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January 25, 2010 • Issue 10:01:02

You can protect your residuals

The Great Recession has shaken the payments industry in many ways. Consumer spending is down, reducing transaction volume; inflation and unemployment are up; and many financial institutions are struggling to remain solvent. However, one effect that has drawn frequent complaints from merchant level salespeople (MLSs) is the vulnerability of their residual streams.

Stories have surfaced about late or reduced residual payments to MLSs by their ISOs or merchant acquirers. Some companies have been accused of terminating MLS agreements entirely or otherwise altering agreements arbitrarily to offer lower compensation to MLSs.

In "Dude's got my money: What can I do?" *The Green Sheet*, July 27, 2009, issue 09:07:02, Payment Attorney Theodore F. Monroe stated, "I receive two or more calls per week from ISOs or MLSs with the same complaint about some contractual counterparty higher up in the processing chain: 'Some dude's got my money and won't give it back.' I seldom received these calls before September 2008."

Indeed, anxiety is widespread. "I hear of this at least once every two days," wrote MLS Forum member The Dustman. "Granted, many have varied agreements, but there are more than just a couple who are genuinely getting jilted." Even MLSs and sub-ISOs whose bottom lines have been affected only by lower overall transaction volumes are wary.

Examine the upstream

According to many payment veterans, the tension stems primarily from a minority of unscrupulous payment organizations willing to take unethical or illegal underwriting risks. And the pain they cause MLSs is real.

Carrie Hometh, Senior Vice President, Sales and Marketing, North America for payment and security solutions provider Payvision, has noticed an uptick in resellers sending in applications for high-risk accounts. "Some of these merchants are what I call untouchable, and they shouldn't be boarded by anyone," she said. "It's just going to blow up in the form of fines and potentially harm the sponsoring member.

"The unscrupulous ISOs and acquirers in this business are approving them, but in the long run they are looking at millions of dollars in fines or being closed down. What I want to say to those ISOs that send that business and put pressure on their processor or acquirer to accept it is 'what's going to happen to your residuals now?' What they are doing, really, is nothing but jeopardizing the very hand that is going to continue feeding them."

Look in the mirror

Hometh believes all parties in the payment chain share the responsibility to

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Notable Quote

Having worked for many MLSs over the years, I have learned that they crave stability. An ISO that has a single brand, with a single and reliable compensation package, I think, will be more appealing to MLSs than an organization that requires agents to constantly figure out which channel is most profitable, thereby distracting them from their primary objective: to close new merchant accounts.

See story on page 68



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The Green Sheet Inc.

President and CEO:

Paul H. Green paul@greensheet.com

General Manager and Chief Operating Officer:

Kate Gillespie kate@greensheet.com

CFO/Vice President Human Resources & Accounting:

Brandee Cummins brandee@greensheet.com

Assistant VP, Editorial:

Laura McHale Holland laura@greensheet.com

Senior Editor:

Patti Murphy patti@greensheet.com

Senior Staff Writer:

Dan Watkins dan@greensheet.com

Staff Writers:

Michael Miller mike@greensheet.com

Joe Rosenheim joe@greensheet.com

Ann Wilkes ann@greensheet.com

Assistant VP, Production and Art Director:

Troy Vera troy@greensheet.com

Production Manager:

Lewis Kimble lewis@greensheet.com

Assistant VP, Advertising Sales:

Danielle Thorpe danielle@greensheet.com

National Advertising Sales Manager:

Rita Francis rita@greensheet.com

Advertising Coordinator:

Kat Doherty kat@greensheet.com

Circulation Assistant:

Vicki Keith vicki@greensheet.com

Correspondence:

The Green Sheet, Inc.

800-757-4441 • Fax: 707-586-4747

6145 State Farm Drive, Rohnert Park, CA 94928

Send questions, comments and feedback to greensheet@greensheet.com

Send press releases to press@greensheet.com

NOTE – Please do not send PDF versions of press releases.

Print Production:

Hudson Printing Company

Contributing Writers:

Adam Atlas atlas@adamatlas.com

Nancy Drexler nancyd@signapay.net

Brandes Elitch brandese@cross-check.com

Vanessa Lang vanessa.lang@888quikrate.com

Dale S. Laszig dale@dsldirectllc.com

Jon Perry jon.perry@888quikrate.com

The Green Sheet (ISSN 1549-9421) is published semi-monthly by The Green Sheet Inc., 6145 State Farm Dr., Rohnert Park CA 94928. Subscription is FREE to participants in the payment processing industry, an annual subscription includes 24 issues of The Green Sheet and 4 issues of GSQ. To subscribe, visit www.greensheet.com. POSTMASTER: send address changes to The Green Sheet Inc., 6145 State Farm Dr., Rohnert Park CA 94928. Any questions regarding information contained in The Green Sheet should be directed to the Editor in Chief at greensheet@greensheet.com. Editorial opinions and recommendations are solely those of the Editor in Chief.

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Forum

Getting started 101

I'm new to the industry and want to clarify some really basic things. First, what is transaction authorization and how does it differ from processing and settlement? And second, and this one is probably more important, how do I become an ISO or MLS? I've done some reading and talking with a friend who's in the business, and I have a business name, but I haven't actually gotten started yet.

Gale McDonough
EnsurePay Group Inc.

Gale,

Regarding your first question, authorization, in the context of card payments, involves a communication between the issuing bank and the merchant's bank verifying that the cardholder has available credit or available funds in his or her demand deposit account to cover the transaction. The card issuing bank then sets aside the funds, and an authorization code is assigned to the transaction.

Settlement refers to the final accounting during which debit and credits are posted to the appropriate accounts at the issuing and acquiring banks. Processing is a catch-all phrase that refers to the management of transaction flows. Some processing companies handle everything involved with a card transaction while others merely move transaction data between different parties (for example, card acquirers, card issuers and the clearing-and-settlement

systems). As for your second question, whether you're forming an ISO or just want to work on your own as an MLS, there is one basic requirement before you can sell Visa Inc. or MasterCard Worldwide credit and debit card processing: You must sign a written agreement to be a sales agent of an ISO or a bank that is registered as a member service provider (MSP) with Visa or MasterCard.

MSPs can hire independent contractors, but contractors must represent themselves as working for the MSP and receive all compensation for bankcard services from that MSP. Anything short of that is considered subcontracting, a violation of Visa and MasterCard rules.

If, as an independent contractor, you work under your own corporate name or employ more than one person, you must register as an MSP with the card brands. That means you will need to register EnsurePay Group Inc. with Visa or MasterCard to do business under that name, which will mean a \$10,000 investment to do so. You might consider working with an established, registered ISO first. Our Resource Guide, published in each issue of The Green Sheet and GSQ, as well as online at www.greensheet.com, lists banks and ISOs that are looking for agents under such categories as "Banks looking for agents," "ISO relationships available," "ISOs/Processors seeking sales employees," and "ISOs looking for agent."

Congratulations on picking an industry on solid footing to thrive in the decade to come.

Editor



From GS Online's MLS Forum

The premier online network for payment pros

Following is a question presented by GS Online Forum member oldpro:

I would like to know how many people are really making it in this business. How many reps, not ISOs or offices, are making a living, especially if you are new to the business? What I am talking about is how many reps are making \$25,000 to \$30,000 and above. And if you are, how are you making it? ... What is your focus on? How are you being paid: upfront bonus, conversion, leases, equipment sales, salary, or strictly residual? And if you are not making it, what is your biggest obstacle to overcome, aside from not putting in the time and effort? ... I want to hear from the 40-hour, dedicated, feet-on-the-street or phone rep trying to make it.

Here are excerpts from one of the responses oldpro received. To read all of the responses in full, please visit the MLS Forum. If you haven't already registered, visit www.greensheet.com, click Register Today! in the upper right-hand corner, and proceed from there.

My app count and income dropped at the beginning of last year. I spent the year struggling to find the way I want to approach merchants. I found that with margins shrinking and hundreds of new reps saying they could save tons of money for each merchant (most of the time it was a lie), the merchants were resistant to even speaking about their merchant services. I spent months coming up with my own programs to help the merchants with different areas of their business and wrapped the merchant services with these other services. It has worked very well. Most of the merchants give me 20 minutes of their time, and I leave with a new contract or a great future possibility. I charge for my services and normally match rates for their processing. I make money upfront on the sale and, of course, residuals. Funny – our industry is full of reps, not many sales reps though. Margins are continually shrinking, and this is the approach, "Mr. Merchant, Please allow me the chance to cut my and my ISO's profit to nothing so I can convert your merchant account. The next guy goes in and cuts it lower; eventually we end at cost; the merchant wins; the card brands aren't lowering their fees; the only ones paying for this are the reps and ISOs. I find this a ridiculous business model and wonder how our industry will survive at this rate. – rcr38

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QSGS

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

Cover Story

1

You can protect your residuals

In a down economy, anxiety is widespread among Merchant Level Salespeople (MLSs) about the reliability of their residuals. According to many payment veterans, the tension stems primarily from a minority of unscrupulous payment organizations willing to take unethical or illegal underwriting risks. What can ISOs and MLSs do to prevent worry or distrust?

Feature

36

Incentivizing the seller

In 2004, the Accounts Payable Manager at Toyota looked at his wife's Starbucks reloadable prepaid card and wondered why Toyota couldn't issue similar cards to its dealerships and their salespeople to reward them for selling certain makes and models of cars. This led to a prepaid success story.

View

24

Prepaid opportunity: Huge and growing

Consumers were expected to spend more than \$26 billion on gift cards during the December 2009 holiday season, according to the National Retail Federation. Yet, fewer than one in five Americans report having a prepaid card. Why so few?

News

46

Top trends affecting payments in 2010

A recent Javelin Strategy & Research webinar discussed the top 10 trends it expects will impact financial services in 2010. Among the topics explored in *10 Trends that Will Shape Banking, Payments and Security in 2010*, several directly affect the payments industry.

View

28

A new decade begins

The start of a new decade offers a chance to recap consequential events of the preceding 10 years and forecast what of import will transpire in the next 10. This article offers comments on some of the industry's most meaningful events of the last decade.

News

47

Best Buy boycott

In what seems to be a largely symbolic action that will have little impact on store sales, electronics retail chain Best Buy Inc. staged a boycott of Visa Inc.'s card acceptance fee structure by discontinuing its acceptance of Visa contactless payment cards. Is Best Buy's position representative of merchant attitudes toward the card giants?

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News

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Simulated onslaught to bolster security

On Feb. 9 to 11, 2010, payments industry organizations will take part in a cyber attack simulation exercise designed to test the security of payment networks, educate organizations on system vulnerabilities and recommend improvements to better secure those networks.

Education

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Street SmartsSM: Don't break the bank

How do you increase the size of your portfolio? Top-line revenue performance is directly related to the number of customers and the volume of dollars they process. This article focuses on ideas to increase the number of customers you sign each month.

Feature

51

CFSI Scholarships for Prepaid Expo

The Center for Financial Services Innovation is providing scholarships to February 2010's Prepaid Expo USA in Las Vegas to representatives of nonprofit companies serving under- and unbanked consumers. The scholarships are part of a broader initiative to generate interest in the prepaid card sector.

Education

62

Marketing in the next decade

Our marketing plans for the next decade will be vastly different from the past decade for a number of reasons, but the economy isn't one of them. It is, instead, virtually everything else: our industry, our product offerings, our customers and our media are changing right before our eyes. This article peers into a future of increasingly innovative modes of selling and marketing.

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- Individual Training



Education

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One company per ISO deal

Have you thought about placing each of your ISO acquiring relationships in a separate company? If you are an MLS working with a number of ISOs, the case for separate incorporations is not as strong. If, however, you are an ISO registered with more than one acquiring organization, the arguments are more compelling.

Feature

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The shoulders others stand on

Biff Matthews, President of Thirteen Inc., the parent company of payment and compliance solutions provider CardWare International, has been in the thick of the payments industry's evolution since its inception. This article provides a look back on an industry stalwart's career.

Education

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Net results

The Internet has changed our world by creating a more level playing field for businesses. Today, anyone can build brand awareness on a global stage with no money down. What's especially interesting for those of us in merchant services is we can no longer dismiss the small startup company because today's startup could be tomorrow's viral enterprise.

Inspiration

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Bounce the January blahs

As the first month in the calendar year, January has its difficulties. Holiday stress, travel and family obligations have taken their toll. It's cold outside. And for the last couple of Januarys, the economy has been in lousy shape. So if you're feeling a little worn out and unmotivated, you're not alone. How do you jump-start the new year when your batteries are low?



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NEWS

Chipping in for Haitian relief

To assist victims of the Jan. 12, 2010, earthquake in Haiti, **American Express Co.** will donate \$250,000 to the American Red Cross, Doctors Without Borders, International Rescue Committee and the United Nations' Friends of the World Food program.

It will also rebate the merchant discount rate for charitable contributions made on its card to designated non-profits listed at www.usaid.gov through Feb. 28.

The **Western Union Co.** initiated grants; consumer, agent and employee donation programs; and a "no transfer fee" initiative for money sent via Western Union to Haiti from the United States, Canada and France. Through its corporate signature program, it will contribute \$150,000 toward disaster relief efforts, and the Western Union Foundation will donate an additional \$100,000.

Visa Inc. also committed to aiding the Haitian people through the following: a \$200,000 donation to the American Red Cross Haiti Relief and Development Fund; a program to match employee donations, two-to-one, through the end of January 2010; donation directly to the Red Cross of its revenues generated by charitable contributions to alleviate the Haitian crisis; and waiving of interchange fees of donations made through the end of February to 11 U.S.-based charities contributing to the relief efforts.

MoneyGram International is doing its part by offering special pricing of \$1 USD and similar pricing in foreign currencies for money transfers to Haiti from any of MoneyGram's 186,000 locations throughout the world.

HPS settles with Visa over breach

Heartland Payment Systems Inc. and **Visa** reached a settlement in which Visa-branded credit and debit card issuers may seek recovery of losses from the HPS data breach reported in January 2009. Under the agreement, HPS will pay up to \$60 million to fund the settlement program. Visa will present the terms and conditions of the settlement to eligible issuers.

"We are pleased to have reached a fair settlement agreement that helps issuers obtain a recovery with respect to losses they may have incurred from the intrusion," said Robert O. Carr, HPS Chairman and Chief Executive Officer. "At Heartland, we are also committed to helping issuers – as well as all stakeholders in the payment ecosystem – mitigate future risk."

Ellen Richey, Chief Enterprise Risk Officer for Visa, said, "Helping financial institutions mitigate costs after a data security breach has been a long-standing component of Visa's security strategy, along with promoting new security technologies, preventing fraud and leading efforts to secure sensitive data across the entire payment system."

Glitch paralyzes 30M bank cards

A data glitch rendered 30 million debit and credit cards in Germany unusable. According to several sources, the glitch in the embedded microchip's software was called a delayed millennium bug. The smart cards affected included those issued by public-sector, private-sector and mutual banks.

Avoiding the prohibitive cost of recalling the cards, bank staff worked to reconfigure ATMs and payment terminals in Germany and other countries most visited by Germans to accept the cards.

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- The 2009 **Chase Paymentech** Cyber Holiday Pulse Index indicates a year-over-year increase in online holiday sales volume of 17.3 percent and a 30 percent increase in the number of transactions. Average ticket value decreased 9.8 percent compared to 2008.
- According to **The NPD Group Inc.**'s *Crest* report, food deliveries to U.S. restaurants declined by 4.3 percent in the third quarter of 2009 compared to the same period in 2008.
- Retail sales declined 3 percent in December 2009 over December 2008, as reported by the **United States Census Bureau**. It noted a 7 percent increase in the fourth quarter of 2009 compared to the same period in 2008; both October and November showed increases.

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Industry Update

Gemalto, a major distributor to German banks, has since confirmed in a press release that it provided a secure procedure to its customers in Germany to address the glitch. Gemalto's solution was verified and approved by German banking authorities.

"This is a regrettable incident, and we are doing everything in our power to support our banking customers in resuming full normal operations," said Oliver Piou, Gemalto's CEO.

"We worked with them hand in hand to create a strong, secure software solution that enables our customers to resolve the problem of the concerned cards without reissuing these cards. All along we kept at heart to consistently maintain a high level of security for our customers and the German cardholders."

New data on consumer payment habits

The **Consumer Research Center at the Federal Reserve Bank of Boston** has produced an updated snapshot of data on consumer payment habits. The 2008 Survey of Consumer Payment Choice (SCPC) is the fourth in a series of data collection efforts undertaken by the Boston Fed beginning in 2003.

A document made public by the center on Dec. 31, 2009,

stated that the latest SCPC data is preliminary and subject to revisions. However, it highlights interesting trends in transition from paper to electronic payments.

Highlights include the following:

- Consumers make 52.9 percent of their monthly payments using cards (credit, debit and prepaid).
- More consumers now have debit cards (80.2 percent) than have credit cards (78.3 percent).
- Cash, checks and other paper instruments (for example, money orders) account for 36.5 percent of consumer payments.
- Most consumers have used newer electronic payment methods, such as online bill-pay, but those methods account for just 9.7 percent of consumer payments.
- Security and ease of use are the characteristics of paper payments that consumers consider most important.

The SCPC was designed to help the Fed and other policymakers get a better handle on consumer payment habits; it uses a combination of internal and external researchers to survey consumers directly.

The SCPC differs from the Federal Reserve Payments Study, which collects and analyzes financial institution payments data about every three years.

A final report detailing the SCPC findings is expected to be released this year.

