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March 22, 2010 • Issue 10:03:02

## Light alleviating a dark decline

**A**s we are all aware, the U.S. economic scene has been fairly grim for the past several years, but many expert sources say the economy is beginning an upswing, though modest it may be. If you are like us at *The Green Sheet*, you are keenly watching for any sign of improvement, and the economy does seem to be showing some lift in a number of places.

A slow, subtle growth seen in various markets indicates that positive activity will likely continue in months to come.

Let's observe some bright spots in several major sectors to see if we can find light at the end of what, to many, seems like a very dark, long tunnel.



### Upward movement overall

In the overall economy, a three-month moving average of the Ceridian-UCLA Pulse of Commerce Index shows a 3.3 percent increase at an annualized rate. This follows a significant increase in December 2009 and a fall of the index in January 2010.

Based on real-time diesel fuel consumption data gathered from the trucking industry and tracked by Ceridian Corp., the index closely resembles the Federal Reserve Board's Industrial Production Index. The quarter-year moving average tends to be more accurate because it shows the trend of the economy over a three-month period. Business owners often use moving averages to determine long-term sales trends.

Edward Learner is the Director of the UCLA Anderson Forecast and Chief Economist for the Ceridian-UCLA Pulse of Commerce Index. He stated the following in a release published on UCLAforecast.com: "Though the January 2010 number is disappointing, the index is 3.6 percent above its January 2009 level and is similar to year-over-year pre-recession values.

See Light alleviating on page 63

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**Notable Quote**

**Our merchants' survival is our mandate. We do whatever we can to minimize attrition. Our reps are required to explain why any merchant leaves our service. It is not a pretty picture.**

See story on page 36



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# Forum

## **Mobility in payments: Not a zero sum game**

Paul Rasori's article for *The Green Sheet* ["Let's be smart about smart phone payments," March 8, 2010, issue 10:03:01] on security for mobile payments was well written but illustrated a myopic (VeriFone) view of the mobile payments world because it subtly implies that only VeriFone's product or products like it offer the type of security needed for mobile payments.

Rasori's claim that the process of manually entering credit card numbers into a mobile device may not offer appropriate security unless the card is swiped through a device that attaches to the iPhone is quite convenient, considering that his company now sells a device that does precisely that.

I think providers of embedded solutions and Web-based browser solutions, who offer solutions on dozens of different types of cell phones, would disagree with his argument. Mobile payments is an emerging and exciting market.

For the years I have been in the wireless POS sphere the market has continued to grow. But the market is evolving now, and the fears Rasori tries to plant in his article are without foundation or proof.

I am unaware of Visa taking a public stand against manual entry of a credit card number on a mobile phone. Qui Tacet Consentire (Silence gives consent) in this case means Visa knows about it and is allowing it. Rasori mentions that all the apps at the Apple App Store claim to be secure, as does VeriFone's.

Can it be proven that manual entry apps are not secure? VeriFone's game plan (ISOs take note) includes going directly to merchants with their product and gateway service, while other providers continue with the more traditional model of working the new markets through merchant service providers.

With 14 to 18 million merchants in the mobility pool, it is not a zero-sum game. Many methods are available, and the smart ISO who signs a merchant up for mobile payments had better have a hardware fallback for my predicted 20 to 25 percent of merchants who will become dissatisfied with the limitations built into mobile payments on their cell phone.

Some of these are no PIN debit, no multi-app capability, and difficulty and confusion in using the device simultaneously with the other apps in it, including that primary reason the iPhone exists – to function as a phone.

The key element here is, as Rasori said, "Be smart" but, let

me add, expand your possibilities. Be smart in helping your merchant. Be smart in selling the right product for the right merchant. Be smart for your own business and your own profitability.

Be smart and decide whether to sell a mobile app or a full featured, multi-application device. Be smart and sell against short-term convenience, and sell for your merchant's needs and their business.

Until it can be proven that a mobile application is inherently and demonstrably risky, proceed with the attitude that there is more than one way to sell mobility. In many respects, selling to the millions of mobile merchants is a bit like "herding cats." They are spread out and share few business models with each other. The elements they do share are hard to pin down in a strategic sales plan.

Nevertheless, the opportunity is there. Seek it without fear, and sell your merchant the best solution for them. It might be WAY Systems. It might be a mobile app. It might even be ... VeriFone.

Tim McWeeney  
WAY Systems Inc.

Tim,

We shared your letter with Paul Rasori; here is his response:

*Tim's overlooking the rate premium that the card brands levy for card-not-present fraud risk. And in the real world, not all phone and PC platforms are free from malware. ISOs can seize an opportunity that provides real value customers can relate to: lower fees. Smart phones aren't for every merchant, certainly, but they're ideal for potentially millions who won't buy dedicated systems.*

*We, at The Green Sheet, appreciate both of you for having this discussion. Hearing from expert POS solutions providers can only help our readers make informed decisions about how to meet their merchant customers' needs.*

Editor

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Would you like us to cover a particular topic? Is there someone you consider an industry leader? Did you like or dislike a recent article in *The Green Sheet*? What do you think of our latest GSQ? E-mail your comments and feedback to [greensheet@greensheet.com](mailto:greensheet@greensheet.com) or call us at 800-757-4441.

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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

## Light alleviating a dark decline

As we are all aware, the U.S. economic scene has been fairly grim for the past several years, but many analysts say the economy is beginning an upswing, though modest it may be. This article examines some of the brighter bits of economic news to emerge in recent months, providing hope for a long-term recovery.

View

34

## Payments industry issues: First quarter 2010

It seems change is coming faster and faster, as every month brings new issues to the fore in the payments industry. This article discusses a few of them, from credit card reform to the entrepreneurship that the coming years will require of ISOs.

View

24

## Are banks losing grip on payments?

A movement among consumers to boycott big banks and move their business to alternative financial institutions like community banks and credit unions is catching on. Some states are considering giving state-chartered financial institutions priority consideration when bidding on state contracts. What does it all mean for the acquiring sector?

