Vice President of Education for WesPay.

**When & where:** Nov. 8, 9, 15, 16; location varies

**Registration:** Visit [www.wespay.org](http://www.wespay.org) or call 415-373-1182.



**BAI**

Retail Delivery Conference & Expo

**Highlights:** Michael D. Eisner, former Chief Executive Officer of the Walt Disney Co., will lead the first general session of the banking industry's annual meeting. He will illustrate how a focus on innovation is essential, because significant financial success is nearly always the consequence of creative breakthroughs.

Paul Kapioski, President of Thriftway, and Drew Hyatt, Senior Vice President of Pay By Touch, will present the conference session: "Biometrics: It's Happening Today at a Store Near You!" Other sessions include: "Big Box Retailers in Banking: Coming to a Town Near You?" with Jane Thompson, President of Wal-Mart Financial Services. James E. Rohr, Chairman and CEO of PNC Financial Services Group, will share perspectives on the importance of committing to the customer interface and understanding customer behavior.

Chris Anderson, Editor-in-Chief, *Wired* magazine, will lead the Innovation Stage kick-off session Nov. 14. Hundreds of expo exhibitors will display retail financial services solutions.

**When:** Nov. 14 – 16, 2006

**Where:** Mandalay Bay Resort, Las Vegas

**Registration:** Visit [www.bai.org](http://www.bai.org), e-mail [go2retail@bai.org](mailto:go2retail@bai.org) or call 888-284-4076.



**NACHA – The Electronic Payments Association**

The Institute of International Payments

**Highlights:** The 2.5-day course is designed to provide payments professionals who have a command of the domestic payments environment with a foundation for understanding payments in a global context.

The curriculum includes:

- International payments primer
- Low- and high-value global payments
- FedACH International Service
- Interdiction and enforcement aspects
- New requirements for cross-border ACH payments
- Purpose and role of SWIFT
- Global clearing and settlement
- Foreign exchange and currency principles
- Liquidity management
- International trade facilitation
- Risk management
- Advanced legal and regulatory issues.

**When:** Nov. 28 – 30, 2006

**Where:** The Federal Reserve Bank of Atlanta, Atlanta, Ga.

**Registration:** Visit [www.nacha.org](http://www.nacha.org), e-mail [info@nacha.org](mailto:info@nacha.org) or call 703-561-1100.



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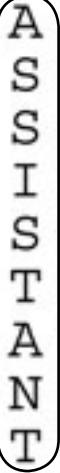
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 T C N R E C V N J K I U Y F B M J G E W  
 B A H A U I L T G X M O T I V A T I O N  
 E L Q S R T O N T U E S T R A N S M I T  
 N C P S M I Y P Z O M G P S L B U O W S  
 O U J I C P A P E R V G I W L U P N V F  
 I L O S A I L O N T E S E X V Q P C B E  
 T A S T Y V T K E B I W C E O H L O O P  
 O T X A R I Y M Z O W S E L O I I N S E  
 M E A N Z Y R E I Q S E R M H O E T A K  
 O Y D T B T Y S H X T B M I T S S R Z R  
 R Y G V N M U Y T F E G E S H I O A W E  
 P N Q Y T O U C H S C R E E N V O C I G  
 V I V F R D C B N Y R D V N M K R T P A  
 Z C E F G B N Y T R L I T I G A T I O N  
 A H B R E L I A T E R B H F C S G B J A  
 W E N N T D X V N U T D X V N W X C B M  
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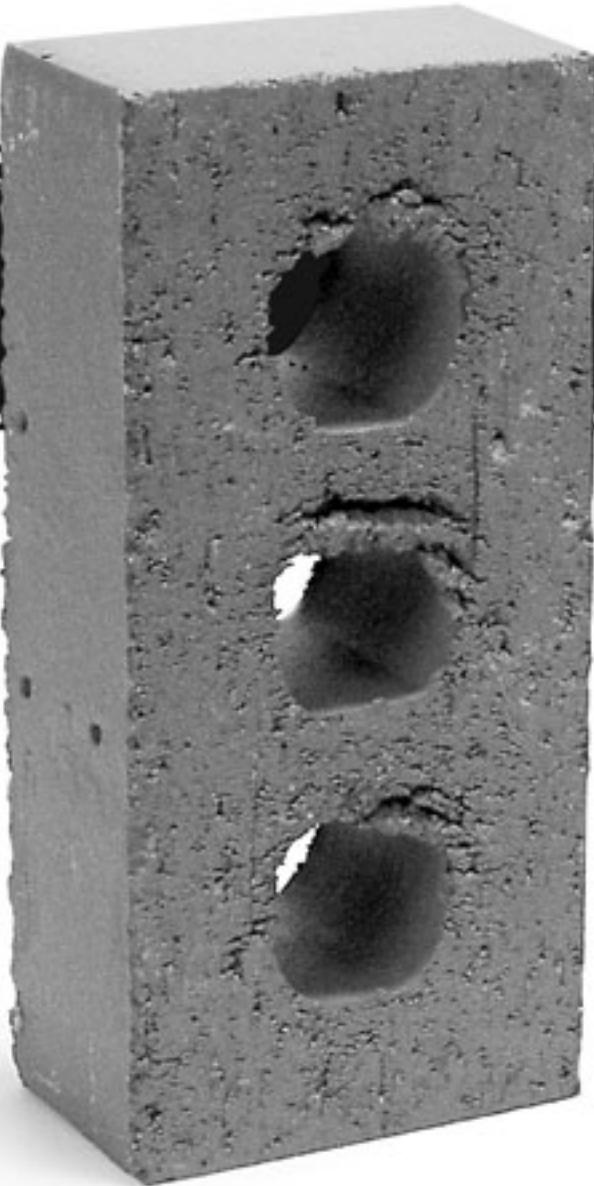
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