ANNOUNCEMENTS

ACH Federal introduces solutions

Chattanooga, Tenn.-based **ACH Federal** formally introduced its automated clearing house (ACH) processing and merchant services solution suites. ACH Federal uses a Web-based platform that enables financial institutions and enterprises to process ACH transactions through a payment terminal that, in conjunction with a sponsor bank, connects to the Federal Reserve.

Applied Trust gets PCI QSA papers

Applied Trust Engineering Inc. gained Qualified Security Assessor status from the PCI Security Standards Council. With this certification, Applied Trust can now conduct on-site compliance audits for companies that are subject to the Payment Card Industry (PCI) Data Security Standard (DSS).

Bankerstuff looking for speakers

Bankerstuff invites banking industry professionals to speak at its webinars and virtual conferences, which are available throughout the year at www.bankerstuff.com.

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IndustryUpdate

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Elavon releases Fusebox gateway

Elavon Inc., a wholly owned subsidiary of U.S. Bancorp, released its hosted payment gateway, Fusebox, to provide multipoint connectivity throughout the merchant's enterprise. The gateway stores cardholder data off-site and returns a token to the merchant, thus reducing the merchant's burden regarding data security and PCI DSS compliance.

Hypercom's Optimum L4150 certified

Hypercom Corp.'s L4150 multilane terminal and L4150 Secure Keypad received PCI PIN Transaction Security 2.1 certification. "The optional L4150 Secure Keypad delivers an alternative solution for secure PIN entry, providing a tactile keypad that addresses the needs of the visually disabled," said Lloyd Baylard, Vice President, Multilane Products for Hypercom.

Ingenico unveils end-to-end strategy

Ingenico unveiled a strategy for end-to-end security for electronic payment transactions that addresses data in flight, data at rest and payment architecture. The three-

prong strategy involves technology, security experts and strategic partnerships. In other news, Ingenico launched the Ingenico iSC350, a multimedia payment terminal, at the National Retail Federation's 99th Annual Convention & Expo.

Monitise declares 2009 a milestone

Monitise Americas LLC, a joint venture between Fidelity National Information Services Inc. and Monitise PLC, described its 2009 achievements: it signed more than 200 financial institutions; registered 1 million U.K. and U.S. customers; achieved 200 percent quarter-on-quarter, end-user growth; increased supported handsets to 2,000; launched an Apple Inc. iPhone application; gained PCI DSS certification; and supplied its Mobile Money Manager platform to Visa.

MRC slates top retailers for conference

The **Merchant Risk Council** slated several leading multichannel and electronic merchants for its March conference. Barnes and Noble Inc., Wal-Mart Stores Inc., Yahoo Inc., Expedia Inc. and Microsoft Corp. will be among the presenters for the MRC Platinum Meeting and 2010 Annual e-Commerce Payment and Risk Conference at the Wynn Las Vegas Resort, March 16 to 18, 2010.

uMonitor signs four

Financial solution services provider Parsam Technologies LLC's **uMonitor** signed four credit unions to use its platform: Eli Lilly Federal Credit Union, Cinco Family Financial Center Credit Union, Communications Federal Credit Union and Center for Disease Control Federal Credit Union.

PARTNERSHIPS

NACM chooses ACM, 3DSI

ACM Payment Processing Solutions partnered with **3Delta Systems Inc.** to provide payment processing services for the members of the National Association of Credit Management and its affiliated associations. NACM, under the terms of the agreement, will continue to exclusively market ACM's solutions to its members.

ePN integrates ePNjpos with VeriFone

EProcessing Network LLC added the **VeriFone** PINpad 1000SE debit solution to its list of products that can be integrated with its ePNjpos software. "The VeriFone PINpad 1000SE is a perfect compliment to ePN's processing solutions and will provide a strong sales tool for resellers in a highly competitive market," said Steve Sotis, President of ePN.

Inside Contactless, TazTag team up

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Industry Update

less and TazTag joined forces to develop and launch near field communication (NFC), contactless solutions.

TazTag creates multiapplication, NFC, contactless products on a Java Development Framework.

Key, Trimble ink deal

Key Innovations Inc. signed a preferred distributor and service agreement with Trimble Navigation Ltd.'s **Trimble Mobile Resource Management**.

"Trimble offers the ability to design and implement tailored, expedited, flexible services that result in increased equipment uptime, improved service level performance, longer product life cycles and decreased overall costs for our customers," said Peter Jarvis, President of Key Innovations.

La Chiquita employs Paycheck Secure

Six **La Chiquita Express** check cashing locations in Maryland now use Phoenix Check Cashing, doing business as **All Trust Networks'** Paycheck Secure fingerprint identification solution.

"Right after we installed the system, we identified customers who had passed bad checks at nearby Paycheck

Secure locations and were able to decline those checks," said La Chiquita's owner, German Escobar.

MagnePrint, Merchant Warehouse fight fraud

Merchant Warehouse now supports **MagTek Inc.**'s MagneSafe digital identification and authentication architecture, which features MagnePrint card authentication. "Our goal is to significantly reduce the merchants' counterfeit card fraud losses by allowing their point of sale devices to simply decline any presented card that is not original," said Tom Patterson, MagTek's Chief Security Officer.

PowerPay partners with Transaction Wireless

Mobile commerce payment and marketing company **Transaction Wireless** and electronic payment provider **PowerPay** entered into a partnership that allows PowerPay to offer TW's wCharge Credit Card Terminal to its customers. The Web-based solution enables merchants to accept payments on their mobile phones without installing extra equipment.

SecureNet, Main Street partner

SecureNet Payment Systems and **Main Street Software Inc.** signed a distribution agreement enabling SecureNet to offer Main Street's Monetra payment processing software's end-to-end encryption and tokenization technology via SecureNet's infrastructure.

Degussa selects TSYS

Total System Services Inc. (TSYS) signed a multiyear agreement with **Degussa Bank** of Germany for payment products and services for its clients.

"TSYS has strong experience and deep expertise in commercial cards and is the right partner to provide the level of service our clients expect from us as we expand our market presence," said Karl-Heinz Golder, Head of Product Management Cards for Degussa.

ViVOtech, Direct Source join forces

Retail installation and integration company **Direct Source** now supports implementation of **ViVOtech Inc.**'s ViVOpay 8800 and ViVOpay 8600 customer-facing terminals. "Direct Source and ViVOtech have both the ideal devices and the implementation expertise to create a system quickly and efficiently," said Mohammad Khan, President and founder of ViVOtech.

ACQUISITIONS

BlueStar acts on Impuls

Hebron, Ky.-based **BlueStar Inc.** acquired **Impuls ID**

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Industry Update

Distribution, a global distributor of automatic identification, security and identification card and specialty application products that is based in Spain.

"BlueStar and Impuls value-added resellers will now have access to greater inventory choices and availability, innovative marketing resources, and the best technical support in the industry," said BlueStar CEO, Steve Cuntz.

DataMax buys Vision POS assets

DataMax Services Inc., a sister company of DataMax System Solutions, declared at the NRF 99th Annual Convention & Expo that it had acquired Glenview, Ill.-based **Vision Point-of-Sale**.

"We are very excited about the Vision Point of Sale purchase, along with their dedicated and well trained technical staff and support team, Vision's greatest asset," said Elliott Wallace, President and CEO of DataMax.

Trustwave arms itself

Trustwave acquired **BitArmor**, a data encryption solution provider. The terms of the deal were not disclosed. BitArmor's core solution is Smart Tag technology, which focuses on the protection of data, not the hardware on

which or with which data are stored or transmitted.

VeriFone acquires taxi media assets

VeriFone acquired Clear Channel Outdoor's **Clear Channel Taxi Media** business. This acquisition is in support of VeriFone's entry into the media-enabled payment business. The terms of the agreement were not released.

APPOINTMENTS

Jackson to join Travelex

Travelex Central Services Ltd., said to be the world's largest foreign exchange and international payment specialist, appointed Peter Jackson CEO of the Travelex Group as of early spring 2010. He is currently Managing Director of Lloyds Banking Group's Consumer Banking Division.

Kowalski named to ATM USA board

ATM USA LLC added **Richard A. Kowalski** to its advisory board. ATM USA founder Haze Lancaster III said Kowalski is "widely regarded as an experienced builder of profitable and reliable off-premise ATM networks." ☐

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Insider's report on payments

Prepaid opportunity: Huge and growing

By Patti Murphy

The Takoma Group

I come from a large family of folks who enjoy gifting. So it should come as little surprise that gift cards are a big hit with the Murphy clan. But I have to admit even I was taken aback last month as I watched my nephew collect a smorgasbord of gift cards at his birthday party: toy stores, clothing stores, book stores, fast food restaurants – you name it. Any retail chain that might appeal to a nine-year-old boy, or mothers looking to clothe such a boy, had one or more of its gift cards included in this youngster's birthday bounty.

The thinking behind these gifts seems rational enough. Busy moms don't have the time to go out and find cool gifts for their kids' friends, and gift card displays are seemingly ubiquitous. At the grocery store where I shop, for example, a huge display of gift cards (restaurants, movie theaters, hardware chains – even airlines – are represented) is right next to the checkout.

I took the bait and purchased gift cards for the older youths (16 and up) in my family. Of course, it helped that the grocery store's loyalty program features 20-cents-per-gallon discounts at the company's gas pumps for every \$50 spent on gift cards.

Inducements or not, consumers were expected to spend more than \$26 billion on gift cards during the December 2009 holiday season, according to the National Retail Federation. The NRF expected the biggest winners would be department stores (38.4 percent of consumers said they planned to purchase one department store card), restaurants (33 percent) and book stores (24.4 percent).

Given all this activity, I was surprised to learn from the Federal Reserve Bank of Boston's Survey of Consumer Payment Choice, released in December 2009, that fewer than one in five Americans (17.2 percent) report having a prepaid card.

I have no reason to doubt the Boston Fed's data, although it's unclear to me whether those surveyed considered gift cards to be prepaid cards. Even with that caveat, however, it would seem opportunities for growing the prepaid piece of the payment pie must be enormous.

Here's what Tim Sloane, Vice President and Director of the Prepaid Advisory Service at Mercator Advisory Group, had to say about prepaid cards recently: "[N]o other payment market is riding out the current economic downturn as effectively as prepaid, and I can't think of any better payments market to be in during a recession."

Prepaid card usage by the numbers

**\$250
billion**

Amount U.S.
consumers loaded on
all types of prepaid
cards in 2008.

**\$60
billion**

Amount U.S.
consumers added to
network-branded prepaid
cards in 2008.

Source: Mercator Advisory Group

Closed-loop growth slows

Sloane and his colleagues at Mercator released a comprehensive set of reports on the prepaid market during the fourth quarter of 2009. Highlighted findings include the following:

- Growth in spending on closed-loop prepaid cards (such as gift cards) slowed to 4.3 percent between 2007 and 2008.
- Value loaded onto network-branded prepaid cards grew an astounding 48.6 percent, driven in part by payroll and government programs.
- U.S. consumers loaded nearly \$250 billion on prepaid cards in 2008; just over \$60 billion of that amount was added to network-branded cards.

Sloane blames a "lackadaisical" attitude on the part of program managers for meager growth in closed-loop prepaid card programs. If that's the case, ISOs and merchant level salespeople should take it as a sign that it's time to redouble efforts to sell merchants on prepaid card programs.

Credit cards passé?

"Credit cards are so 2006," began a recent article in *The Wall Street Journal*. "Today the fast-growing way for consumers to pay is the prepaid card."

With just over 17 percent of consumers carrying the cards, prepaid debit programs have a lot of catching up to do if they are to ever attain the ubiquity of credit cards. But a desire on the part of many consumers to stay clear of debt and the continued tightening of bank credit standards have already laid the groundwork for greater prepaid card adoption.

Capital Access Network, which owns the merchant cash advance business AdvanceMe Inc., reported that same-store credit and debit card sales declined for the eighth-straight quarter in the third quarter of 2009.

Transactions were down 14.84 percent compared to the

same period in 2008, according to CAN's *Small Business Credit Sales Report*.

The biggest dips in credit and debit card transactions were in large metropolitan markets, the report said, while smaller areas (those with fewer than 100,000 residents) showed the smallest declines. Card transactions at restaurants were down 11.06 percent from third-quarter 2008 totals.

The Boston Fed's consumer preference data drive home the fact that more consumers today have debit cards (80.2 percent) than have credit cards (78.3 percent). To put this in perspective, I recall writing headlines in the mid-'80s questioning whether banks would ever succeed in getting debit cards (which at the time were used primarily at ATMs) into the wallets of 30 percent of consumers.

Financially cautious consumers point to a variety of reasons for preferring debit cards generally, and prepaid debit in particular, these days. Budgeting, spending controls, loyalty points and improved security when buying online rank high on that list.

Banks and card companies have good reasons for liking prepaid cards, too. Transaction processing is one of the few profit centers in banking today. Belt-tightening con-

sumers and tightened credit standards have combined to drive out credit transactions. Prepaid card programs create new revenue streams that replace at least some revenues lost to diminished credit card use.

Merchants like prepaid, especially gift cards, for a variety of reasons, too. One is that gift card purchases are tantamount to interest-free loans.

I've interviewed a number of ISOs that have helped build gift card programs for clients that were so successful they obviated the need for those businesses to seek cash advances on their card receivables.

I have nothing against merchant cash advances. I understand there is money to be made selling a product that has been shown to have quantifiable benefits for merchants. In the current economic environment, however, it seems to me that gift cards and other prepaid cards are a better bet for retaining profitable merchant portfolios.

Meanwhile, I just can't help but wonder how long it will take before prepaid debit cards are in the wallets of 30 percent of U.S. consumers. 

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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program**

**“bonuses,
bonuses,
and more
bonuses!”**

A new decade begins

By Brandes Elitch

CrossCheck Inc.

The start of a new decade offers a chance to recap consequential events of the preceding 10 years and forecast what of import will transpire in the next 10. However, it's easy to discuss the past, but it's not easy to determine its significance. This reminds me of Communist Chinese dictator Chou en Lai, who, when asked in the 1960s about the impact of the French Revolution, replied, "It's too soon to tell."

In the Pymnts Voice Blog (www.pymnts.com/commentary), David S. Evans identified 12 "great developments in payments" over the last decade. Following are my comments on what I believe are the four most meaningful topics he listed.

1. Associations become companies

It will be interesting to look back 10 years from now on what Visa Inc. and MasterCard Worldwide will have done with their newfound freedom and capital as publicly traded companies.

The back story is the class action lawsuit in 2003 by Lloyd Constantine, lead attorney for Wal-Mart Stores Inc. and other stores. The former Associations settled on the steps of the courthouse for \$3 billion, including \$225 million in attorney's fees (according to Constantine's book, *Priceless: The case that brought down the Visa/MasterCard Bank Cartel*).

This suit mandated the untying of debit card from credit card acceptance and lowered fees for signature debit. (Ironically, Visa then raised the price on PIN debit and passed the increase on to its issuing banks. Here is a famous quote by Ron Congemi, former Chief Executive Officer of the STAR debit network: "The Associations competed on the basis of raising prices. What other industry do you know that gets away with that?")

After the settlement, the major issuing banks wanted to limit potential exposure to lawsuits such as this, which spurred the shift from Associations to public companies. As I write this, Visa's stock is trading at a 52-week high; MasterCard's stock has increased 450 percent since it went public in 2006. Now they have the capital and power to expand into new businesses and grow their franchises. We will see.

2. Consumers favor debit over credit

I doubt if anyone would have predicted in 2000 that debit would surpass credit in transaction volume. Consumers voted with their cards, and the cost of debit processing has declined versus credit. But the card brands still work

The effects of new technologies, Moore's law and new manufacturing and supply chains will make technology cheaper and more broadly accessible. Resourceful entrepreneurs will use this to create economic and social benefits that we cannot yet even imagine.

hard to motivate consumers to use signature debit (fully 60 percent of debit transactions) instead of PIN debit.

3. The mag stripe persists

The main issue here is risk management and fraud. Interestingly, most fraud (over half) comes from card-not-present transactions (only 10 percent of all transactions), where the mag stripe cannot even work.

But card numbers can be stolen (via phishing and key-stroke logging) and fake cards created. The mag stripe works well when accompanied by a PIN (PIN debit), but the banks prefer that consumers use signature debit. Logical alternatives would be a chip card or a triple data encryption standard hardware encryption device, but issuers balk at the expense.

4. Financial meltdown affects ISOs and merchants

Deloitte Development LLP published a white paper titled *Banking and Securities Outlook 2010*. The research firm identified five major trends that will dominate the banking industry in 2010. They include how banks:

1. Deal with toxic assets
2. Are affected by new regulations and compliance issues
3. Respond to calls for better governance and risk management
4. Meet the need to update core information technology systems and manage data
5. Grow assets and profitability in a troubled lending environment

I can scarcely think of another time when banks had more daunting challenges. Of particular concern is the sobering reality that 20 percent of commercial real estate loans will come due in the next two years.

Deloitte predicts new regulations will tighten capital, liquidity and risk management issues. Board oversight

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of risk management is expected to increase, and this could make it even more difficult for businesses to get loans – or even merchant accounts. How can banks get capital and clean up their balance sheets in this environment?

And from an ISO standpoint, how can your merchant customers get the funds they need to start or grow their businesses?

It isn't just banks that are forced to deal with these issues. Take a look at the company that touches almost every ISO: First Data Corp. This firm has \$22.6 billion of debt. It will have to raise capital, perhaps with an initial public offering in 2010. As the economy slowed, transaction and volume growth slowed too. The larger issuers demanded, and got, price discounts on the order of 20 percent.