Feature

36

## Positive economic signs and actions - Part 1

Economic tides seem to be turning, albeit slowly. So *The Green Sheet* asked members of our advisory board for their thoughts on four questions concerning their ability to cope with the economic tumult. This article contains the first portion of their responses. The remainder will be printed subsequently in *The Green Sheet*.

View

26

## Dial or smile

Those who decide to build a merchant services company will experience the good and the bad that come with running your own business. Many business owners will face the question: is it better to grow my business through outside sales representatives or have inside sales representatives calling on merchants to procure business?

Feature

44

## Win-win scenarios abound at Prepaid Expo

A prevailing theme among speech makers at the Prepaid Expo USA 2010, held in Las Vegas in February, concerned the potential for prepaid cards to lift up financially underserved individuals worldwide, while allowing industry stakeholders to flourish at the same time. Among the speakers? Former President Bill Clinton.

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News

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### **Legislative outlook: Interchange bills less likely than ID fraud rules**

The legislative outlook for payment acquiring is mixed. Lawmakers are taking a cue from the industry on the issue of data security, while the debate over interchange has resurfaced amid rumors that at least one high-profile senator is considering new legislation.

Education

70

### **Street Smarts<sup>SM</sup>: Parting thoughts for readers**

Few are able to create long-term sustainable income in the bankcard industry. Those who have made a lifelong career selling merchant services are to be commended; it is not easy but is well worth the journey. In their final column, our Street Smarts authors reflect on their year as magazine columnists and on their role in the merchant services industry.

News

53

### **First Data's composite security system - a game changer?**

First Data launched a pilot security program, involving about 400 merchants, under which it is deploying a multipronged security architecture combining encryption and tokenization. Will this program prove a benchmark in the industry's long-standing fight against data theft?

Education

74

### **Police warn of new skimming devices**

Police throughout the nation are warning cardholders that tech-savvy thieves are stepping up their game and swiping customers' hard-earned money through increasingly sophisticated skimming devices. These devices, which are smaller than cell phones, can be placed on ATMs or used by untrustworthy employees to steal sensitive data.

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Education

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### Ripples on the mobile Web

Even die-hard laggards have been dragged kicking and screaming into the mobile age, in which access to friends, colleagues, e-mail, Internet search and social networking is only a click away. For merchant level salespeople who aren't ahead of the curve, in what ways can the Internet be used as a profit center?

Education

86

### Online banking in Canada: What happens next?

The Canadian online banking industry is in constant movement and modernizing rapidly. This article examines developments identified as potential market changers and revenue generators in the Canadian banking and finance sector and evaluates their potential impact on the online banking industry within the next five to 15 years.

Education

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### Digging into PCI - Part 9: Restrict physical access to cardholder data

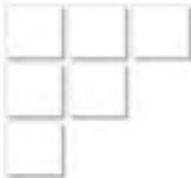
This installment of a multipart series on the Payment Card Industry (PCI) Data Security Standard (DSS) drills down on the ninth of the PCI's 12 requirements. Requirement 9 is the third and final PCI section on access control; this requirement is the least technical of those, focusing on physical security.

Inspiration

99

### Unleash the power of networking

Networking is a very real and necessary part of marketing for any type of business or idea. The amazing thing about networking is you can do it successfully without scaring off your friends and family. Here are a number of ways you can unleash that power.



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# IndustryUpdate

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## NEWS

### Fed finishes check processing infrastructure revamp

The Federal Reserve Banks discontinued check processing in Atlanta as of Feb. 26, 2010, and thereby finished reducing the system's check processing infrastructure, a task that began in 2003. All paper check processing is now done in the banks' Cleveland office.

### EMV, contactless gaining U.S. ground

Contactless transit cards, mobile contactless payments and Europay/MasterCard/Visa (EMV) cards were the hot topics at the Smart Card Alliance 2010 Payment Summit held in Salt Lake City in February 2010.

Transit agency representatives from Toronto, Philadelphia, Los Angeles, New York City, the state of Utah and the San Francisco Bay Area discussed their contactless fare collection systems, as well as plans for expansion. Also in attendance were at least three major card brands.

The **Smart Card Alliance** noted the following good news: Oliver Manahan, Vice President for MasterCard Worldwide, said 12 U.S. airports are set to accept MasterCard PayPass.

And Des Docherty, Vice President of Visa Inc., said 13,000 New York taxicabs accept contactless payments; he predicted all Metropolitan Transit Authority buses and transit systems will accept contactless payments in the next few years.

A number of the event's sessions addressed U.S. merchant acceptance of contactless payments. Many in

attendance believe EMV contactless cards for U.S. citizens traveling abroad will be the next U.S. chip-based product to be rolled out.

### BSG Clearing launches Bill2Phone

A new alternative payment form that sidesteps bank cards was unveiled by **BSG Clearing Solutions**, a Billing Services Group Ltd. company. BSG Clearing's Bill2Phone service allows consumers to purchase digital content or make other online micropayment purchases through their telephone carriers. Purchases are added to consumers' monthly telephone bills.

"This is a service we have offered for telecommunication services for decades," said Greg Carter, Chief Executive Officer of BSG Clearing. "We are now offering this as an option for digital content."

To protect consumers using the service, Bill2Phone merchants can use BSG's authentication and verification system. BSG Clearing feels this solution may gain traction with consumers who are cutting back on credit card use or concerned about transmitting credit card or bank account information over the Internet.

### Fleet for troops

**Fleet One LLC** launched **Operation Homefront**, a fuel card program to support U.S. troops and their families. When a Fleet cardholder uses the Operation Homefront card, Fleet donates a portion of the sale directly to Operation Homefront, a San Antonio-based nonprofit organization that provides emergency and everyday assistance to individuals deployed in all branches of the U.S. military and to their families. It also assists wounded U.S. military personnel when they return home.