Congress is overwhelmed with consumer complaints about issuers' egregious behavior, and bills are pending that would cap card interest rates and even interchange. From an expense standpoint, First Data still has three processing platforms in the United States and two abroad.

Eric Grover, a Principal at Intrepid Ventures, stated there

is a "global processing land grab" under way, between First Data, Global Payments Inc., Total Systems Services Inc., Elavon Inc., and Atos Worldline SAS. Some analysts believe First Data is worth less today than at the time of its leveraged buyout valuation in 2007 – or even its outstanding debt.

The list of major players will be quite different at the end of the next decade; I suspect this will heavily impact the margins and revenues available to pay the ISO community.

Positioning for the next decade

Some people call the "aughts" the lost decade due to the most serious economic collapse since the Great Depression. But we have cause to be optimistic. As Pascal-Emmanuel Gobry points out in *The Business Insider*, most innovation still happens in the United States, and this is the best place to take risks and be innovative.

The effects of new technologies, Moore's law and new manufacturing and supply chains will make technology cheaper and more broadly accessible. Resourceful entrepreneurs will use this to create economic and social benefits that we cannot yet even imagine.

Gobry also stated that the present situation is similar to the railroad boom and bust cycle of the 1830s, which ended up creating the infrastructure for enormous economic growth, including cheaper manufacturing and larger markets.

Yes, we just experienced a tough decade. Mainly, the problems were caused by a collapse in the regulatory system – not people buying homes. The repeal of the Glass-Steagall Act allowed banks to use insured deposits to engage in casino-style gambling activity, aided and abetted by the central figure in the crisis: American International Group Inc.

As Stanley Bing points out in *Bing's Blog*, "There are still many in Congress, the press, and the public who operate on the notion that there is something called the free market and that it should be allowed to operate unfettered for the good of all. There are also many who still believe that the earth is 11,000 years old. We don't listen to them either."

So whether you are an ISO or a merchant level salesperson, hang on. It should be quite a ride. 🎢

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

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Selling Prepaid



Prepaid in brief

NEWS

For N.J. unbanked: Good news/bad news

On Jan. 7, 2010, the **New Jersey Senate** unanimously approved a resolution to require issuers of prepaid debit cards to fully and legibly disclose all fees associated with the cards. SB 3069, introduced in December 2009, calls for New Jersey's Director of the Division of Consumer Affairs to adopt rules and regulations necessary to implement the provisions of the bill. As a primary market for prepaid cards, unbanked consumers may benefit from the new requirements if the bill is enacted into law.

Meanwhile, many New Jersey residents without either bank accounts or prepaid payroll cards reportedly pay 2 percent of their wages to check cashing locations in order to cash paychecks. A new proposal by New Jersey's **Department of Banking and Insurance** would raise check cashing fees to 2.21 percent on standard checks. Benefit checks for some government programs would not be subject to the new fee.

The department cited increased operational costs to check cashing operations due to the USA Patriot Act of 2001 requirements and Bank Security Act of 1970 anti-money laundering regulations, as well as the decrease in business due to electronic payment options (such as direct deposit, payroll and government benefit cards) as major factors in drafting the proposal.

PCH resolves lawsuit

Prepaid Card Holdings Inc. settled its lawsuit against its former Chief Operations Officer, Robert Christiansen, on Dec. 22, 2009. PCH received 21,250,000 shares of its common stock back from the defendant as part of the settlement.

The company intended to cancel the stock upon receipt and reduce the outstanding shares of the company. The suit, which accused Christiansen of fiduciary abuse, specifically fraud and concealment, breach of fiduciary duty and conversion, was filed by the company on Sept. 10, 2009, as reported in *The Green Sheet*, issue 09:10:01, Oct. 12, 2009, Prepaid in brief.

ANNOUNCEMENTS

1World opens Hong Kong network

1World Card, the prepaid card division of One World Ventures Inc., opened in Hong Kong its first money remittance network for money transfers to The Philippine market – the first market to receive funds over the network.

Accor rolls with commuter cards

Accor Services USA recently released its MasterCard Worldwide-branded transit card. With the Commuter Check Card Prepaid MasterCard, commuters pay for transit and parking. Accor provides the cards as either anonymous or personalized.

ATMCash unveils new money transfer solution

Santa Monica-Calif.-based **ATMCash** launched a new money transfer service that gives customers the ability to send money to recipients in over 150 countries. Recipients can withdraw the funds from 1,500,000 ATMs worldwide.

ATM, Debit & Prepaid Forum webcasts available

Webcasts of workshops and keynote addresses held during the October 2009 **ATM, Debit & Prepaid Forum** are now available online for purchase. The webcasts include audio, session slides and the interactive question and answer periods.

Biddees discounts gift cards, donates to nonprofits

New auction Web site **Biddees** sells major retailer prepaid cards at a discount. A portion of the purchase price is automatically donated to charity.

Emida moves forward

Cash and Transact, a virtual mobile wallet service from Foothill Ranch, Calif.-based electronic prepaid provider **Emida Corp.**, is reportedly experiencing increased demand in Latin America and the Middle East. With Cash and Transact, consumers load funds onto virtual wallets that reside on mobile handsets in order to pay bills, top-up phones or make person-to-person payments.

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Selling Prepaid

Award and contract renewal to **iCARD Gift Card LLC**. "The award capped off a very successful year for our company," said iCARD's founder Jeff Ehney.

Kobie offers discounted gift cards online

St. Petersburg, Fla.-based **Kobie Marketing**, a loyalty marketing and technology agency, launched its Gift Card Gallery. The new online mall offers rewards-based gift cards to major retailers. Kobie said the program integrates easily into existing platforms; Kobie provides the card fulfillment and customer support functions.

RegaloCard adds pharmacy, fast food

Money transfer specialist **RegaloCard** signed Farmacias Economicas, a national pharmacy chain in El Salvador, to the RegaloCard Mobile Payments Network. RegaloCard considers pharmacy services an ideal product for the company since U.S. immigrants buy medicine and other pharmaceutical products when family members suffer emergencies in their home countries. RegaloCard also welcomed quick service restaurant chain Burger King Corp. to its mobile payments network in El Salvador.

Ohana Companies offer rebates

Through its partnership with MasterCard, integrated retailer rebate processor **The Ohana Companies LLC** said it now provides its merchant partners and their customers the option to receive rebates on MasterCard-branded prepaid cards.

ReliaCard wins Oscar

U.S. Bank N.A., an issuer of Visa Inc. prepaid cards, won an Oscar for its ReliaCard Visa.

The annual Oscar awards program is organized by Publi-News, a French publisher specializing in banking publications, and Altenor, an international consulting firm specializing in the payments industry.

XA unveils kiosk, network

XA Worldwide Inc. released its PaGo Kiosk and PaGoPass prepaid debit cards in Colombia. The kiosks utilize a state-of-the-art digital content delivery system that serves up advertisements based on location and the demographics of pedestrian traffic, said Jason Donald, CEO for XA.

PARTNERSHIPS

BlueStar, Meridian Kiosks partner

BlueStar Inc. reported it has added a self-service solution by partnering with **Meridian Kiosks LLC**. The new kiosk has the capability to provide gift registries, gift cards, patient check-ins, ticketing, food ordering, bill payment and inventory extension.

InComm, Medagate develop gateway

Prepaid card distributor **InComm** partnered with **Medagate Corp.** to develop a payment gateway that brings together InComm's POS card activation network with Medagate's card issuing platform. InComm said the new gateway will allow consumers to use cards, such as government benefit cards, at more retailers.

One World, eCommLink sign LOI

One World Ventures signed a letter of intent and paid a deposit to processor **eCommLink Inc.** to develop and distribute corporate prepaid solutions and remittance programs.

APPOINTMENTS

VendTek adds board member

Vancouver, British Columbia-based **VendTek Systems Inc.** appointed **Ian McKinnon** to its Board of Directors, subject to TSX Venture Exchange approval. McKinnon has 30 years of industry experience and offers consulting services to technology companies on management and leadership topics.

Rathgaber named Cardtronics' CEO

Nonbank ATM operator **Cardtronics Inc.** named **Steven A. Rathgaber** as CEO. Formerly President and COO of NYCE Payments Network LLC, Rathgaber brings 32 years of payments experience to his new position.

Incentium taps Venable for SVP of Sales

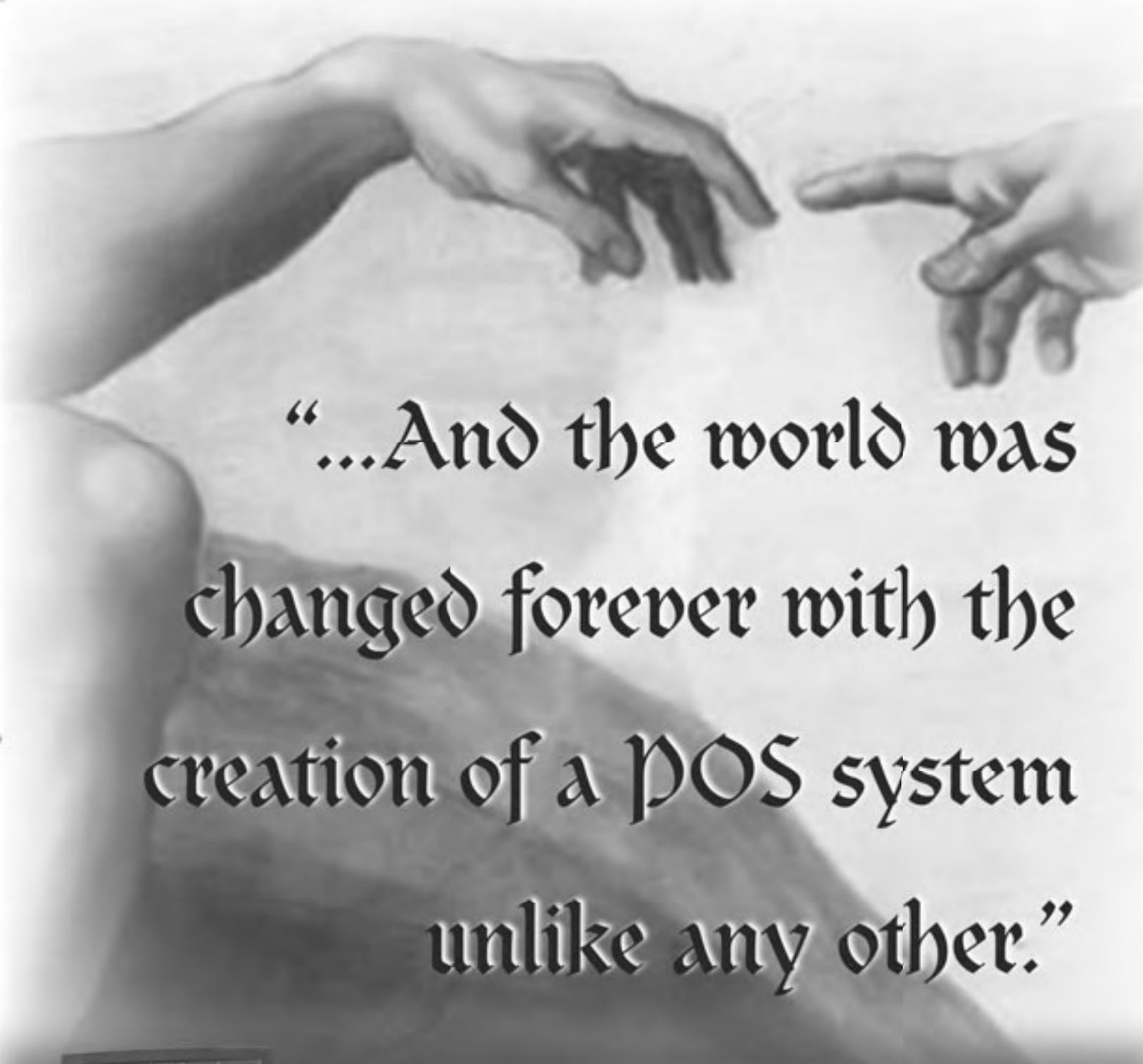
Thomas Venable was appointed Senior Vice President of Sales at **Incentium LLC** (formerly VIPGift). "Tom's extensive sales management experience will be critical to helping us reach new markets and customers," said Richard Char, Incentium's President and CEO.



Features

Mercator benchmarks health of the industry

Many prepaid card markets continue to show steady growth despite the travails of the economy, according to Mercator Advisory Group research. While growth of the industry stalwart – the closed-loop, in-store gift card market – slowed down, such categories as consumer incentives, payroll and government payments experienced double-digit growth, Mercator said.



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¹Merchant must qualify for merchant processing in order to be approved under the guaranteed lease program.

Selling Prepaid

Mercator's Sixth Annual Prepaid Benchmark, showcased in a webinar entitled *A Bright Spot in a Down Economy*, is based on data collected from prepaid card issuers and processors in mid-2009 and then compared to the previous year's results, said Tim Sloane, Director of Mercator's Prepaid Advisory Service.

The data represents the amount of dollars loaded on the various prepaid card instruments as opposed to the amount of money spent using the cards. For purposes of research and analysis, Mercator breaks down the overall prepaid card market into 33 segments and divides the segments into two categories: closed-loop and open-loop cards.

Closed-loop top performers

In the closed-loop category, Sloane highlighted that:

- Consumer incentives grew 19 percent (\$4.8 billion loaded).
- Digital media grew 24 percent (\$4.7 billion).
- Games and ring tones grew 17 percent (\$3.3 billion).
- Distributed gift cards (in-store gift cards distributed through prepaid malls) grew almost 22 percent (\$6.1 billion).
- Petroleum industry (gas cards) grew 23 percent (\$1.7 billion).
- Transit grew 11 percent (\$2.5 billion).

The one downside is the slowdown of the in-store gift card market (cards not sold in prepaid card malls) to 1.8 percent growth.

Open-loop top performers

In the open-loop category, Sloane noted that:

- Open gift (Visa Inc.- or MasterCard Worldwide-branded cards) grew 54 percent (\$7.7 billion loaded).
- Payroll grew 26 percent (\$17.2 billion).
- Court-ordered payments grew 64 percent (\$3.37 billion).

The one anomaly in the open-loop category was Social Security payments, which grew by a whopping 11,000 percent (\$1.2 billion loaded). Sloane explained that Social Security payments, one of the newer categories, began as a small, government-level pilot program that was then expanded into full-blown use, which accounted for the large percentage increase.

Gift card mall primacy

One point Sloane drove home was the importance of the gift card mall to the growth of the industry. It is a primary distribution channel for prepaid cards. In a survey of gift card mall operators, Mercator found that of the \$8.7 billion loaded onto general purpose reloadable cards,

almost \$2 billion was loaded on cards sold through gift card malls. "It clearly demonstrates, I think, how rapidly a barometer of the industry the prepaid mall industry has become as a driver of convenience and volume for consumer-purchased prepaid products," Sloane said.

Going forward, how well the industry understands the gift card mall as a distribution hub and takes advantage of its marketing and promotional aspects will be "critical to moving the dial and continuing to maintain growth across the segments," Sloane added.

Incentivizing the seller

With thousands of salespeople at over 1,400 dealerships nationwide, the cost for Toyota Motor Sales, U.S.A. Inc. of incentivizing its sales force with paper checks was a challenge. Toyota estimated that by producing approximately 150,000 checks per year at a shipping cost of \$10 to \$12 per batch, the car company annually topped \$180,000 in distribution costs alone. In 2004, Warren Keckeisen, Accounts Payable Manager at Toyota, looked at his wife's Starbucks reloadable prepaid card and wondered why Toyota couldn't issue similar cards to its dealerships and their salespeople to reward them for selling certain makes and models of cars.

Kicking the tires

Toyota chose Citi Prepaid Services, a division of Citibank N.A., to transition Toyota from paper-based incentives to open-loop, Visa Inc.-branded, reloadable prepaid cards. Keckeisen said implementation took three months, with the program going live in August 2004.

More than five years later, the program has saved Toyota hundreds of thousands of dollars in printing and shipping costs, according to Keckeisen. Additionally, the electronic solution allows salespeople to receive their incentives in a fraction of the time it took checks to arrive.

"In the past the dealership personnel would receive a check ... several weeks after they sold a car," Keckeisen said. "And they would ask, 'What is this check for? What vehicle?' Now, they probably receive either an e-mail notice or text notice within days [indicating] when they sold that vehicle and when the payment is applied to their card."

Keckeisen pointed out that the program varies from region to region. With different makes and models of Toyota cars sold in different regions, incentives are targeted by region toward the sale of specific makes and models of cars. Incentive amounts loaded onto cards are typically around \$100. "I know that the dealership personnel would like to see more dollars put on it," he said.

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"But the budgets and the regions all have their own targets and their own sales. And as they meet those, they put enough dollars on there to move the product and hit their sales objectives. ... We want to spend our money wisely on incentives and push those [cars] that really need a little extra help."

Under the hood

Keckeisen reports that the program has experienced no hiccups. In 2009, Citi Prepaid provided Toyota an overview of how the program was working. From January to March 2009, Citi's automated interactive voice response service accounted for 89.5 percent of cardholder queries for such things as password resets and card replacements.

Citi has seen a decrease in the utilization – and the associated overhead costs – of live customer service support because of the effectiveness of the online portal, where salespeople go to view balances and transaction histories, Keckeisen said.