- According to **Mintel International Group Ltd.**, Americans purchased 2.6 percent more chocolate in 2009 than the previous year; the biggest increase in chocolate sales worldwide was in China, which topped the list at 18 percent.
- **5th Food Group** reported that specialty-food catalog and Internet sales rose 7 percent in December 2009 from the previous December. Sales in the prior three months all showed decreases: 7 percent in September, 9 percent in October and 2 percent in November.
- Total annual U.S. sales volume in the prestige beauty industry (comprising the skincare, makeup and fragrance sectors) experienced a decrease of 6 percent in 2009 compared to 2008, according to **The NPD Group Inc.**

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## Industry Update

"Our troops know that the price of peace is paid by their entire military families," said Jim Knotts, CEO for Operation Homefront. "It means so much to them that great companies like Fleet One support their families while they're in harm's way." Fleet will donate up to \$250,000 through the new program.

## ANNOUNCEMENTS

### Apriva signs with multiple distributors

**Apriva Inc.** signed agreements with numerous ISOs for the distribution to mobile merchants of AprivaPay and AprivaPay Professional smart phone POS solutions. "Clearly, many ISOs are starting to see a very real and tangible interest on the part of merchants who are looking to accept card-based payment in the field," said Bill Clark, Apriva's Executive Vice President for North America.

### Burroughs brings CS in-house

**Burroughs Payment Systems Inc.** brought customer service back in-house in 2009 to better address the needs of its customers. The six-person call center at Burroughs' headquarters in Plymouth, Mich., has already increased customer satisfaction, making the company's

investment worthwhile, according to Alan Howard, President and CEO of Burroughs. The Austin, Texas-based call center it previously engaged started outsourcing services to a company in India.

### CrossCheck's President, CEO recognized

**CrossCheck Inc.**'s President and CEO, J. David Siembieda, was recognized as one of the Most Influential Leaders in the North Bay by *North Bay Business Journal*, which serves California's Sonoma, Marin and Napa counties. Siembieda serves on the Board of Directors of the Electronic Transactions Association and the Advisory Board of *The Green Sheet*.

### EnStream launches Zoompass trial

Canadian mobile commerce company **EnStream LP** launched a mobile contactless payment trial with the Zoompass Tag, a wireless payment sticker that attaches to mobile phones, enabling consumers to tap their phones at the POS to make purchases.

"Every transaction is logged in the Zoompass application and can be instantly seen on the mobile phone," said Robin Dua, President of EnStream. Zoompass and the Zoompass Tag are produced by Munich, Germany-based **Giesecke & Devrient GmbH**.

### GSF scores two patents

The U.S. Patent and Trademark Office awarded two patents to **Global Standard Financial Inc.** for its technology for Check 21 paperless checks and electronic payment orders (EPOs). With this patented technology, GSF will offer a pure electronic payment system, dubbed Digitally Originated Checks, and develop EPO products and services for release later in 2010.

### Litle wins CS honors

**Litle & Co.** was recognized for e-commerce customer service at the fourth annual Stevie Awards for Sales and Customer Service. According to Litle & Co., the Stevie Award reflects, in part, the demonstrated success of its payment reporting and analytics platform.

### NxGen set to expand in Europe

**NxGen International**, a merchant service provider of Elavon Inc., plans to expand in Europe. "With the launch of our European operations, merchants and businesses around the world will benefit from the same competitive pricing, innovative payment services, and dedicated care and support as the customer base we have in the U.S.A. and Canada," said Thomas Nitopi, CEO of NxGen.

### Free RDC webinar

**RemoteDepositCapture.com** is offering a free, on-demand webinar, "ISOs & RDC: The Way Forward."

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## IndustryUpdate

Sponsored by Epson Corp., the webinar features remote deposit capture (RDC) expert panelists Stacia Smith, Epson's Business

Development Manager; Mark Nevle, Director of Business Development for First Data Corp.'s TASQ Technology Inc.; and John Leekley, founder and CEO of RemoteDepositCapture.com. Visit [www.remotedepositcapture.com/webinars/webinar.20100209.aspx](http://www.remotedepositcapture.com/webinars/webinar.20100209.aspx) to access their discussion of RDC issues, challenges, business models, strategies and lessons learned. The full webinar requires registration; a 7-minute preview does not.

### Tempo named finalist

Affinity and co-branded debit card platform provider **Tempo Payments Inc.** was selected as a finalist for a 2010 Software & Information Industry Association CODiE Award in the Best Open Source Solution category.

Established 25 years ago, CODiE Awards honor software, educational technology and digital content companies for industry innovation.

### Trustwave unveils encryption tech

**Trustwave** recently integrated its data loss prevention

functions with Smart Tag encryption technology. According to Trustwave, its Smart Tag technology focuses on protecting the data itself as opposed to the devices that save or send data.

### U.S. Dataworks to appeal delisting

Houston-based **U.S. Dataworks Inc.**, a payment processing solution developer, intends to appeal a ruling by the New York Stock Exchange Amex LLC that would strike its listing from the exchange due to its alleged noncompliance with four items in Section 1003 of the company guide.

If its appeal fails, U.S. Dataworks will seek a spot on the OTC Bulletin Board, which is the U.S. over-the-counter securities market.

### WMS is hiring

Las Vegas-based **Worldwide Merchant Services LLC** is looking for ISOs and merchant level salespeople. WMS offers services globally that include free equipment programs; e-commerce, wireless and mobile solutions; and ATMs. It also has services for high-risk merchants, offshore accounts and merchant cash advance.

## PARTNERSHIPS

### Activant selects EPS

**Activant Solutions Inc.** selected **Element Payment Services Inc.** to provide data security and Payment Card Industry (PCI) Data Security Standard (DSS) compliance solutions to Activant's customers using the Activant Distribution Suite. Kevin Roach, Executive Vice President and General Manager of Activant, said EPS' processing solutions surpass PCI DSS requirements and are fully integrated with Activant's Distribution Suite.

### Athenahealth partners for payments

**Athenahealth Inc.**, a provider of business services to physician practices, formed an alliance with **U.S. Bancorp** and its subsidiary **Elavon Inc.** to roll out a comprehensive payment processing service.

The service will include a new, enhanced credit card solution for athenahealth practices across the United States, as well as access to a suite of integrated financial services that includes merchant processing.