Not only has the program proven to be customer friendly, but it has also helped dealerships retain their best sellers. "I know it's a struggling market," Keckeisen said. "There's less and less people buying cars now, but [the incentive card program] is one way of retaining your good salesmen. When I go to the dealerships I will often talk with the personnel, and I will ask them about the program – they love it." 📍

Game cards find heaven in 7-Eleven

Evidenced by soaring sales in 2009, 7-Eleven Inc. believes it has become a prime destination for purchasers of prepaid gaming cards. While 7-Eleven would not divulge its actual numbers, Brian Haynes, Category Manager for Prepaid Cards at the convenience store chain, said, "We are very pleased with the results. We experienced well over a 50 percent increase over last year's sales. And we expect that trend to continue."

The upward trend in game card sales at 7-Eleven mirrors the explosion of the massively multiplayer online gaming realm, where gamers take on avatars (virtual alter egos) to enter and maneuver through virtual worlds. Many of the online games are free to play.

But gamers have to pay to enhance their experiences with special weapons, abilities, and even pets. That is where game cards come in, allowing gamers (primarily from younger demographics) to purchase virtual currency, or points, to be redeemed in virtual environments.

Following the school calendar

Haynes believes trouble in the economy is a main reason

why the online gaming market is expanding so rapidly.

"Basically I think the customers are strapped for income and free-to-play games are the trend, the growing trend," he said. "The console games are definitely very expensive. The customers are choosing to look for other options. These microtransaction games make it very affordable and pleasurable for the gamer."

The cards usually cost anywhere from \$5 to \$49.99, with Haynes reporting a rise in the purchase of the lower denomination cards, once again due to the economy. 7-Eleven, which began carrying the cards in 2007, has recognized the cyclical nature of game card purchasing.

Haynes said sales spike in November and December (7-Eleven's best month for game card sales, doubling November totals). Spring break and the summer months when school is out are also strong for game card buying, with sales remaining flat the rest of the year.

On a monthly basis, Haynes sees game card sales peaking on the first and fifteenth of the month (paydays), with Fridays "always good for us too."

Six feet of prepaid

7-Eleven stores carry about 30 different game cards for popular gaming sites such as those published by Nexon Corp. and Zynga Game Network Inc. Atlanta-based Incomm processes all of the gaming cards 7-Eleven sells.

In 90 percent of 7-Eleven stores, prepaid cards (gift, reloadable debit, phone, as well as game cards) take up six feet of retail space, Haynes said. Given the limited space for the cards, 7-Eleven can only carry so many.

"There are so many new players coming into the arena ... that it's difficult for the processors like Incomm to get them on the same platform," Haynes said.

He estimates it will be two years before the selection of available game card titles reaches its full capacity, at which time the number of game publishers will start to contract. "I think Incomm will probably have their own aggregation card at some point," Haynes said. "If we could have one card, it would really enhance our ability to merchandise and carry a broader assortment."

Currently, the game cards 7-Eleven carries are one-time use cards; players redeem the value of the cards and then throw them away. By the second quarter of 2010, Haynes expects 7-Eleven will unveil a "rechargeable" game card that will allow gamers to reload cards with whatever cash or change they have on hand.

Haynes predicts that teen gamers will carry the reloadable cards around in their pockets and show them off, like a badge of distinction. The distinction for 7-Eleven will be in increased profitability, Haynes said. 📍

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BookReview

Preventing the inside job

In *Insidious*, authors Shirley Inscoe, Director of Financial Services Solutions for fraud management firm Memento Inc., and BC Krishna, Memento's founder and Chief Executive Officer, identify a number of problems posed by employee fraud in the banking industry. Many of these problems do not arise with outsider fraud.

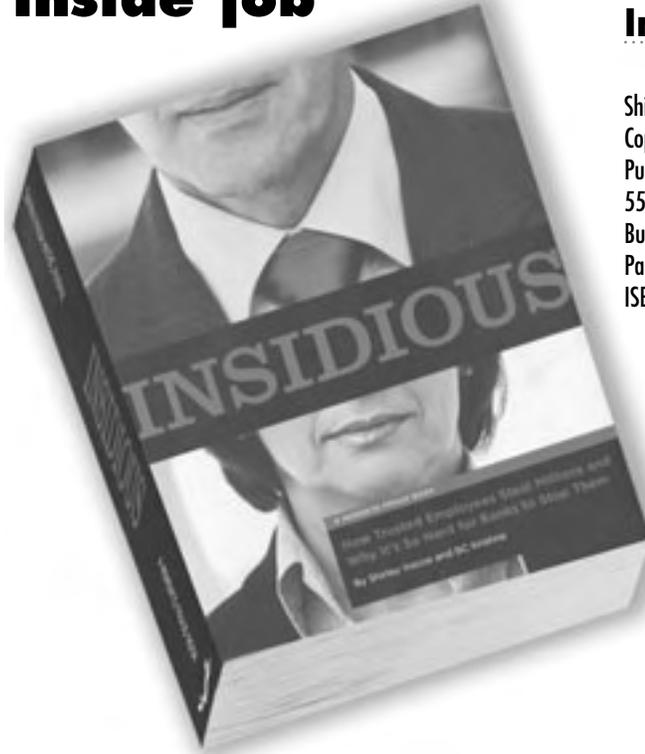
One of the prickliest among them relates to what one source calls "the bad breath of banking," which is the potential awkwardness of monitoring and confronting one's own employees. It's easy to go after an outside fraudster with everything you've got, but among people with whom you've developed a personal relationship, how should suspicions be addressed?

The "bad breath" quote comes from a source identified only as "Deep Vault" (the name is a play on Deep Throat, the source who helped break the infamous Watergate Scandal). Deep Vault is one of several banking insiders interviewed for the book.

Good employees turned fraudsters

According to the authors, fraudsters can be divided into two basic categories: "Bad from the beginning and good employees gone bad." Regarding the latter category, an x-factor is the handling of money. In the banking sector, where vast quantities of money flow through and between the hands of employees every day, that money can be a particularly strong catalyst for turning hitherto law-abiding people into criminals.

These "good employees gone bad" are, not surprisingly, the most insidious of fraudsters, their crimes sometimes nearly impossible to foresee. Many commit crimes impulsively and on a dime, stealing money in a tight spot without having planned to do so.



"In general, employee fraud doesn't happen because banks are hiring criminals," the authors wrote.

"They're hiring people. Then when people are confronted by the potentially seductive combination of opportunity and motivation, they can become fraudsters – not all of them, of course, just a small but damaging subset."

The second half of the book is devoted to methods of employee fraud prevention, which the authors claim should be addressed at every employee rank – from entry level hires to executives. The problem is complicated by increasingly good technology that allows money to be wired and laundered quickly and effortlessly. But that same technology can be used to combat fraud, as fraudsters invariably leave what the authors call "digital bread crumbs."

Tools in the fraud fight

Inscoe and Krishna also identify two crucial tools in the fraud fight: one is data; the other is experts – namely, analysts and investigators capable

Insidious

Shirley Inscoe and BC Krishna
Copyright 2009
Published by Memento Press
55 Network Drive
Burlington, MA
Paperback, 150 pages
ISBN 970-0-9825272-0-7

both of identifying trends indicating fraud and, where fraud exists, of rooting out the problem diplomatically. Regarding the job of spotting fraud, the authors suggest comparing employee behavior to established models and looking for anomalies.

Other prevention strategies mentioned include making sure more than one employee is present whenever a significant volume of money is handled and developing a flexible prevention strategy that evolves in synch with the fraud it's combating.

Such flexibility in fraud prevention calls to mind the ongoing effort to combat fraud in the payments industry where fraudsters targeting card data are evolving at a rate that fraud prevention techniques are struggling to catch up with.

Indeed, when "bad breath" mutates, simply being willing to confront the problem isn't always enough. Yet, regarding the potential for theft among one's own employees, it is a necessary starting point. ■

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CompanyProfile



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Don Apgar
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 Phone: 631-780-5312
 Fax: 631-590-5800
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Benefiting from the bounty

If you put talented, seasoned payment professionals in a room, they'll talk payments and make plans. And if you give them the latest industry data, a newspaper and someone with a knack for knowing what trends to capitalize on and when, all they'll need to establish a thriving company is capital and more like-minded professionals, right?

In the case of Payment Alliance International, the answer is yes. And after PAI was on solid footing, the company began a strategic acquisition campaign. This meant not only selecting which companies to buy and when, but also determining how to smoothly integrate the merged companies' processes, sales agents and merchant accounts.

Building an empire

The details to master in any such undertaking are daunting, but PAI, which was founded in 2005, followed an aggressive acquisition plan, adding at least one new company or bankcard portfolio every quarter until 2008. By then the company had 30,000 merchant locations and 30,000 off-premise ATMs.

The company now has a corporate office in Louisville, Ky., an operation center in West Palm Beach, Fla. (primarily for the POS and bankcard products), an operation center in Jackson, Miss. (primarily serving the ATM division) and a large ATM sales office in Billings, Mont. This is in addition to sales offices across the nation.

Some of PAI's acquisitions illustrate the forward thinking of its executive team. In the third quarter of 2006, it acquired Confluent Technology, which brought tools that PAI could pass down to its market partners and use internally. Confluent's target vertical was education. It provided online data manipulation for school districts. It also had restaurant and bank versions of its program. John J. Leehy, President and Chief Executive Officer of PAI, and Greg Sahrman, the company's Chief Operating Officer, co-founded and grew Confluent before forming PAI.

PAI made its foray into the ATM business when it acquired Netbank Payment Systems in 2007. Netbank had both bankcard portfolios and off-premise ATMs. Don Apgar, PAI Senior Vice President, National Partner Sales, said, "'07 was really a huge acquisition year for us. We bought a bunch of bankcard portfolios, and I think we did a total of seven or eight acquisitions in '07, followed by the acquisition of ATM Express in March of '08."

The company now boasts more than 33,000 ATMs and claims to be the number one deployer of ATMs in the nation.

After the ATM Express acquisition, PAI focused on consolidating and leveraging the market partners it had gained through its acquisitions to establish strong distribution channels with bank agents, direct sales, ISOs, merchant level salespeople (MLSs) and value-added resellers (primarily of ATMs and service and installation of same). "That left us with about 700 market partners," said PAI Senior Vice President Donna Embry.

Company Profile

Leading with experience

With its bankcard and off-premise ATM divisions, PAI believes it is well-positioned to profit from the three major types of transactions: cash, debit cards and credit cards. And it took vision on the part of leadership to reach this point. Embry said the PAI executive team is like a "perfect storm" of professionals. "There is no one in this industry that I admire more than John Leehy," she said, adding that his energy, vision and enthusiasm are "just contagious."

Embry, a 43-year industry veteran, received the Midwest Acquirers Association's Lifetime Achievement Award at the organization's seventh annual conference held near Chicago in July 2009.

"I've always considered myself a student of the payments industry, and I guess I've earned my degree now," Embry said. "And it's such an interesting business because you get to touch on everything from consumer behavior to economics and technology. I feel lucky to have had this payments playground, I would call it, almost for my whole career."

Growing through ATMs

PAI serves a large number of convenience store accounts. It can offer these locations fleet fuel processing, ATMs,

bankcard processing, age verification services and pre-paid cards in addition to traditional check services.

For merchants, ATMs provide a source of revenue because they share in a portion of the transactions through a surcharge or, in some cases, a portion of the residuals.

The company has seen an increase in off-premise ATM sales and service since the economic downturn and ensuing credit crunch.

Embry said no one was prepared for the extent of the economic downturn, but many who have been in the business for a while knew that "when people tighten their belts and they quit using credit cards, what do they use? Cash. Where do they get the cash? ATMs."

Embry believes there is always opportunity in any economy. "Tech changes, but human behavior is human behavior," she said.

With off-premise ATMs, banks can open up virtual branches within retail locations. Banks working with PAI pay the company to service, install and brand the ATMs. PAI performs a bank identification number block on the machines, which allows customers to use ATMs branded by their banks without incurring convenience fees.

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PAI uses both independent sales agents and a direct sales force to market the following products and services:

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- Merchant cash advance
- Check guarantee
- Electronic check conversion
- Automated clearing house services
- Check 21 services
- Gift and other prepaid cards
- E-commerce card processing
- PC-based processing
- Business-specific packages
- Referral program

PAI is able to deliver more value to merchants and sales agents alike because of the transaction volume it handles, according to the company. Merchants can get ATMs at a lower price, and agents benefit from the aggregate volume discount and the strong support of a large ATM division. Working with PAI, MLSs can participate in ATM processing in several ways. They can purchase the ATM and either place it at a merchant location or sell it to the merchant. Once the ATM is installed, the merchant, agent or PAI can assume responsibility for servicing the machine.

The agent and merchant can negotiate the convenience fee. "If I'm an agent and I own and service that machine, I'm going to get the lion's share of that fee," Apgar said. "If I'm the merchant and I buy the machine and fill it myself, well, I'm going to get the lion's share of that fee – and then all the possibilities in between."

Embry said some companies "are better in the bankcard space than us, but there are none that are bigger in the ATM space than us."

No boundaries

Embry believes there are no limits when it comes to products that can be brought to the table in this industry. In doing business, she follows her instincts, and she said they rarely let her down. PAI is exploring new opportunities in self-service kiosks, mobile payments and remote deposit capture.

"We recently have worked with NCR Corp. to release a capability to use our distribution center to distribute Blockbuster Express DVD kiosks, which are perfect extensions for the grocery and food store environment," Embry said. "And we're looking to work further with self-service partners to expand those types of self-service, stand-alone locations."

Self-service DVD kiosks are hot, according to Embry. "It's sweeping our markets and our distribution channels like

crazy, like candy," she noted. She sees convenience stores as the ideal place for multifunction kiosks that cater to unbanked consumers. PAI is also looking into card issuing opportunities in such spheres as private-label prepaid, network-branded prepaid cards (including payroll cards), health care payments and health savings accounts.

Research indicates that the post-baby boom generations are embracing mobile technology and are eager to avoid standing in lines to purchase products and services. And PAI is ready to ride that trend. "The way the next generation will evolve, they'll be tied to self-service type devices and instant gratification that they don't necessarily get unless it's downloading content over the Internet," Embry said.

Joining the party

PAI is always in the market for new sales partners. "We have a couple different compensation plans based on the individual ISO or MLS, what they're looking for and what level of sales activity they're generating," Apgar said. He added that PAI offers an activation bonus and generous revenues share. According to Apgar, ISOs and MLSs working with PAI have access to diverse payment products and services, including the off-premise ATMs, and, perhaps more important, the less tangible qualities and capabilities the company embodies. ■

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Top trends affecting payments in 2010

A recent Javelin Strategy & Research webinar discussed the top 10 trends it expects will impact financial services in 2010. Among the topics explored in *10 Trends that Will Shape Banking, Payments and Security in 2010*, several directly affect the payments industry.

The first trend that blankets the entire financial services industry is regulation. Mark Schwanhausser, Senior Analyst, Multichannel Financial Services, at Javelin, said "the Reagan era of deregulation is over."

Given the impact of serious problems within the banking sector, consumers increasingly distrust financial institutions, which has opened up financial services to regulation to restore confidence. To regain trust, Schwanhausser said banks must refocus their efforts on customer service, reimagine business models and bundle services "smartly."

Smart moves

The second trend on Javelin's list is third-party application development.

Due to the success of the Apple Inc. iPhone and its online store devoted to third-party applications, technology companies are opening their platforms to outside developers, which will accelerate the pace of innovation, said Beth Robertson, Director of Payments Research at Javelin.

The third trend focuses on the poor economy and how companies with limited resources will have to prioritize their investments, which Schwanhausser said will be another spur to technological innovation. But he stressed that businesses must critically evaluate which opportunities to pursue.

For example, Javelin said over 50 percent of iPhone owners use mobile banking, while other categories of consumers – such as the unbanked, Latinos and generation Y – hover in the low 20 percent range for mobile banking use. So defining your target consumers and how they access financial services, and then allocating resources to take advantage of those metrics, is critical to success, Schwanhausser said.

P2P, yippee

Robertson said 2010 will be a "watershed year" for the adoption of person-to-person (P2P) payments. In 2010, 48 percent of U.S. households will use P2P, Robertson noted. Given a compound annual growth of 8 percent, P2P payments will be employed by 61 percent of said households by 2014, she said.

It is therefore advisable that banks and vendors incorporate mobile and online "delivery mechanisms" for P2P payments, Robertson added.

Number six on Javelin's top 10 is the rise of merchant's awareness of such issues as interchange and Payment Card Industry (PCI) Data Security Standard (DSS) compliance. Merchants have banded together to promote regulation of the payments industry to reduce their interchange costs and PCI DSS compliance burdens. Robertson cited LexisNexis Risk and Information Analytics Group Inc. research that shows merchants bear 10 times the cost of fraudulent transactions than is borne by banks.

These factors are converging into merchants' heightened desire for reform. If regulation is to occur, Robertson advises financial institutions to take a proactive role in shaping them to mitigate its effects on profitability.

One way to counter the charge that interchange is an onerous burden is with a 2009 Government Accountability Office report that states no conclusive evidence exists that interchange is "too costly" for merchants, Robertson said.

PCI 2.0 at number eight

Driven by data breaches and PCI DSS costs, the price of data security will continue to rise, said Robert Vamosi, Analyst, Security, Risk & Fraud, at Javelin.

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He expects "PIN integrity" to continue to be challenged by fraudsters replicating 2009 attacks on ATMs and PIN security.

To combat hacking, end-to-end encryption, card replacement (tokenization) and Europay/MasterCard/Visa chip-and-PIN technologies will play ever more prominent roles, he said.

However, according to Vamosi, there are no industry agreed upon definitions of these technologies; he recommends the PCI Security Standards Council set guidelines for them.

Look for the new version of the PCI DSS to be out in September or October, Vamosi said. Ed Wargo, Vice President – Customer Relationships at Javelin, anticipates not just incremental steps but "fundamental changes" in PCI 2.0. ■

Best Buy boycott

In what seems to be a largely symbolic action that will have little impact on store sales, electronics retail chain Best Buy Inc. staged a boycott of Visa Inc.'s card acceptance fee structure by discontinuing its acceptance of Visa contactless payment cards. Analysts say Best Buy's decision is evidence of growing merchant discontentment over card acceptance rules.

Best Buy began accepting Visa contactless cards in August 2007 and reportedly began phasing them out in October 2009. The retail giant continues to accept mag stripe Visa cards, as well as contactless cards from other brands.

Sources said contactless payments probably accounted for less than 1 percent of Best Buy's total transactions and that most customers denied the use of contactless cards would likely pay with different instruments rather than forgo purchases.

"It's totally risk free where Best Buy is concerned," said Nick Holland, Senior Analyst for Aite Group, a payments industry consulting firm. "The volume of contactless transactions they're actually going to cut out is probably negligible. It's always seemed a really weird fit to me anyway that Best Buy would go with contactless. If you're buying a 52-inch TV, the value proposition of speed and convenience isn't really relevant."

Symbolically significant

However, the boycott is thought to be symbolically significant as evidence of retailer dissatisfaction over payments industry interchange practices.

"It definitely ties into the legislation and things that are happening on Capitol Hill," said payments industry attorney Paul Rianda, referring to the ongoing push by mer-

chant advocacy groups for federal legislation reforming interchange laws. "A lot of groups are unsatisfied with the whole concept of how they're accepting credit cards. This is another way they're showing their displeasure about having to accept a more costly form of payment."

In a statement responding to the matter, Visa said: "While we're disappointed Best Buy will no longer offer its customers the convenience and speed of Visa payWave [contactless technology], it's important for cardholders to know they can continue to use their payWave card with a traditional swipe when shopping at Best Buy and millions of other merchant locations worldwide.

"Visa values its long-standing relationship with Best Buy, and we look forward to working with the retailer to grow our mutual businesses."

Signature-based controversy

Visa has generated controversy for allegedly pushing the use of signature-based transactions over PIN-based ones at merchant locations to generate the higher interchange fees that signature transactions carry. Best Buy's gripe with Visa's contactless acceptance program was that it lacked the option of PIN acceptance and thus invariably carried a higher interchange fee per transaction.

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News

Many have complained that policies that seem to favor signature transactions are counterproductive in an industry beset by data theft and fraud, given the superior track record of PIN transactions in protecting consumer data. The higher interchange fees attached to signature-based card purchases are meant to offset the relatively high fraud rates associated with such transactions.

"We've got a situation where card networks will be extremely reluctant to move away from signature, although the only way you can significantly mitigate fraud is with a PIN," Holland said. "This is indicative of the way card networks are wed to signature interchange rates: the revenue they get from that probably far outstrips the amount of fraud they get because of the signature compared to the PIN."

Holland added that he thought interchange profits were preventing the United States from moving to a more sophisticated system for protecting consumer card data, for example the Europay/MasterCard/Visa (EMV) chip-and-PIN system used in Europe. He noted that the United States "will eventually be the last developed country in the world without EMV."

A reluctance to adapt

Rianda, however, said other factors were more likely

impediments to progress. "I think it's just American reluctance to adopt new technology," he said. "It's a whole different mentality. Every year I go to [the Electronic Transactions Association's annual meeting], and every year there is some new technology that's supposed to revolutionize things, and every time it's failed miserably – at least in the United States."

Rianda added that Best Buy's boycott could be in violation of industry regulations. "How can Best Buy do that with the honor all cards regulation, and are they potentially violating their merchant agreement?" he said. He added, however, that "when somebody does something like this out in the public, it wouldn't be the brightest thing" for Visa to respond by imposing a fine. ■

Simulated onslaught to bolster security

On Feb. 9 to 11, 2010, payments industry organizations will take part in a cyber attack simulation exercise designed to test the security of payment networks, educate organizations on system vulnerabilities and recommend improvements to better secure those networks.

The exercise, dubbed the Cyber Attack against Payment Processes (CAPP), is being organized by the Financial Services Information Sharing and Analysis Center. Many associations throughout the financial services sector are supporting, promoting and participating in the event's planning, including the payments industry's own Payments Processor Information Sharing Council.

Princeton, N.J.-based processor Heartland Payment Systems Inc. is co-chairing the planning process. Robert O. Carr, chairman and Chief Executive Officer at HPS, and founder of the PPISC, said the exercise is "very important" to the ultimate goal of protecting data networks from security breaches.

"We've invited payments processors; we've invited retail merchants; we've invited a lot of merchant organizations, financial institutions," Carr said. "If they have a lot of electronic payments being processed through their organizations, they're encouraged to participate."

Nuts and bolts

According to John South, Chief Security Officer at HPS, the three-day exercise involves a set of "events" (cyber attack scenarios) that participants will be confronted with, followed by an evaluation of how participants' security safeguards would respond to the attacks. Anonymous surveys are included in the scenarios to give FS-ISAC and the participating associations a snapshot on the state of cyber security in financial services.

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"I'm fairly certain that many participating companies are going to realize that they're not as prepared as they think they are."

– Robert O. Carr, chairman and Chief Executive Officer Heartland Payment Systems Inc., and founder of the PPISC

At the conclusion of the exercise, FS-ISAC will tabulate the results of the surveys to provide feedback to participating organizations on where vulnerabilities lie in payment networks.

The purpose of the exercise is therefore to allow companies to look "introspectively" – evaluate their own strengths and weaknesses from a data security standpoint, and thus take action to shore up weak points in their networks, South said.

Specifically for payments, CAPP will help show the industry "where do we really need to put, as an industry, the most effort, and whether it be in policies and practices or infrastructural development, or if it's just understanding the issues," South added.

Tim Cranny, CEO of payment security consulting firm Panoptic Security Inc., believes an exercise that confronts organizations with sophisticated attack scenarios could be "extremely valuable" to individual businesses and the industry overall.

Large processors and other high-profile targets attract the attention of "very focused individuals who, if you block the first 100 things, will try the 101st, the 102nd thing," Cranny said.

It is those types of evolving threats the exercise is designed to highlight, according to South.

"So each day there's a set of events and a set of questions to give the corporation or the entity that's participating a chance to look at their current systems," South said. "The next day – the second day – they receive a new set of events that say, 'OK, here's what evolved over the evening.'"

The same scenario occurs over day three, at the end of which FS-ISAC will tabulate the results for dissemination to CAPP participants.

The bigger picture

Carr and Cranny agree that this exercise is the first in which the payments industry is participating. Cranny believes this is a good sign.

"One thing that has held security back for a long time is that it has been a secretive, almost furtive type of process," he said. "People haven't admitted when they've had problems, haven't even admitted when they've had successes.

"There wasn't a lot of sharing information and war stories

and learning from other peoples mistakes because no mistakes were ever admitted. But the bad guys are sharing very rapidly and learning from each other, so if you're going to deal with that escalating threat profile, it's a very good idea to share information and to do things like this. ... I think it is a step upward in maturity and sophistication for the industry. And it's a good thing."

Carr and Cranny also agree that payment business participants may learn some hard lessons about the state of their cyber security programs.

"I'm fairly certain that many participating companies are going to realize that they're not as prepared as they think they are," Carr said.

All types of businesses in the payments industry are invited to participate. The exercise is free of charge, and participants will receive an "after-action report" that includes best practices and threat mitigation techniques. Visit www.fsisac.com/capp to register; the deadline is Jan. 29. 



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Trade Association News

CFSI scholarships for Prepaid Expo

The Center for Financial Services Innovation is providing scholarships to February 2010's Prepaid Expo USA in Las Vegas to representatives of non-profit companies serving under- and unbanked consumers. Applications for the award have been submitted (the deadline for applying was Jan. 19, 2010), and CFSI says recipients will be notified by Jan. 27. CFSI, an affiliate of ShoreBank Corp. that works with banks, credit unions, technology vendors and other companies to serve the under-banked, launched its scholarship program on Jan. 6.

Sarah Gordon, Nonprofit Relationship Manager for CFSI, said the company hasn't yet decided how many scholarships it will give out, but it anticipates awarding between five and 10. The scholarships will cover both airfare to and from Las Vegas and the registration fee for the conference, which is being held Feb. 22 to 24; the company said the expenses of one representative from each company that receives the award will likely be bankrolled. "The Prepaid Card Expo is the industry's leading event, and we are committed to helping nonprofits better understand the prepaid card industry," Gordon said.

"Typically nonprofits don't go to these kinds of industry conferences, so we think it's a great learning opportunity for them and we think that by getting more exposure to this space they'll think more seriously about engaging in a partnership with a firm to actually distribute the product."

Broader effort to promote prepaid

Gordon said the scholarships were part of CFSI's broader initiative, launched in early 2009, to bring more non-profit organizations into the prepaid card sector. She said CFSI estimated 40 million American households were "financially underserved" and that a down economy and questionable bank practices have spurred interest in prepaid cards. She added that the prepaid segment has drawn interest from an increasingly varied array of organizations.

"We've definitely seen nonbank financial services companies start serving the un- and underbanked en masse," she said. "The nonfinancial firms have stepped up, including the nonprofits. ... They've realized over the past few years the social problem that exists with so many people that don't have safe transactional products. They don't have the tools that help them save, they don't have access to affordable credit, and nonprofits are asking themselves what they need to do in response to that." ■

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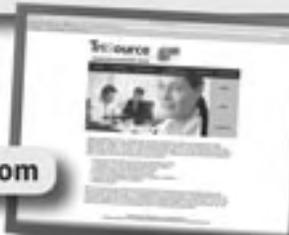
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Residuals from page 1

avoid underwriting merchant accounts that could jeopardize their livelihoods. And this includes MLSs.

According to Jay D. Reeve, Payment Attorney and founder of The Reeve Law Firm PC, the MLSs complaining that their ISOs are not paying them have, for the most part, created their own problems.

"Yes, there is a problem in the industry with residuals being withheld, but a lot of the blame belongs to the MLS," Reeve said. "They either don't read, don't understand or don't care what their MLS agreement specifically says. When they sign it to begin a new relationship, there are a lot of provisions in there that they could and should negotiate out, but they don't pay attention. They don't spend the time on the front-end to try and understand what they're signing up for."

Reeve added that when MLSs are pushing business to two or more ISOs, one or more of the contracts could be subject to an "event of default" if, for example, the contracts call for exclusivity on the part of the MLS. Additionally, contracts can be terminated and residuals withheld in the event of a breach by a merchant in an MLS's portfolio. Residuals can also be terminated "for cause."

But these problems can often be avoided simply through communication, negotiation and compromise.

"MLSs need to clarify what default is and isn't as well as what their definition of 'cause' is, which can vary from agreement to agreement," Reeve said. "They can negotiate 'cure periods' that give them the ability to correct a merchant breach, not get their contract terminated, and preserve their residual streams. You also need to be able to respond to fraudulent applications and do whatever is necessary to negotiate for something different and better."

"The smart, big ISOs and acquirers out there want to make sure that the best MLS stays with them, but it is also the responsibility of that agent to be as open, honest and loyal as possible."

Reeve believes responsibility is not the MLS's alone. "There is equal culpability on both sides in these situations because many organizations, to attract the best MLSs, will promise a little more than they're actually willing to deliver. Both parties need to be upfront, play by the book and not try to get fancy."

Earn the agents' business

Scott Zdanis, Co-Chief Executive Officer of payment processing services firm Merchant Warehouse, said he hasn't heard of ISOs arbitrarily changing contract terms. He recalls disputes were rampant in the days of exclusive agent agreements, but he feels that since most MLSs today are nonexclusive, ISOs must have transparent, negotiable contracts that offer the most attractive and equitable provisions.

"ISOs can't get away with changing agreement terms because the top-notch MLSs will write new business elsewhere," Zdanis said. "Exclusivity is a thing of the past, so we have to earn our agents' business every single day. Our agent channel is 30 percent of our business, so we've built a contract that treats residual income as our MLSs' assets, not just as a benefit of an ongoing effort to sign more accounts."

Zdanis added that contract terms industrywide are improving for MLSs because ISOs, processors and acquirers are becoming more educated and competitive.

"As the margins thin with increased competition, you have to offer financial stability, experience and proven quality operations to keep the best and most productive people and build a stable financial foundation," Zdanis said.

"The best contract in the world doesn't matter if a company goes insolvent or no longer exists. And the most important thing to Merchant Warehouse is having our agents know they can count on their residual income and that it will always be there."

Leverage all the opportunities

To help negotiate the fairest contract, prevent residu-



CoverStory

als from being terminated, find the most reputable companies and secure the greatest leverage over an ISO or processor, Zdanis suggests MLSs do the following:

- Avoid organizations that are acquiring accounts at a high cost, which forces them to finance that expense with residual stream funds.
- Solicit more than one ISO to best evaluate the variety of terms, provisions, benefits and restrictions offered in an agreement best suited to your needs.
- Avoid exclusivity provisions.
- Deal with bigger companies as a rule.
- Avoid provisions for termination if monthly minimums for new accounts are not met or if an MLS is inactive for a certain period.
- Clarify specific language regarding termination for cause, dispute resolutions and event defaults.
- Have contracts thoroughly reviewed by a payment attorney prior to signing.
- Avoid companies that provide services for or process high-risk accounts.
- Make sure to know what happens to MLS payments upon termination or expiration of the agreement.
- Be proactive when renegotiating contracts; the worst that can happen is the answer will be no.

Reeve added that when an MLS agreement re-negotiation is approached ethically and honestly, the end result can benefit both parties. He said that in November and December of 2009, he worked with an MLS who wanted to

start his own ISO. The agent went to an acquirer, negotiated an agreement and brought it to Reeve.

"When I tell most ISOs what I cost – what any payments attorney would cost – they either don't want to do it or just want me to make a quick pass, which serves no one," Reeve said. "Well, this new ISO and I spent enough time together so that I could really understand what was important to him and drill down to specific issues.

First and foremost was the preservation of his residuals. We were able to narrow his contract down and specifically define the termination provisions.

"We clarified with that new acquirer what would and wouldn't be an event of default. And within each of those we were able to get an opportunity of notice to cure any event that would normally result in termination. And in the process [my client] realized that ISOs and acquirers want their best street agents to stay healthy and stay with them. So now he knows he has the opportunity to fix problems that may arise and not just wake up one day to find out that he's not getting his check."

Do the right thing

Theodore Svoronos, E-Commerce Consultant and Certified Fraud Examiner with Group ISO Inc., believes that withholding of residuals, use of hidden fees and inclusion of vague termination provisions in MLS agreements are not new practices, but they have become less prevalent.

And the only way to eradicate unscrupulous behavior is for all ISOs, processors and acquirers to diligently follow best practices.

"You have to do business following rules and regulations and structures of procedure," Svoronos said.

"Being a company that keeps its word is so important in this day and age. With the down economy, this is the absolute worst time to do anything negative toward your partners. Accommodate your agents. It's not about us, it's about them.



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"You need to run an even-keeled ship so that those agents stay confident and motivated. You stop paying residuals, terminating contracts, then giving the 'if, this, then, that' routine, then all you're doing is making it worse for them, giving the industry a deeper black eye and slandering your own name. Now more than ever – good and bad, thick and thin – you stick by your practices. Whatever the residual, pay it."

According to Ken Musante, Vice President and Chief Sales Officer for payment processing firm Moneris Solutions Inc., one consequence of the recession will be a greater differential between what a smaller ISO has to pay to attract and retain the best MLSs and what a larger acquirer has to pay. Before the downturn, smaller and mid-sized ISOs effectively only had to match the payouts of larger institutions.

"I don't know exactly how it will manifest itself, but I see the overall take-home is going to be less for somebody that is doing business with a larger acquirer," Musante said.

"There is a risk premium that is going to have to be paid by smaller ISOs looking to do business with top-flight MLSs. And it's obviously a correlation between risk and reward as the industry evolves.

"Remember that the residuals an MLS is paid are only as strong as the company paying them, so it's critical that agents know the financial wherewithal of the acquirer or ISO that they're doing business with. Residuals are worthless if you've got a faulty contract, so you darn well better make sure that contract is well written."

Consider your partner's needs

One note rang true with these payment veterans: It is paramount that MLSs do not move accounts, the lifeblood of the ISO.

"If you're a partner of Group ISO, we split 50/50 on interchange with no fee padding," Svoronos said. "But we have a provision in there – as would any financially stable and well-managed

ISO – which basically says that the accounts you board are your accounts. You will get paid for the life of the account. As long as they stay with us, you'll get your check. But do not take those accounts. If you have a qualm, you need to give us the right of first refusal, or I'll put my fangs in."

Svoronos said he would never wrong an MLS and doesn't know anyone in this business who would. And he expects the same respect in return.

"As long as those MLSs do good business with you and are treated fairly and respectfully, you won't hear a peep out of them," he said. "And I don't care who it is, my job is to help them be successful, which ultimately benefits us all." ■

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Don't break the bank

By Jon Perry and Vanessa Lang

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We started our business when the company we worked for went bankrupt. Businesses fail for many reasons, but the root of the problems is typically a lack of top-line revenue or poor bottom-line performance. Addressing these deficiencies essentially boils down to signing more customers and not spending more than you make.