### BlueStar adds Elo products

**BlueStar Inc.** added more products to its **Elo TouchSystems** product line. According to BlueStar, its high-performance All-in-One Touchcomputers are designed for use with POS and point of service applications. The Wide-Aspect Touchmonitors can be used for anything from POS applications to digital signage and kiosks. Elo is a Tyco Electronics Ltd. business.

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## Industry Update

### DirectFED incorporates Intuit solution

DirectFED Payment Solutions, a Skyline's DirectFED Corp. enterprise, incorporated Intuit Inc.'s National Check Deposit Network check verification to provide real-time authorization at the POS for Check 21 services.

Jeff Korbin, Executive Vice President of DirectFED Payment, said Check 21 is considered a better service "because the check writer still gets to see an image of the check."

### Hypercom partners with Monoprix

Hypercom Corp. signed an agreement with Monoprix Group, a large city-center retailer in France to provide Hypercom's Wynid payment server. The server will support card transactions for Monoprix's more than 300 retail outlets.

### Interac certifies Ingenico device

Interac Inc., through its Interac Association Device Certification Program, certified Ingenico's OrSPT payment device, which will be sold by the name i9780UPT in North America. This solution was designed for use in fuel and unattended outdoor verticals.

### NetDeposit adds mobile deposit

Distributed check capture solution provider NetDeposit LLC, a subsidiary of Zions Bancorp., signed an agreement with Mitek Systems Inc. to use Mitek's mobile deposit application as part of the NetCapture suite of remote deposit capture solutions. Now NetDeposit clients can deposit checks with their smart phones.

### Ritz implements PaySecure

Ritz Interactive Inc. chose Acculynk's PaySecure for 16 of the company's e-commerce Web sites. According to Ritz, PaySecure technology facilitates Internet PIN debit transactions, enabling customers to enjoy a convenient, secure e-commerce payment experience that requires only a debit card and PIN.

### VeriFone signs Sberbank

VeriFone signed a multimillion dollar deal to provide payment solutions to Russian bank Sberbank. VeriFone credits its strength in the region to its strategic partnership with Innovative Payment Solutions Co.

"We triumphed over major competitors to solidify our relationship with the largest, most dynamic bank of Russia and Eastern Europe," said Adam Biedrzycki, General Manager, VeriFone Continental Europe.

### Maverick, Outsie ally

Convenience store outfit Wilson Farms Inc. launched the Red Hot Rewards Card, a combination automated clearing house debit and loyalty card, for its customers in Batavia, New York. Maverick Network Solutions and loyalty solutions provider Outsie Networks Inc. partnered to provide the card to Wilson.

## ACQUISITIONS

### BlueStar expands on the Iberian Peninsula

BlueStar Inc. signed a definitive purchase agreement with ID.Sys Group, a specialty electronics distributor, for its operations in Spain and Portugal. Bill Nix, BlueStar Vice President of Global Distribution, said ID.Sys has "consistently earned industry awards and recognition for their innovative distribution efforts in Southern Europe. We are pleased that the founders of ID.Sys, Laurent Berger and Mario Bonixe, are joining the BlueStar family."

### Bottomline acquires BofA service

Bottomline Technologies Inc. acquired the travel commission payment service of Bank of America Corp. The company will serve BofA's travel clients with PayMode, its payment and invoice automation solution, which it acquired from BofA in 2009.

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## APPOINTMENTS

### ATM firm taps Bouheben

ATM product and service provider Financial Technology Solutions International Inc. welcomed **Rita Bouheben** as Chief Financial Officer. "Rita brings the ideal blend of leadership and financial service experience to FTSI," said Susan Napier, FTSI founder, CEO and Chairman. According to Napier, Bouheben, a 15-year industry veteran, shares FTSI's "vision on implementing new technologies to help FTSI expand into other markets."

### EFT Canada appoints director

Toronto-based EFT Canada Inc. appointed **John Cerenzia** as a Director. A Canadian Institute graduate, Cerenzia also serves as a Director of Talware Network Inc., Greenock Resources Inc. and Kent Exploration Inc. EFT Canada expects Cerenzia, whose experience is in small capitalization companies, to assist with "ushering EFT Canada Inc. into its next phase of growth."

### Fifth Third names new SVP

Fifth Third Processing Solutions LLC welcomed **Tony Emrick** as its new Senior Vice President of Business

Development. Emrick, who has 22 years of industry experience, comes to Fifth Third from his position of President of First Data's STAR Network.

### CPP hires Prickett

Certified Payment Processing hired accredited public relations professional **Bill Prickett** to head public relations and communications for CPP. Prickett was recruited for the newly created position based on his scope of experience, according to Tony Norrie, CPP Vice President and General Manager.

### CUSCNI elects officers

The Credit Union Service Centers Network Inc. Board of Directors elected two new members: **Bill Raker**, President and CEO of US Federal Credit Union, and **Doug Allman**, Vice Chairman of CO-OP Financial Services and President, CEO of NASA Federal Credit Union.

### RTI names new exec

Remote Technologies Inc., a provider of franchisor and franchisee management systems that include POS integration, hired **Abe Schryer** as CEO. Schryer helped launch EZUniverse, which develops management systems for quick service restaurants. 



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Insider's report on payments**Are banks losing grip on payments?****By Patti Murphy***The Takoma Group*

**T**he banking industry is under attack. Troubled by what many perceive as massive Wall Street bailouts that never trickled down to Main Street, American consumers are mad, and increasingly they're walking away from the traditional banking system.

The timing couldn't be worse, as a whole new generation of potential banking customers emerges – a generation that has grown up on the Internet, social networking, mobile phones and texting, a generation that researchers believe wants banking and payments products that suit a 21st century lifestyle: online, real-time and mobile.

"I've made a commitment to myself," my friend Patrick said recently. "I'm closing out my bank accounts and joining a credit union."

I wasn't surprised. Patrick had been complaining a lot over the past year or so about big bank bailouts and wanting to take his money someplace else. And he's not alone. A group of bloggers has been actively urging Americans to move their deposits from large banks that have been propped up by federal bailouts but are less forgiving of strapped homeowners and businesses.

The Move Your Money campaign, the brainchild of Arianna Huffington, co-founder and Editor in Chief of the *The Huffington Post*, a widely read news and opinion Web site, encourages Americans to take their deposits to community banks and credit unions.

The campaign Web site, <http://moveyourmoney.info>, runs a banner picturing Jimmy Stewart as George Bailey in *It's a Wonderful Life*, juxtaposed with one of a panel of bankers testifying before Congress.

Content includes videos and commentaries on why it's a good idea to boycott large banks, as well as detailed instructions on how folks can find alternative financial institutions and minimize the hassles of moving accounts to other banks and credit unions.

By all accounts, the movement is catching on. According to Dennis Santiago, spokesman for Move Your Money, the campaign's Web site had been used to search for banks in 28,000 out of a possible 42,000 ZIP codes nationwide in its first 60 days.

Santiago, whose full-time job is Managing Director and Chief Executive Officer of Institutional Risk Analytics in Torrance, Calif., attributes the success of Move Your

Money to a "grass roots movement" around the country to buy and invest locally.

It's not just average consumers who are joining the movement. Santiago claims to have reports that folks are moving large sums from the largest banks – "in some cases seven-figure transfers," he said in a recent question-and-answer reported by Damien Hoffman, Editor and CEO of the *Wall St. Cheat Sheet*.

Recent press coverage points to quantifiable evidence. *The Baltimore Sun*, for example, in a recent report on how the campaign is playing in Maryland, noted that Hamilton Federal Bank in Baltimore saw deposits more than double during the first two months of the year – from average monthly increases of between \$500,000 and \$600,000 to \$3.5 million in January and February combined.

In Maryland, the General Assembly is considering legislation that would give state-chartered financial institutions priority consideration when bidding on state contracts. New Mexico is considering a similar measure.

The city of Los Angeles approved a new ordinance in early March that would allow city officials to weigh banks' local lending records in decisions regarding city deposits.

The new "Responsible Banking" ordinance requires financial institutions with any portion of the city's pension fund and other deposits to file yearly reports detailing small business lending, community development investments, and efforts to help strapped homeowners avoid foreclosures, among other things. Those failing to comply could be barred from city business.

**What does this mean for ISOs?**

So, what does this mean for card acquiring? As representatives of merchant acquiring banks, ISOs and merchant level salespeople could feel direct repercussions from the public's souring mood toward banks.

Indirect repercussions are also possible from disgruntled consumers who don't want anything to do with bank-cards. People like Patrick. He stopped using credit and debit cards last year, he said, after several well-publicized breaches of card data.

Javelin Strategy & Research surveyed consumers in late 2008 and found that those who like their banks tend to use their bank-issued payment cards more often.

"The financial institutions that will make it are the ones that generate trust by proving they are out to help people manage their finances and navigate these hard times," said

Bruce Cundiff, Javelin's Director of Payments Research and Consulting, in reporting results of the survey.

Overall, 11 percent of consumers surveyed by Javelin said they had more trust in their financial institutions at the time of the survey than a year earlier; 43 percent said they trusted their banks less.

Twenty-eight percent of consumers polled in February by CBS News and *The New York Times* reported their credit card usage had declined over the past few months; only 12 percent reported increased credit card usage.

Forrester Research reported recently that the trust people had in their own financial institutions was inching up. However, it said positive sentiment was spotty, with customers of the largest banks less likely to be feeling good about where they bank.

The bottom seven spots in customer rankings went to the country's largest banks.

Bill Doyle, Vice President and Principal Analyst at Forrester, and author of the report *Customer Advocacy 2010: How Customers Rank U.S. Banks, Investment Firms and Insurers*, sees a clear link between dissatisfaction and bank loyalty. "Customers who rate their firms low on customer

advocacy are most likely to say they intend to switch firms in the next year," he said.

And as data from the Federal Deposit Insurance Corp. indicate, there's a large swath of Americans for whom that switch may not be to a bank. Why should they bother, when there's a nearby Wal-Mart Stores Inc. MoneyCenter that looks and acts a lot like a bank, only it's cheaper?

Clearly, consumers don't mind conducting banking business outside traditional financial institutions. For years, retail establishments have dabbled in financial services, notably in urban areas and especially in immigrant and ethnic neighborhoods.

Perhaps it's time for folks on the front lines of merchant acquiring to start thinking of ways they can duplicate this model with some of their retail clients. There are many services available today that can help – prepaid cards, check cashing, and electronic bill payment services among them.

Talk about customer stickiness. 

*Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. E-mail her at [patti@greensheet.com](mailto:patti@greensheet.com).*



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## Dial or smile

By Justin Milmeister

*Elite Merchant Solutions*

I have spent the last eight years of my professional life building a merchant services company and have experienced both the good and bad that come with building and running your own business. An important question I faced early on in this adventure was whether to grow my business through outside sales representatives or have inside sales representatives calling on merchants to procure business.

### Looking outside

At the early stages, like any new company, my business did not have abundant cash, so I had to make do with minimal resources. I chose to expand my business using an outside sales force, so I placed an ad in the local paper, and I asked friends if they knew anybody looking to make some extra money. I figured everyone knew a few business owners whom they could sign up and thereby earn some extra money for themselves.

My decision to focus on outside sales representatives was exclusively based on lack of available funds and the small office space I occupied.

Almost immediately I had a small sales force of five people; two of them were full time, and three were part time workers who just wanted to earn a little bit of extra money on the side. All were paid 100 percent by commission, so the cost to me was only my time in training reps and taking care of back-office functions.

Over the next year my sales force nearly doubled to nine, all whom resided and worked in my locality. The residuals had grown at a healthy pace, and at this point I decided to hire my first inside sales representative whose sole function was to telephone merchants nationwide to entice them to switch their payment processing to my company.

### Moving inside

I was confident this would be the best way to capture the most customers in the shortest amount of time. However, until this point, I did not have the resources to have an inside salesperson.

I would now be responsible for paying someone even if he or she did not produce, given that the person would be an employee whose earnings would be reported on a W-2 federal form, as opposed to an independent contractor who would be paid only on production and whose income would be reported on a 1099 form.