It is easier said than done – no doubt. You have to spend money to make money, right? Fortunately, we are in an industry where the barriers to entry are low. Blessed by an industry in which overhead is low and income potential is high, how can we ensure financial stability in our business?

Aim high

Top-line revenue performance is directly related to the number of customers and the volume of dollars they process. Sure, many other factors are involved, but for this article we will focus on ideas to increase the number of customers you sign each month.

You could just be starting in payments or going into your 10th year. The concepts are the same.

How do you increase the size of your portfolio? Many struggle to either get started or take it to the next level. Looking back through posts on GS Online's MLS Forum over 2009, we find great insights into what others were doing and thinking.

Jdeckard shared his thoughts on growing his business: "Have been debating ... bringing on a support person ... bringing on a telemarketer ... or bringing on some reps; each seems to have its own merits ... and its own pitfalls."

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Coach Bob, a seasoned professional in our industry, stated, "Hire some reps. But don't over complicate it."

One of our industry mentors, Ken Musante of Moneris Solutions Inc., told us that we are our best salespeople; outsourcing everything that is not value-added frees up our time to focus on boarding new customers.

This advice rang true. Regarding Coach Bob's point that new sales reps can complicate your business, it depends on timing and where you are at in your own professional development. If you are just starting in the industry, there is no point in bringing on new sales professionals if you cannot mentor and educate them.

If you have been at it awhile and are hitting a ceiling on the number of deals you write per month, consider outsourcing non-value-added functions (like mowing your lawn). If your budget allows you to turn your focus away from sales, you are at a point to begin looking into telemarketing or adding employees or 1099 contractors.

One thing any merchant level salesperson (MLS) can do is look for underserved, niche markets. Doing this has served us very well over the past five years. Since cold calling, telemarketing and hiring are specialized skills, evaluating your personal skill sets to understand areas where you excel, and can thus capitalize on your strengths, can be a potent differentiator in the marketplace.

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▶ **Regardless of the size of your organization, having a written budget that is reviewed consistently can prevent unnecessary bleeding of money. A basic budget will list all of your income and expenses. If you get residuals from various sources, list them individually, as well as all of your expenses (electricity, phone, credit card terminals, payroll, taxes, accountant, lawyer, Visa Inc. and MasterCard Worldwide registration et cetera).**

Get referrals

Since we are a purely referral-based organization, we have been successful in focusing on referrals from existing customers, agent banks and businesspeople who desire highly technical solutions.

Approximately 34 percent of our new customers are referred by existing clients.

While at a Western States Acquirers' Association meeting, we were reminded not to forget to ask a potential new client if he or she might know others who could use the same level of service. It is a common-sense query but often overlooked during the sales process.

One tip is to use the reference section of your merchant application and ask your new customer if it would be OK to call the references (referrals) in the application to see if they would be interested in a new merchant service provider. Taking this extra step can increase your number of prospects to three times the number of new clients you ask about calling their references.

Work the banks

Agent banks are rich in potential but can be tough to acquire. One way to get in front of a prospective bank is to use your local chamber of commerce to develop relationships with bank representatives. While chambers can take a good amount of time to develop, they are rich in agent bank opportunities.

Focusing first on community banks, credit unions (as long as they open business accounts) and regional banks allows you to get your feet wet and work out the optimal process – from sales, marketing and co-branding to revenue sharing. We average one referral per branch per bank each month. Adding an agent bank with 10 locations, properly cared for, can result in a dramatic increase in your client base each month.

Ber on the MLS Forum said, "My goal is to build a relationship with the credit union where I sell to *all* of their existing base of businesses customers, as well as *all* of their new business customers."

Ber makes an important point that all MLSs should keep in mind when approaching agent banks. The key is to let banks tell you what they need; many are not going to focus heavily on revenue sharing as much as increasing their deposits and the retention rates of their clients.

Reciprocity has been a recurring theme among banks. They want to know whether their existing merchant service providers are bringing new clients to them. Often the focus comes down to service.

Community and regional banks tend to outsource their bankcard services to larger processors. They lose track of how their referrals are cared for, and they lack insight into service levels. Creating a feedback loop of successes and failures fosters a continuously improving environment and results in increased business for MLSs and agent banks.

Follow a budget

Increasing the number of accounts acquired is one part of the equation. It is probably the most important because, regardless of cost, if there are no new accounts, paying the monthly bills can be challenging, no matter how well expenses are managed. While the majority of Americans tend to live paycheck to paycheck, we are fortunate to be in control of how to make that paycheck bigger. But as the paycheck grows, expenses grow.

Regardless of the size of your organization, having a written budget that is reviewed consistently can prevent unnecessary bleeding of money. A basic budget will list all of your income and expenses. If you get residuals from various sources, list them individually, as well as all of your expenses (electricity, phone, credit card terminals, payroll, taxes, accountant, lawyer, Visa Inc. and MasterCard Worldwide registration et cetera).

A written budget should forecast out for at least 12 months. This will give you an indicator of how successful your business is operating. It will allow you to make strategic decisions about where your dollars are best spent. At a high level, does income exceed expenses? This concept applies to personal as well as business expenses.

We recommend one budget per bank account. On a daily basis we update our budget based on what the current account balances are and what expenses we have posted or are coming due.

This allows us to operate efficiently. Intangibles of this process include being a good payee, as well as making sure that our expected income growth is on track. If you added 10 new clients last month and residuals went down, this tells you to stop and take a deeper look at your residual report.

As you build your budget you can see how much you can invest in acquiring new accounts. At the beginning you might not be able to offer a free terminal to a prospective client but, as your income begins to exceed expenses, the opportunities to expand marketing and offerings to attract new clients becomes a reality.

Another intangible factor is that simply seeing everything lined up by income and expenses will make you work harder at optimizing either your income or expenses. If in this process you realize that expenses are too high, you can turn up your sales or spend time bringing your costs down to earth.

The key is to stay debt free and not over-leverage

yourself, which causes stress and leads to poor performance. Knowing your finances are in order will result in increased sales.

Step on it

Knowing step by step and day by day how your top line and bottom line are performing will help to ensure that your business is financially stable. It will allow you to guide your strategic decisions in a reasonable and achievable direction. Over the years we have worked with friends, family and customers who struggle to make ends meet. Often just knowing the basics of what is coming in and what is going out gives you the power to solve the issues.

Take some time – if you don't already – and put your budget on paper or on an electronic spreadsheet. This will make sure that you are not breaking the bank in 2010. 📌

Jon Perry and Vanessa Lang are the owners of 888QuikRate.com, an ISO based in Ft. Worth, Texas, that was named Small Business of the Year by the local newspaper, The Star Telegram. For more information, tweet them at <http://twitter.com/dfwcard>, comment on their blog at <http://merchantservices.cc> or visit their profile at <http://linkedin.com/in/jonperry> or <http://linkedin.com/in/vanessalang>. Alternatively, you can contact Jon and Vanessa by phone at 817-857-3557 or by e-mail at jon.perry@888quikrate.com or vanessa.lang@888quikrate.com.

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Education (continued)

Marketing in the next decade

By Nancy Drexler

SignaPay Ltd.

Our marketing plans for the next decade will be vastly different from the past decade for a number of reasons, but the economy isn't one of them. It is, instead, virtually everything else: our industry, our product offerings, our customers and our media are changing right before our eyes.

Selling payments is no longer an exciting, new opportunity to help merchants grow business. It is a highly competitive battle to persuade unhappy merchants that your ability to deliver this necessary commodity is cheaper, faster or better than the numerous others knocking on their doors. It is a race to see who will find the hottest new product, who can capitalize on a productive vertical market and who will make best use of the next Web marketing development.

Success going forward will require selling new products and services to narrow audiences through developing

media channels. It will require creating an identity that is better or different from the competition's and communicating that effectively to a variety of markets.

Who are you?

To compete in the next decade, sales offices need to decide now who and what they are going to be. That decision should be based on an assessment of these issues:

- **Where is the industry going?** Will interchange be regulated? Will terminals be virtual? Will Visa Inc. and MasterCard Worldwide be replaced by Verizon and AT&T? It takes approximately 18 months to identify an avenue of opportunity, become immersed in it and get positioned to effectively sell into it. So decide now what and how you want to be selling in two years.

If you think, for instance, that merchants will jump on the opportunity to contribute part of their processing fees to charity, start today to identify processors or charities that can make that happen, and develop unique ways to deliver the message to prospects.

Or if you think the ISO model is too costly and you need your own sales channels, start working to understand what these channels might be and how your brand can own at least one of them.

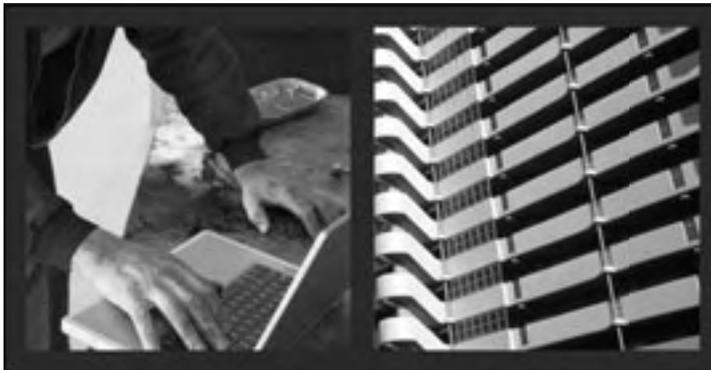
- **What are my competitors doing?** We're a small industry. We talk to each other. We read the same things. We even think alike. Study the Web sites of the major card brands and top acquirers. What industry leaders are presenting now is what you must be ready to sell tomorrow.

Then look at your competitors' Web sites. If they are offering something today, it is probably too late for you to effectively jump on board. Get ahead of the curve.

- **How can I become a thought leader?** Once you determine where the industry is headed and how your company can fit in, it's time to get tactical. How can you use new and existing channels to help you establish a leadership position in a given area or areas? Once again, you must be ahead of the curve.

Media and marketing channels

It's a little too late to capitalize on pay-per-click. Before most of us knew what it meant, a few savvy business leaders took the time to understand it, see its value and invest in it. To compete with them today would require a financial commitment most of us cannot afford; it probably wouldn't be cost-effective anyway.



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Nevertheless, technology is changing by the nanosecond, with a tremendous impact on the way we learn, make purchases and communicate. Each change represents an opportunity to impact a market in a new and different way.

With blogs, social networking sites, wikis and e-zines, the new media have changed the way we communicate with our customers. Marketing used to be about confronting prospects with messages designed to catch their attention and motivate them to feel, think or act in a certain way.

Whether they were telemarketing calls, direct mail pieces, or salespeople knocking on doors, marketing messages were one-way interruptions; we stopped prospects from doing something to tell them what we wanted them to know.

The Internet has changed all that. We no longer interrupt, and our communications are no longer one-way. We can talk to mass audiences while people are looking for the information we have. And they can talk back. This kind of two-way conversation lets our customers take part in defining our products, services and brands.

That's huge. You can reach masses of people and initiate conversations with them wherever they are. You can target those who work in certain industries, live in certain communities or support certain kinds of philosophies.

And by participating in two-way conversations, you can replace or supplement traditional (and expensive) market research, beta testing, forecasting and branding.

You can ask merchants what they want in a credit card processor, what they would be comfortable paying, or what equipment features they like and dislike. You can test a new product concept without investing a dime or put forth an idea and let the marketplace perfect it. You can open doors, close sales and even service customers with an immediacy and responsiveness that did not exist before.

Dynamic communication

The interactive nature of this communication is what has led to the term "social media." From Facebook to LinkedIn to Twitter, your customers tell you how they feel about your products and services.

By listening and responding to what they need, think and feel, you can build products and services that respond to their needs. You can then use social media to indicate how responsive you've been and thus boost loyalty and retention – one of the most important components of marketing today.

Clearly, this is much simpler to do in the consumer products arena than it is in payment processing. It's hard to

imagine business owners visiting a SignaPay Facebook fan page the way they would a page for Bruce Springsteen or Bloomingdales or the Dallas Cowboys.

Nevertheless, people do business with people they know and trust, and the social media let you create your personality, communicate to mass audiences, and learn from these audiences what you could do differently or better.

So learn to operate in this environment. Today, information and opinions about your products and services will proliferate with or without attempts on your part to control the source and flow of information. Take as much control as you can.

Do you need a Facebook fan page? Do masses of people want to comment on your products and services? Perhaps not yet, but if your merchant base is large enough, at some point they will. And you will want them to do so in a forum you can control and address.

Just be smart about it. Social media ardently discourage selling. Use them instead to learn what your customers want, what your competitors are offering and what the market can bear. Participate in online conversations to deliver quality customer support and service, and fold that into your brand.



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services

Education

Use Facebook groups, LinkedIn and a variety of other social media to join affinity groups, conduct research or promote your point of difference. Slowly but surely, you will build a reputation and relationships. And these will lead to greater exposure – and profits.

Remember, social media require constant attention and nurturing. The more you participate, the more you will benefit. Freshness and message turnover are key.

Your Web site

If you use social media to generate knowledge and awareness, you still need to turn enthusiasm into interest and interest into business. You need to build a prospect database and, eventually, you need to close a sale.

This is why you have a Web site. It is the place you direct traffic to. It is the place that delivers on the promise, reinforces the message and converts interest to action. However, one Web site is no longer enough.

Visitors to your site are looking for answers to questions or solutions to problems. And you have about five seconds to give them what they want. To make that work, create a distinct Web site for each specific audience or each specific benefit.

For instance, your message to restaurant merchants is vastly different from your message to ISO and MLS prospects. The former need to see quickly that you work with their existing POS systems; that you represent similar restaurants; and that your products, pricing and service are stellar. Then they need to be moved easily and swiftly closer to a sale. They need to see, on your site, who to contact and how, what the process is and, ideally, that you have local representation.

Sales agents want to know that your priority is to provide them the products, services and support that can make them money.

How could you possibly meet the needs of both markets in five seconds? You can't.

It's neither difficult nor expensive to create a handful of Web sites (or landing pages with unique URLs) tailored to unique markets or solutions. Micro sites that target specific vertical markets with a unique set of services and solutions might help you develop brands that build industry ownership.

Here is your opportunity to create new brand images and messages that focus not on payment solutions, but on bigger, broader, seamless solutions that serve broader industry needs. It is, perhaps, time to take advantage of this opportunity to be all things to all people, one niche at a time.

Similarly, a site dedicated to recruiting sales agents will focus on communicating a personality and developing a reputation, while a site that capitalizes on e-commerce opportunities will focus on selling products and driving customers to a checkout page.

You can do it all with one Web site. But you can't do it well. And in the next decade, you'll need to do it well.

Mobile marketing

Virtually anything you can do with a computer you can now do with a cell phone. As more and more consumers rely on mobile phones, mobile marketing is becoming an increasingly necessary tool for retail and restaurant businesses to build brand, drive loyalty and convert browsers to buyers.

Today's consumers embrace timely, accurate, helpful information. This is especially true of those who are not office-based but who communicate more often on the go.

To meet this need, we can build mobile text lists similar to e-mail lists and use them to announce new products, sales or specials.

Start a mobile coupon campaign: via text messaging, the coupon will remain on customers' phones and be with them whenever the need arises. Use text to report office

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Education

The new media aren't replacing tried and true methods of marketing such as advertising and direct mail. In many cases, the new media are enhancing the effectiveness of traditional media. The buzzword now is integration. Successful marketers are drilling deep, creating single messages to single audiences and then communicating them across multiple media channels.

closings or product updates. Text messaging can also be used to poll customers about their experiences doing business with you – invaluable research you should use.

The payments industry is going mobile. Now is the time to educate yourself, test ideas and be prepared to capitalize on this evolving opportunity.

The print world

The new media aren't replacing tried and true methods of marketing such as advertising and direct mail. In many cases, the new media are enhancing the effectiveness of traditional media. The buzzword now is integration. Successful marketers are drilling deep, creating single messages to single audiences and then communicating them across multiple media channels.

A new product, or even new product feature, can be announced on social media

and on your Web site, and supported by an e-mail campaign, a personalized direct mail campaign and an ad in a vertical industry publication. All these efforts should be used together to drive recipients to a Web site or landing page that immediately communicates the benefit of the offering and provides a simple path to getting on board.

The more specific the offer, more targeted the audience and more personal the communication, the more substantial the results.

The great divide

Marketing doesn't change overnight; it evolves over time. One wonderful benefit of today's marketing is the ease with which it can be measured. Savvy marketers use this data to constantly tweak and improve the effectiveness of their messages and delivery channels.

The tenets of good marketing haven't changed. Marketing gurus can create myriad enticing messages, but the most important contribution to marketing success ultimately falls on the shoulders of corporate management. If the products and services aren't there to promote, or if they don't live up to the marketing promise, everything fails.

Despite the media revolution, marketing now and in the future still depends on training and retraining your staff to make the customer the hero, keeping the message consistent and valuing loyalty as your top priority. ■

Nancy Drexler is the Vice President, Marketing for SignaPay Ltd., an ISO headquartered in Dallas. Reach her at nancyd@signapay.net.

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Education (continued)

Legal ease

One company per ISO deal

By Adam Atlas

Attorney at Law

Have you thought about placing each of your ISO acquiring relationships in a separate company? If you are a merchant level salesperson (MLS) working with a number of ISOs, the case for separate incorporations is not as strong. If, however, you are an ISO registered with more than one acquiring organization, the arguments are more compelling.