In addition to wages, I had to come up with a compensation package that would incentivize this inside sales representative to perform. Given that this was new to

***The old saying that the numbers speak for themselves was apropos when comparing profitability between my company's outside and inside reps.***

me, I had to research the industry norms and then make a business decision on what would work best for my particular situation. I called on several companies to find out about their inside sales programs and responded to several ads placed in the local paper and various job sites by merchant service companies.

Based on my research, I decided to offer a tiered program that provided more income to the sales rep the greater the production. This created a win-win situation for both the sales rep and my company.

In a year's time this one inside sales rep who was dialing for dollars was able to build a residual stream that was greater than the nine outside sales representatives combined. In all fairness this inside sales rep was highly motivated and had more experience in sales than the outside sales reps, but I was sold on the inside sales program and decided to focus on inside sales to build my business.

I moved into larger office space and invested in technology, including a state of the art phone system. Over the next several years I built my inside sales staff and hired an individual to recruit, train and manage the outside sales reps.

For my company, inside salespeople are employees who work by phone; outside salespeople are independent contractors who call on prospects in person. I refer to the former as "dial" and the latter as "smile."

The old saying that the numbers speak for themselves was apropos when comparing profitability between my company's outside and inside reps. The inside sales force was by a landslide far more profitable and productive than the outside sales reps.

### Comparing models

However I am a firm believer in not putting all of my eggs into one basket, so I have put the proper people in place to manage the outside sales force. However, I know my "slot machine" lies within inside sales.

The following is a list of the most noticeable pros and cons between inside and outside merchant service sales for companies. They are listed in no particular order of importance.

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## View

### Dial pros include:

- Opportunity to reach far more potential customers in the shortest period of time
- Ability to customize call lists to focus on the industries known to be the most profitable
- Controlled environment with sales reps a stone's throw away from resource to assist with closing deals
- Moldable sales reps who can thrive off the competition in a call center environment
- More educated sales reps who understand the inner workings of what the company does daily to stay successful

### Dial cons include:

- High fixed-costs due to wages, phones, office space and technology
- High turnover
- Need for strict oversight and babysitting at times
- Need to handle "bad seeds" so they do not become like cancers for other sales reps

### Smile pros include:

- Low fixed-costs
- Higher close ratio per contact

- Opportunity to do business with merchants who absolutely will not do business over the phone
- Generally more motivated sales reps since they are 100 percent commission-based

### Smile cons include:

- Limited geographic area for merchant acquisition
- No control over production
- Production significantly reduced due to outside forces such as weather and traffic
- More difficult for reps to meet their full potential due to distracting factors

## Choosing a formula

If you are a new ISO with limited capital, the outside sales program is the way to go. In addition to the costs being very low, it will allow a new company and its principal(s) to get a good feel for the industry and provide a better chance of closing deals with that smile.

As your merchant base and thus your residuals grow, it is prudent to invest in an inside sales force. If properly recruited and managed, you will likely see your merchant acquisitions grow along with your residuals at a much faster pace.

I believe a good mix of inside and outside sales representatives is a winning formula for a profitable venture. Whatever sales method you choose, whether it be over the phone (dial) or in person (smile) or a combination of both, good management, training and responsiveness to your sales force will be essential to your organization's success. 

*Justin Milmeister is the President and founder of Elite Merchant Solutions, which was honored last year by Inc. magazine as one of the top 500 fastest-growing privately held companies in the nation. He is also a member of The Green Sheet Advisory Board. Justin can be reached at justinm@elitedatacorp.com, and more information on Elite Merchant Solutions can be found at [www.elitedatacorp.com](http://www.elitedatacorp.com).*



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## Payments industry issues: First quarter 2010

By Brandes Elitch

CrossCheck Inc.

It seems change is coming faster and faster, as every month brings new issues to the fore in the payments industry. This article discusses a few of them, starting with the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit CARD Act), which went into effect Feb. 22, 2010.

### The Credit CARD Act

The new act makes the credit card business less profitable, but also less risky. It prohibits banks from raising rates or fees quickly, and if they do, gives consumers more time to opt out of agreements and more time to pay off their balances.

Large issuers traditionally found the card business generated four times the return on assets as did the traditional lending business, but in their scramble to subsidize frequent flyer programs and combat attrition, they went

further and further down the credit ladder, getting themselves into the current unpleasantness.

In 2009, credit cards provided \$23 billion in fees. In the last year, interest rates have climbed dramatically and now average over 14 percent, according to CreditCards.com.

Losses and delinquencies have gone up dramatically – just look at Bank of America Corp. Last year it collected \$20 billion in interest and another \$9 billion in fees from 40 million credit card customers and still lost \$5.6 billion because of bad debt provisioning and chargeoffs.

Possible reasons for this are poor management or a severely flawed business model, or both. BofA said the CARD Act will cost it up to \$800 million in ongoing revenue. Citibank Corp. said it will lose from \$400 million to \$600 million as a result of the act. JPMorgan Chase & Co. quoted a similar number.

But this isn't the real problem. Two large shifts will affect not just issuing banks, but ISOs as well. First, consumers are paying off credit card debt with a vengeance (revolving credit declined 20 percent last November, the largest drop in history.) ISOs have traditionally relied on interchange from credit card transactions to pay the freight.

Second, consumers are replacing credit with debit; this will lower the interchange income, which is the mainstay of the ISO revenue stream.

### Authentication and data management

Many consumers are renegotiating their debt rather than filing for bankruptcy. A while back, three of the five largest collection agencies (including legal giant Wolpoff & Abramson LLP) started Mann Bracken LLP in Maryland to handle this business.

Here is the lead sentence to a Jan. 15, 2010, *PaymentsSource* article by Darren Waggoner: "An estimated 20,000 to 25,000 collection lawsuits filed in Maryland will be dismissed as a result of the collapse of legal collection giant Mann Bracken LLP, the Maryland District Court Chief Judge Ben Clyburn's office confirmed."

The judge stated that while some dismissed cases could be refiled, it was not fair to leave the current cases pending because Mann Bracken "has been irresponsible." Mann Bracken could not provide any phone, computer, staffing or support when it closed its doors. Can you imagine a court dismissing 25,000 lawsuits – and how much work went into each one?



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## View

This speaks to multiple issues, one of which is the ability to provide a safe haven for financial transactions and a secure permanent archive for the information surrounding them. A void exists in this space, offering an opportunity for a solution (I'm already working on it).

Even more basic is the concept of designing the right authentication protocol for financial transactions. Here, the most recent news was an article about Visa Inc.'s Verified by Visa written by Steven Murdoch and Ross Anderson of the University of Cambridge Computer Lab.

I have always thought this product was flawed, but I was focusing on the

business case. These authors believe it is "fundamentally flawed" from a security standpoint; it is "a textbook example of how *not* to design an authentication protocol. ... It ignores good design principles and has significant vulnerabilities, some of which are already being exploited."

The authors wrote that the Verified by Visa protocol 3-D Secure (3DS) "has lousy technology ... the main problem is that the system trains shoppers in bad habits.

There's no visual verification for the buyer that their password is being protected." (It is vulnerable to phishing, and the password activation process is flawed, as only poor authenticators are used, such as birth date.)

"3DS ignores other lessons learnt from earlier systems," they stated. "The result is that customers receive little benefit in security, while suffering a huge increase in their liability for fraud. They are also trained in unsafe behavior online. Verified by Visa trains cardholders to enter ATM PINs at terminals in shops; training them to enter PINs at random e-commerce sites is just grossly negligent."

If you want to pay with a debit card rather than a credit card, this is important, because you cannot pay with a debit card online unless you can swipe the card and have triple DES encryption. The authors concluded that regulators are needed "to intervene on behalf of the consumer and to make secure electronic signatures compulsory."

As always, there is another side: 3DS has hundreds of millions of accounts, so Visa got the economics right; could it be that this was Visa's focus all along?

### Retail payments

I encourage you to sign up for the Retail Systems Research LLC newsletter ([www.retailsystemsresearch.com](http://www.retailsystemsresearch.com)). Most ISOs serve the retail sector, and to be successful you must understand the present retail environment and anticipate the future one – what an impossible task!



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**"Our technology infrastructures really do have to become extensible," she stated. "The 'hairball' legacy architectures most of us have will not serve – nor will any architecture that imposes serious inhibitors on change and evolution. We have to remember that we don't know what we don't know ... and build for it."**

Paula Rosenblum  
Retail Systems Research LLC

In RSR's Feb. 23 issue, Managing Partner Paula Rosenblum wrote about designing technology for agility. "Our technology infrastructures really do have to become extensible," she stated. "The 'hairball' legacy architectures most of us have will not serve – nor will any architecture that imposes serious inhibitors on change and evolution. We have to remember that we don't know what we don't know ... and build for it.

"I'm not sure we'll have time to make standards for these new technologies that come along. Instead, we'll have to adjust to them, rather than them adjusting to us. That's scary, but it's actually really, really cool. And scary or not, it's the way it is. We live in very interesting times."

Right now, retailers are grappling with the sales and loyalty opportunities connected with social networking; one retailer reported a 10 percent sales increase just from user generated content. Remember, retailers need to take any form of payment consumers want to tender. There will be many new developments in this space over the next year. As an ISO, you must be up to speed on all of them.

### **The Fairchild way of company building**

ISOs are entrepreneurial; many people running them have built their own companies. Until now, there has been no effort to chronicle the history of the ISO industry, but it would be an interesting story. (Anybody want to help me do it?)

Consider the computer industry. It wasn't until 1996 that a Computer History Museum was established in Silicon Valley (that area around Stanford University in Palo Alto where it all started about 40 years earlier).

According to the museum, it is "the world's largest and most significant history museum for preserving and presenting the computing revolution and its impact on the human experience. Its collection comprises over 13,000 objects, 20,000 images, 5,000 moving images, 4,000 linear feed of cataloged documentation, and 5,000 titles or several hundred gigabytes of software."

All this got its start in 1957, when eight young engineers, called the "Traitorous Eight," abandoned William Shockley's semiconductor firm en masse and formed

Fairchild Semiconductor Corp. (Shockley won the Nobel Prize in Physics in 1956.) Among the eight were Gordon Moore (Moore's Law); Robert Noyce, the co-inventor of the integrated circuit; and Jean Hoerni, the inventor of the silicon process.

Fairchild spawned more than 66 Silicon Valley companies, including Intel Corp., Advanced Micro Devices Inc. and National Semiconductor Corp. Fairchild invented the Planar Process in 1959, which revolutionized the production of semiconductor devices and enabled the production of today's microprocessor and memory chips.

The firm was overtaken in the market by competitors (managed by its cadre of ex-Fairchild employees) and was absorbed into National Semiconductor in 1987 before being spun off as an independent company.

Fairchild can stand as a model to be emulated by any ISO. You might think it is in an altogether different space from ISOs, but you would be wrong. Just like Moore predicted at the inception of Fairchild, in the payments space device complexity is increasing at a consistent rate and will continue to do so into the future.

Fairchild hired an ex-IBM engineer to establish a digital systems department for new applications (to take the firm beyond its traditional base of military and aerospace customers). ISO owners who want to survive the next 10 years had better think hard about what new kinds of customers and applications they will need to serve.

Building an ISO is not just about signing accounts and then selling them to an account buyer. It is about building a sustainable competitive advantage, having a unique selling proposition, knowing how to sell and adding real value to your customers. In a rapidly changing environment, Fairchild knew how to do this – do you? ■

*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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# ADVISORY BOARD

## Positive economic signs and actions - Part 1

**E**conomic tides seem to be turning, albeit slowly. So *The Green Sheet* asked members of our advisory board for their thoughts on the following questions:

1. What are examples of some light at the end of the tunnel your company is experiencing?
2. What areas of your business have picked up?
3. Where do you plan to focus as the economy improves?
4. How have you stayed tuned to your customers needs over the last year?