Following are six reasons why you should put each registration in a separate corporate entity.

1. Isolation of liability

Suppose Company A has two ISO deals, one with Processor A and one with Processor B. If the Processor A relationship results in a \$500,000 liability to the ISO, Company A's relationship with Processor B will likely suffer, if only because revenues from that relationship may be soaked up by Company A's liabilities under its relationship with Processor A.

An ISO should never allow one processor relationship to interfere with other processor deals. Placing each processor deal with a separate company provides the ISO protection for each relationship from the potential liabilities of the other processor relationships.

Processors usually want to be informed of other processor relationships an ISO may have, whether they be direct or indirect.

Divulging that information may, however, have the downside of the processor wanting to seek guarantees from the other businesses for the ISO's obligations to said processor. However, such guarantees are not always required and will ultimately be a matter of negotiation with the processor requesting them.

The ability to create a kind of silo for each processor relationship is the strongest rationale for having each processor relationship in a separate company. All of the other arguments I present herein are of lesser importance.

2. Stable identity of marketing

If an ISO sells for Processor A and Processor B, moments of confusion over branding, customer service and marketing will inevitably arise. This can lead the ISO to inadvertently breach card company rules and incur considerable fines.

For example, if MLSs fail to properly identify themselves with the name of the registered entity for which they are selling, they can incur fines of \$50,000. Placing each ISO relationship in a separate company will lessen the likelihood of this happening in two ways:

1. If each company is operated as a separate business, with separate staff, office space, telephone numbers and so forth, the chances of a mix-up in branding are much lower.
2. If one ISO entity breaches the card brand rules and places its residuals in jeopardy, the second ISO, being in a separate company with a separate processing relationship, will not necessarily feel the full negative impact of the violation.

Even if you decide to have all your processor relationships in one company, it is a good idea to have agents isolated within each of your processor sales channels. For example, an ISO that has relationships with Processor A and Processor B may have five MLSs selling in each processor channel, but none of them selling for both Processor A and Processor B.

Keeping MLSs in dedicated sales channels will considerably decrease the chances of branding rule violations. For agents, selling merchant accounts involves significant back-and-forth communication with both merchants and acquiring banks. It is always helpful to decrease the opportunities for errors in those exchanges.

3. Accounting

Each processor has its own way of calculating residuals. I am not an expert in accounting, but I think it is easier for a company to deal with a single set of residual reports, agent reports and agent payments than it is to handle diverse sets of such reports.

It is also easier to determine the profitability of a given processor relationship, as compared with other processor relationships, if it is isolated within its own corporate entity with dedicated costs and expenses.

In addition, when your ISO relationships are each in different companies, you may be able to set up intercompany loans whereby the more profitable relationships are able to help finance the less profitable ones.

4. Agent retention

Having worked for many MLSs over the years, I have learned that they crave stability. An ISO that has a single

brand, with a single and reliable compensation package, I think, will be more appealing to MLSs than an organization that requires agents to constantly figure out which channel is most profitable, thereby distracting them from their primary objective: to close new merchant accounts.

5. Portability

When it comes to portfolio sales, a buyer may be interested in purchasing not just a residual stream or a merchant portfolio, but also an entire company if it is exclusively dedicated to the residual stream or portfolio in question.

If your ISO relationships are segregated into distinct companies and a purchaser doesn't want to purchase your whole merchant portfolio, you may be able to sell one company to the buyer and retain the remainder of the portfolio in your other company.

This would avoid the complicated division and assignment of relationships from an ISO doing business with more than one processor. On the other hand, if a buyer wants to purchase all of your processor relationships, it is not much more difficult to sell them out of multiple companies than it is to sell them from one individual company.

6. Winding down

Sometimes, a processor relationship goes sour, and if other processing relationships are handled by the same entity, the ISO owner may risk losing an entire portfolio developed over years with multiple partners.

When each processor relationship is isolated within a separate company, the owner has flexibility to wind down any individual processor relationship and cause only minimal interference with other relationships.

Getting help

All incorporations and accounting matters should be done and planned with the counsel of your local corporate attorney and local accountant. Be sure to seek advice from an accountant who knows your municipal and state tax laws before committing to any particular structure for your ISO business. ■

In publishing The Green Sheet, neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If you require legal advice or other expert assistance, seek the services of a competent professional. For further information on this article, e-mail Adam Atlas, Attorney at Law, at atlas@adamatlas.com or call him at 514-842-0886.

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Education (continued)

Net results

By Dale S. Laszig

DSL Direct LLC

As we assess the first decade of the new century, it's worth noting how much the Internet has changed our world by creating a more level playing field for business owners. Today, anyone can build brand awareness on a global stage with no money down. What's especially interesting for those of us in merchant services is that we can no longer dismiss the small startup company because, hey, you never know. Today's startup could be tomorrow's viral enterprise.

Where there was once a world of difference between small to mid-sized and large business accounts, some merchant level salespeople (MLSs) have noticed a bit of cross-pollination between the two. Small companies increasingly have global footprints and 24/7 help desks, and publicly traded corporations are emphasizing personalized service and local community support.

In fact, many corporate sales managers have borrowed a page from the MLS playbook by encouraging those reporting directly to them to become more entrepreneurial in their approach to territory management.

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Advantages of business ownership

For the right person, the advantages of business ownership far outweigh the risks. Advantages include:

- Being your own boss
- Directly benefitting from hard work and long hours

That's an encouraging sign for those of us who are independent contractors and business owners. We know what it takes to design and manage a business because we've built our portfolios that way, one merchant at a time. We have learned how to work hard; we've learned how to work smart; and now the rest of the business community is beginning to follow our lead.

According to the U.S. Small Business Administration (www.sba.gov), over 50 percent of small businesses fail in the first year, and 95 percent fail within the first five years. Despite these daunting statistics and an unstable economy, it is still possible for an entrepreneur with a dream and a business plan to launch and grow a company.

MLSs who partner with new business owners have an opportunity to share knowledge and expertise – not only of the payments industry but on a broad array of business practices, based on our own experiences as business owners. Let's take pride in our accomplishments and recognize how valuable we can be as strategic resources for other entrepreneurs.

In fact, we are often so busy educating our customers on industry best practices that we overlook how we could use the same strategies to promote our services to a wider audience.

How many times do you think about setting up your own Web site or updating your profile on a social network but procrastinate because it's a low priority? They may seem like minor housekeeping details, but they are working for your merchants, and they could be building brand awareness exponentially for your business as well. Maybe it's time to do for ourselves as we have done for others. Here are five small but highly effective ways to promote our merchant service businesses on the Internet in 2010.

Your Web site

Building and publishing a Web site has never been easier or more affordable. Even a brochure site will boost your credibility and optimize your business on Internet search engines. Most Internet service providers offer Web site design starter kits with customizable templates. Start with a simple brochure site and periodically update it with links and new information.

Your blog

Blogging is a great way to position yourself and

- Having greater earning and growth potential
- Being part of something exciting
- Enjoying limitless challenges and educational opportunities

Source: U.S. Small Business Administration

your company as a payments industry resource and specialist. Share success stories, amusing anecdotes, observations on industry trends, or important information about the Payment Card Industry Data Security Standard. Merchants frequently search the Internet for information about credit card processing, so become a trusted voice of the industry.

Your shopping cart

Even traditional merchants are incorporating e-commerce into their businesses, as traditional MO/TO consumers increasingly migrate to online ordering. Your company's e-commerce solution is the best way to promote the ease and security of using a shopping cart or payment form. It will also streamline efficiencies by driving customers to order supplies and accessories on your Web site instead of calling you or your help desk.

Your profile

Your profile on a social networking site is just as important these days as a business card and a resume. Prospective employers and customers visit these sites to learn about you, your interests, background and professional affiliations. These virtual communities increase visibility and facilitate connections with other professionals in your industry, as well as prospective clients.

Your video

As video technology becomes more affordable and accessible, many busy professionals rely on video presentations that can be downloaded and viewed at potential clients' convenience from an Internet or FTP site. Consider adding merchant testimonials or training modules to your Web site. These vivid product and software demonstrations are warmer and friendlier than written quick reference guides and will create more lasting impressions on your viewing audience.

Your name here

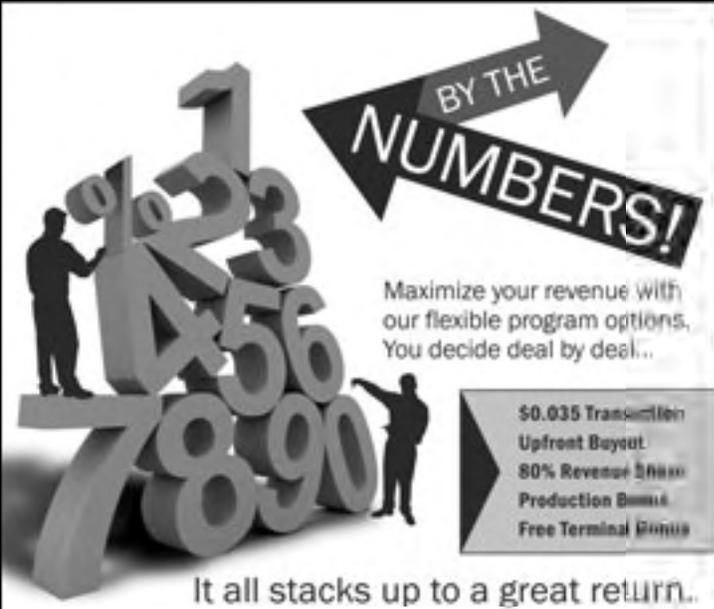
Today, MLSs are leading the way. We wrote the book on business startups and will continue to inspire business owners, both large and small, with our leadership and know-how. Starting a business is not for everyone. The SBA tries to discourage would-be entrepreneurs with failure statistics and other sobering facts. Take a look at the seven attributes that the SBA considers essential for

success in managing a business (found at www.sba.gov/small-businessplanner/plan/getready/serv_sbplanner_isentforu.html):

1. A tolerance for risk
2. Ability to get along with others
3. Adept at making decisions, often quickly and under intense pressure
4. Physical and emotional stamina for long hours, especially in the beginning
5. Organizational and planning skills
6. Strong motivation
7. Support from family

Sound familiar? Sometimes we're so busy contributing to the success of our merchant customers that we forget about ourselves. Let's resolve to make better use of our great ideas, expertise and payments industry solutions. We can start by pretending that our own companies are the prospects. Let the games begin. 🎮

Dale S. Laszig is a writer and payments industry executive with a diversified background in sales and marketing. Her company, DSL Direct LLC, helps industry professionals and business owners leverage electronic transaction technology. She can be reached at 973-930-0331 or dale@dsldirectllc.com.



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IndustryLeader

The shoulders others stand on

Biff Matthews, President of Thirteen Inc., the parent company of payment and compliance solutions provider CardWare International, has been in the thick of the payments industry's evolution since its inception.

In the late 1960s, before the industry existed, Matthews was Personnel Manager of Federated Department Stores Inc. Back then, transactions were processed with credit cards made from metal plates using pump-handle imprinters with ink rollers to imprint card information.

In the early 1970s, Matthews began working as a merchant level salesperson (MLS) with Ohio National Bank. He sold MasterCharge, which was renamed MasterCard in 1979 and is now the publicly traded MasterCard Worldwide.

"We were employed by the bank, and we sold and serviced the imprinters that were used before POS terminals," Matthews said. "I had been involved with imprinters, but the problem was that we had to send the machines back to the vendor for service. So in the mid '70s, I started repairing imprinters myself, and in 1975 I started my own company doing nothing but that."

A new company

That company, Imprinters Sales and Service, provided imprinter service throughout the country and eventually became a division of Thirteen Inc., founded by Matthews in 1976. By 1983, ISS was working with every imprinter manufacturer in the United States.

When electronic transaction processing technology emerged in the 1980s, Matthews started a second division of Thirteen Inc., dubbed The Supply Department, to sell new transaction solutions and products. In 2000, Matthews rolled the two divisions into CardWare International.

Matthews considers CardWare to be a merchant services provider in the truest sense of the word because, in addition to providing technology solutions, POS equipment, security and fulfillment solutions through its own direct sales force, it also offers a comprehensive range of state-of-the-art payment products and services through select business partnerships.

Strategic bonds

Matthews cited Payment Card Industry (PCI) Data Security Standard (DSS) compliance services as a good

When electronic transaction processing technology emerged in the 1980s, Matthews started a second division of Thirteen Inc., dubbed The Supply Department, to sell new transaction solutions and products. In 2000, Matthews rolled the two divisions into CardWare International.

example of what can be accomplished through a partnership. "Naturally, we don't do PCI because that's one of those things you have to leave to experts," he said. "You don't want to be – nor can you be – a product expert in all facets.

"We are primarily problem solvers, and we have been since the company started 10 years ago," Matthews said. "So in the traditional payment areas – and even in new areas – we look at what kind of issues that merchant is having and how we can help."

CardWare partners with ControlScan Inc. to help clients achieve PCI compliance. The companies have been working together since 2008, the year when ControlScan officials met Matthews at the ETA's Annual Meeting & Expo in Las Vegas.

"We were focused on working with acquirers and ISOs in the marketplace, and it was pretty obvious that Biff is well respected and well-known in the payments community," said Jethro Felton, ControlScan's Executive Vice President of Business Development. "It's obvious he is a thought leader in the industry, and as a result of our partnership with CardWare, Biff has been able to facilitate introductions and give us opportunities that we otherwise might not have had."

CardWare focuses on small to mid-size companies with anywhere from 2,000 to 50,000 merchants. "As with all of our partners, we look for solutions providers that are a bit like us – large enough to be able to meet the needs of a wide variety of clients but at the same time small enough to really care," Matthews said.

A meeting of minds

Matthews has survived – and thrived – in the banking and payments industries because he strives to build business based on integrity, honesty and transparency and appreciates others with the same values.



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IndustryLeader

He became a founding member of what is now The Electronic Transactions Association when he and 11 other payment veterans met in a conference room at Chicago's O'Hare International Airport in October 1988. The impetus for their initial meeting was quite specific.

"There was a particular company that was a bit unscrupulous, and they were taking advantage of other ISOs and vendors," Matthews said. "So the group of us saw that there was a need for some self-regulation, to make an effort to bring some organization, and therefore some integrity, to the industry. At the time we called it the Bank Services Association.

"In 1990 we incorporated as the ETA and hired an executive director to assist us

because we realized this was much bigger than the 12 of us could deal with. We needed someone to guide us properly down that path. It was important to take some positive action to weed out the dishonest companies and get the government off our back."

Matthews said concerns about governmental regulation could lead to creation of a blacklist of ISOs, processors or MLSs that do not meet agreed-upon industry standards. Feeling that a blacklist could damage the industry, he favors creating a "white list" of professionals and organizations that meet or exceed industry standards. "Ideally, then, all merchants can access this white list, which allows them to know that they are talking to somebody with honesty and integrity," Matthews said.

Multiple contributions

Constant changes within the industry and his involvement in related innovations have kept his "juices flowing," Matthews said. "Becoming a business owner, which is something I never thought I'd do, has made me a better sales representative, businessperson and manager. This business has probably reinvented itself four or five times, so at CardWare it's important that we continue to evolve to remain a viable industry player."

After more than three decades running a business, Matthews has learned the importance of balance in his life. "My wife constantly tells me I don't have enough time in the day, and I need to learn to say no," Matthews said. "So I've pulled back my workload a bit to do some other, diverse things. I've been a trustee for my church for years and served as a vice president and board member for our local arts programs, so for me it's a great opportunity to give back."

In addition, as a member of *The Green Sheet's* advisory board, Matthews is generous in sharing the insights he has gained from his extensive industry experience. And, in keeping with the publication's educational mission, he has written monthly articles about issues of importance to ISOs and MLSs for several years. These are archived online at www.greensheet.com. 





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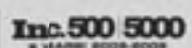
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Southeast Acquirers Association 2010 Annual Conference

Highlights: The focus of this event is education and providing information on current issues concerning the feet on the street in the electronic payments industry.

The two-day seminar will include various networking opportunities with all vendors and attendees.

The exhibit hall will feature many of the leading credit card payment processors, equipment manufacturers, leasing companies and other third-party vendors in the industry.

Breakout sessions will provide a collegial forum in which to learn and share information; panel discussions, which have been some of the most heavily attended sessions in years past, will be led by industry leaders.

When: March 22 – 23, 2010

Where: Sheraton Atlanta Hotel, Atlanta

Registration: www.southeastacquirers.com/conference



IRR Holdings Ltd. Prepaid Expo USA

Highlights: Prepaid card industry professionals from the United States and over 25 other countries will converge on Las Vegas to attend the annual Prepaid Expo USA.

Twelve case studies and nine market focus sessions are slated to inform event participants on legal, regulatory and enforcement challenges, industry-specific strategies, and the state of the industry.

Keynote addresses will be delivered by Bill Clinton, 42nd President of the United States, and Arkadi Kuhlmann, President and Chief Executive Officer at ING Direct.

Workshops will be available for industry newbies. An Innovation Showcase on the event floor will highlight the latest technologies, products and services. The expo also promises a golf tournament and a performance by Penn & Teller.

When: Feb. 22 – 24, 2010

Where: Rio All Suites and Casino, Las Vegas

Registration: www.iirusa.com/prepaid/online-registration.xml?state=select_event



ATM Industry Association 11th Annual Conference & Expo

Highlights: This event, titled ATMs 2010: Opportunities for Enhanced Value, promises a wealth of information on how to drive down operational costs while improving ATM return on investment, customer service and functionality.

Keynote speaker Bob Tramontano, Vice President, Marketing for NCR Corp., will provide a high-level vision of the industry's future. Insiders will discuss developing self-service, ATM and payment technology, as well as the likely impact of the current regulatory environment on the financial services sector.

Slated workshop topics include Payment Card Industry Data Security Standard compliance for payment devices, mobile ATMs and ATM program management, to name a few.

Breakout sessions and panel discussions will address the needs of international customers; self-service, third-party advertising; the ATM's role in the payment sector; open platform software; the global scourge of data skimming; international ISO expansion; and much more.

When: Feb. 17 – 19, 2010

Where: Hilton Miami Downtown, Miami

Registration: www.atmiaconferences.com

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NewProducts

Mobile trends applied to brick-and-mortar

Product: Digital receipts with the L4150 terminal

Company: Hypercom Corp., TransactionTree Inc.

Through a partnership with digital technology provider TransactionTree Inc., payment terminal manufacturer Hypercom Corp. is offering the option of e-mail receipts with its L4150 terminal.

Digital receipts are growing increasingly common with the proliferation of platforms that use cell phones as payment and payment acceptance devices. But this offering from Hypercom and TransactionTree is unique for integrating the digital service into what is essentially a conventional brick-and-mortar terminal. The service is provided through software installed in the L4150 device and connected to the TransactionTree server.

The digital receipts reportedly offer numerous advantages. They:

- Are more environmentally friendly than paper
- Are cheaper than paper receipts (the expenses for which include paper, ink, printer maintenance, and storage)
- Afford new marketing opportunities to merchants
- Are dramatically easier to organize than batches of paper

Consumers who pay on the L4150 terminal have the option of receiving a regular paper receipt or an e-mail receipt. They select their preference using the terminal's stylist, which can also be used to enter personal information like the e-mail address to which the receipt is sent and, in some cases, other information like a phone number.

Marketing opportunities added on

Merchants who use the service may also include things like coupons, promotional offers and other advertisements, and even pictures of their products on the e-mail receipt. Consumers who opt to receive digital receipts are also given the decision whether or not to accept such offers along with their transaction information.

Stuart Taylor, Vice President of Global Marketing for Hypercom, said having e-mail receipts double as marketing platforms can be particularly effective with loyalty programs that use points and other enticements to increase customer retention, and which tend to be most effective when customers are communicated with and notified of store offers.

"It ties a loyalty program – which is the basket of goods

Features of e-mail receipting on the L4150 terminal include:

- Gives customers choice of e-mail or paper receipt
- Integrates with loyalty programs for marketing opportunities
- Provides other online repositories for storing transaction info
- Environmentally friendly, cuts paper waste
- Cuts costs, including paper stocking, printer ink and storage

– to a real user through the e-mail address, and at the same time offers the consumer a service in the fact that it's a digital receipt," Taylor said.

Jason Shapiro, Chief Executive Officer of TransactionTree, added that a receipt's advertisement or offer can be tailored to an individual consumer based on his or her spending history at a given store. "Our service and system moves away from old campaign-based marketing – spamming everyone at the end of the month – to more of a real-time service," he said. "It's an 'I just bought shoes so I may be interested in socks' type of a service."

More manageable than paper

Shapiro added that digital receipts are neater and easier to organize than their paper counterparts for both merchants and consumers "Imagine if you went on a business trip and could access all your receipts digitally how much easier your expense report would be," he said. He also noted that even when a customer opts for a paper receipt, the merchant still gets a digital copy instead of a paper one.

Shapiro said TransactionTree also offers online "repositories," or Web sites supported by the company's server where merchants and consumers can see their transaction histories away from their e-mail accounts. Thus, shoppers or merchants deluged with e-mails can delete their receipts and still have another place to view them.

"It's reflective of increasing awareness of sustainability, so I think it's a win-win all around," Taylor said. "For retailers, there's a lot of cost involved in producing [paper] receipts. And this offers them, with the loyalty programs, some opportunities to access the consumer. And it gives the consumer an opportunity to contribute to helping the environment and reduce the use of paper." ■

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NewProducts

Flexibility with a mobile terminal

Product: Swipe It and QuickSwipe

Company: Simply Swipe It LLC

A Southern California-based company called Simply Swipe It LLC has joined the party in a suddenly robust field of payment acceptance terminals that retrofit to existing cell phones.

On the heels of last month's releases of Square, from Twitter co-founder Jack Dorsey, and PAYware Mobile, from terminal manufacturer Verifone Inc. comes Swipe It from Simply Swipe It.

Swipe It is a software-based payment terminal for the Apple iPhone and iPod Touch that the company touts as "ISO agnostic." The software is being marketed in conjunction with a payment card swipe device called QuickSwipe, from Apple and PCaccessory provider Macally.

"There are thousands of processors and ISOs out there, and it doesn't make sense for there to be 1,000 applications," said Braden Harris, Vice President of Sales for Simply Swipe It. "So we thought, 'why don't we be the

Features of **Swipe It and QuickSwipe** include:

- Works with any model of iPhone or iPod touch
- Accommodates various levels of security with Address Verification Service
- E-mail receipt option
- Provides fingerprint transaction authentication with iPod touch
- Point of swipe encryption

application that is sort of ISO agnostic, so any old company in America, and, eventually, around the world, can use Swipe It and QuickSwipe as their application and platform and maintain their relationship with all their merchants."

Harris added that "We want to create a reseller or partner program such that all the other ISOs who don't currently have an application will use ours." He noted that ISOs who sell Swipe It have the option of branding the software with their own name.

Harris said Swipe It and companion product QuickSwipe provide a degree of flexibility that gives them wide

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appeal. For one, QuickSwipe works with any model of iPhone or iPod touch and is designed to eventually integrate with BlackBerry and Android phones as well. Harris said doing so will require only designing a different connecting jack.

Layered security

He noted that Swipe It, which supports both Internet and in-person merchant accounts, also accommodates various levels of security, depending on a processor's preference.

The program connects to the Address Verification Service (AVS), giving product users the option of using address information (like ZIP code) to verify transactions.

"Processors have different risks they're willing to take on," Harris said. "We can program the system so that AVS ... is always required, even for a swipe transaction. If they've decided they want real high level security, then if [address information] doesn't match, the transaction won't go through.

"Other people have a bit lower security: they won't even ask for the ZIP, or may ask and if the setting says the zip is wrong it still processes. So we can customize the settings to meet the processor's profile."

Harris said Swipe It can send e-mail receipts to buyers, and that transactions can be authenticated with a fingerprint signature on the iPhone Touch.

Immediate encryption

The QuickSwipe device, meanwhile, is fortified with MagTek Inc.'s MagneSafe card reader, which encrypts consumer card information at the point of swipe. While noting the security benefits of using QuickSwipe, Harris also said that merchants (including those who do in-person sales) can use Swipe It without a card reader by manually entering consumer card information.

Harris added: "One thing that's cool about [the card reader] is, let's say you're at a tradeshow and you're deep down in the concrete basement and don't have an Internet connection.

As a merchant, you can swipe a transaction and encrypt that and then not until you get an Internet connection will the transaction process ... but the data is secured until then." ■

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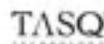


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- Robert Frost



Bounce the January blahs

Let's face it, as the first month in the calendar year, January has its difficulties. Holiday stress, travel and family obligations have taken their toll. It's cold outside. And for the last couple of Januarys, the economy has been in lousy shape. So if you're feeling a little worn out and unmotivated right now, you're not alone.

And yet, as ISOs and merchant level salespeople (MLs), you can't really afford to be lax. With the current business climate hopeful but fragile, meeting that January sales quota and catering to your existing merchant clients is all the more important. In today's business environment, it may mean your livelihood or your company's ability to stay competitive.

Think jumper cables

But how do you jump-start the new year when your

batteries are low? Well, of course, you recharge them. Start with a health assessment, since your well-being is the foundation for your productivity.

That holiday food heavy on gravy and butter may have added to your waistline, making you lethargic and apathetic. You can kick-start your metabolism by instituting a modest exercise routine that includes moderate stretching at break time and daily walks around the block.

To engage your brain, a motivational CD playing in your car stereo or a self-help book from the local library may do the trick. Brainteasers like three-dimensional jigsaw puzzles and word scrambles found in newspapers can give your mental faculties a workout. Another tack you might take is to find a new hobby or enroll in a junior college class, with the simple goal of keeping your mind fresh with new ideas.

With the body and mind once again pulling in the same direction, you can safely turn to more aesthetic concerns. Could your wardrobe benefit from a minor upgrade? A couple of new ties or a new overcoat to replace older,

Inspiration

out-of-date apparel might enliven a staid appearance. And when was the last time you bought new socks? It's easy to forget how good a new pair feels on your feet.

And what about your office or cubicle? A new plant, rearrangement of the objects on your desk, even a newer picture of your child or pet can change the tenor of your work environment for the better. The same can be said for the desktop settings on your computer. Changing the background image or the font for your file folders can impact, in a small but significant way, how you engage your world.

Dump the doldrums for duty

Additionally, think of your colleagues; they may be in a rut, too. You can boost company morale simply by doing what you can to stay motivated. If you're dragging when you arrive at the office every morning, that negativity can affect everyone in the office. It is therefore almost a duty that you do what you can to remain positive and actively engaged in the job of selling.

Your merchants might need a boost as well. If ISOs and MLSs are experiencing the post-holiday doldrums, you can expect many merchants are feeling the same way, too. In fact, given the state of the economy, you can bet many merchants are stressed over soft holiday sales and

uncertainty about whether 2010 will bring recovery or a deepening recession. Therefore, this may be a good time to call your merchants or drop in on them. A positive conversation, words of reassurance or simply offering a supportive ear might be just the thing to energize them, and you, for the new year.

Change a bummer to bucks

And that is the main point to contemplate. While ISOs and MLSs may be feeling the winter blues, so are your merchants. A little personal outreach and support may go a long way in keeping that merchant attrition rate low and your bosses satisfied with your work, despite circumstances beyond your control.

Perhaps that is the surest way to overcome ennui at the workplace. By encouraging your merchants this January, you have a better chance of still having them in your portfolio this time next year. And being able to say that come January 2011 should provide you a well-deserved lift.

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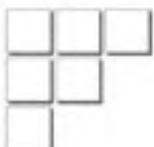
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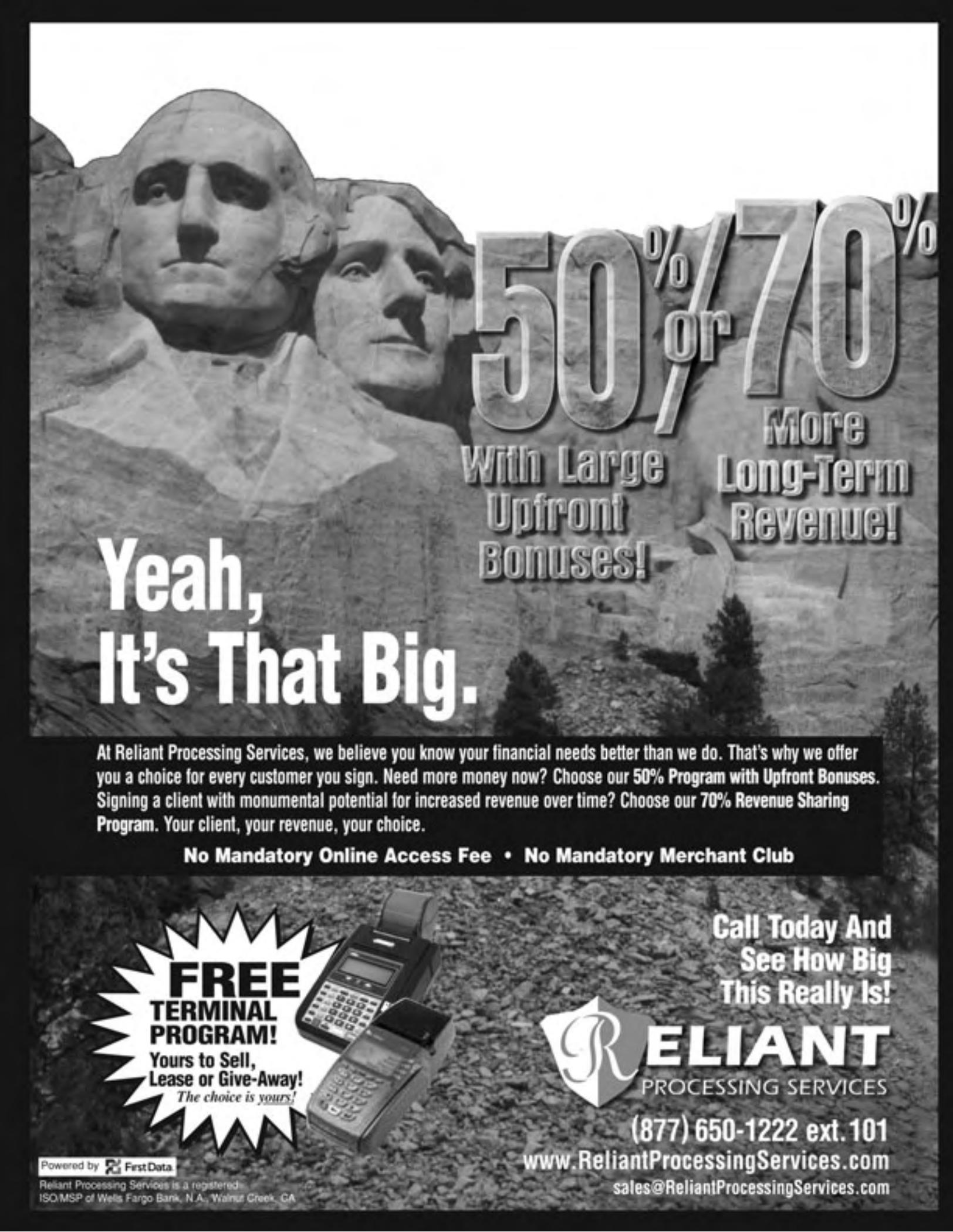
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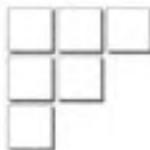
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* Same and next day transmission of funds is guaranteed by CREDOMATIC. Actual posting of all deposits to merchant account is determined by merchant depository bank.

Merchant Solutions:

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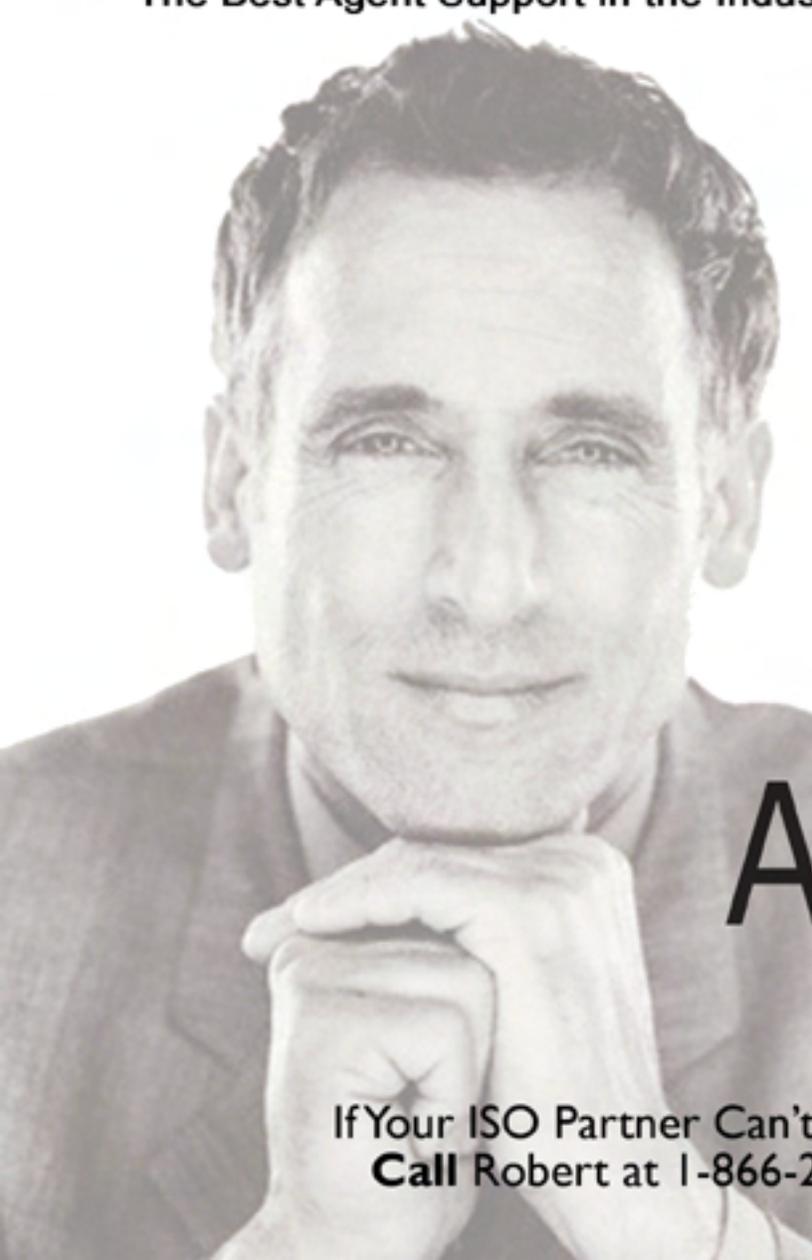
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