This article contains the first portion of their responses. The remainder will be printed subsequently in *The Green Sheet*. Many thanks to all who participated.

### Robert Christiansen

*ARM Loyalty*

- 1 and 2. There is a definite uptick in the interest in loyalty in prepaid. Our analytics are more important now than ever to the general purpose debit prepaid cards.
3. Increase focus on analytics and loyalty.
4. We are a new company and have developed new channels through social networking.

### Steve Christianson

*AAmonte Bankcard*

Economic tides seem pretty flat right now. We are up only because we are continuing to add new merchant accounts in excess of any notable attrition. Merchants are still trying to recover from the 30 percent hit they have taken the past 24 months.

That light at the end of the tunnel has been a freight train heading toward merchants. It does appear to have stalled for now. Merchants will still need two to four years to

recover as long as Congress keeps spending money on relief versus tax reductions to attract new business growth.

New businesses seem to be appearing, but those are mostly the small-ticket, lower volume type. The merchant volume losses of the past two years will take a long time to recoup. It seems that many current businesses are hunkering down for another disappointing year. Unemployment is still the beast that is eating away at the economic situation.

We are focusing on new things like pay-at-the-table for smaller restaurants, hoping some debit transactions will result in higher profits for the merchants. Mostly, though, we have spent a significant amount of time on answering our merchants' concern about how to make more profit by trimming their processing fees where possible. We do what we can to give them lower costs – one way is by passing through new rate hikes by the issuers instead of adding a little profit to these increases for us.

Again, only because we are constantly adding new merchants are we showing any kind of profit increase and growth. We, too, are keeping our operating costs down by cutting our overhead. We have not cut any expenses having to do with customer service, but have been successful at cutting our rent, office supplies, auto expenses, shipping expenses and so on.

Our merchants' survival is our mandate. We do whatever we can to minimize attrition. Our reps are required to explain why any merchant leaves our service. It is not a pretty picture. There is not a lot of reason to be too positive, but we see the lessening of merchant attrition as a plus factor. We are keeping our fingers crossed.

### Steve Eazell

*Secure Payment Systems Inc.*

1. We are experiencing growth in our monthly numbers over last year due in part to a new product that has really taken off. It is for merchants that need an extra little bit of help during these tough times. And for us it is paying off.
2. In our ACH [automated clearing house] processing and our newest product, Retail Payday Express Plus. We introduced an electronic version of our 90 Days Same as Cash product last year, and after some tweaks to the program, it has really taken off.
3. We continue to expand our product offerings and tweak our existing services to offer more and more revenue opportunities for our sales channels. Due to the economy, we are seeing a lot of interest in our products, as sales reps try to offer more and more value to their existing merchant base to not only stave off attrition, but to also generate more revenue for themselves.
4. We have done a great deal to stay tuned to the needs



of our customers and our sales agents and offices. We have had to raise limits on check services and increase commissions by lowering certain costs associated with all of our services. We have had to spend money creating programs based on their suggestions and recommendations. We have had to become more flexible in so many areas of risk and underwriting for our check and ACH services. Overall, it has been a good experience.

### **Russ J. Goebel**

*Quantus Health Solutions LLC*

1. Credit card volume and transactions are slightly down; however, the willingness of merchants to meet and review their existing processing has been superb. We have had extraordinary success in adding new business due to the economy and thus leveraging the economy to review and lower credit card expense.

Furthermore, we have been able to be more selective in hiring the right salespeople due to the high unemployment. This is a big win because we are able to get the right skill set and teach them correct and ethical ways of credit card processing.

2. Building out our sales team, adding new technology and reducing attrition by proactively reacting to merchants' needs.
3. We are most successful when we identify and pursue unique niches that implement strategic technology. This has worked very nicely for us and allowed us continued growth.
4. Due to our unique verticals and the quality of sales representatives that we have, we are able to listen and provide what our customers want and need. This is still a relationship business, and with more educated merchants, Quantus has evolved quite nicely.

### **Curt Hensley**

*CSH Consulting*

1. As a recruiting firm serving the payments industry, we are seeing the return of hiring at the senior executive level. We've taken on multiple president, chief officer, executive vice president and senior vice president positions over the past six months. These searches were few and far between from mid-2008 to mid-2009.
2. The senior searches for sure. We've been contacted by several private equity groups saying that they are taking money off the sidelines where it's been sitting for the past two years, and they are investing in payment companies.

3. We're staying focused on recruiting for the merchant services industry, but also expanding the amount of searches we take on in the prepaid, mobile, ACH, ATM and issuing spaces.
4. We speak with our current clients almost daily, so we just listen to their needs and try to serve them the best that we can. There's a ton of candidates looking for jobs these days, and many of them aren't top performers. We serve our customers by weeding the candidate pool down to the top people. Usually this means pulling someone from a competitor versus taking what's available.

### **Jared Isaacman**

*United Bank Card Inc.*

1. The best indicator we have seen is that the month-over-month processing volume of our existing merchants is increasing every month. We noticed this trend start moving in a positive direction about six months ago, and it continues to increase.

This shows a marked improvement over the time period beginning about 17 months ago, when volume began decreasing considerably at the onset of the economic downturn.

2. We are definitely experiencing an upswing in many areas, most notably the month-over-month processing volume of our existing merchants, as well as the number of new merchant applications we are receiving on a monthly basis.
3. As has always been our primary focus as a company, we will continue to deliver innovative products and services that help our sales reps obtain new merchants while promoting retention. This goal is supported by products such as our affordable Harbortouch POS System, our free Casio electronic cash register, our new leads program and other value-added services such as gift cards.
4. We always try to keep abreast of our customers' needs. To accomplish this, we closely monitor all incoming service calls and e-mails. In fact, I am personally "bcc'd" on every e-mail to our customer service and technical support departments. This is part of a comprehensive effort to stay attuned to the pulse of both our merchant and ISO partners.

### **Biff Matthews**

*CardWare International*

1. Even though our ISO, merchant level salesperson and financial institution client base is as geographically diverse as are their merchants, we at CardWare are not seeing significant increases in any locale or market segment. It's been a less than pleasant winter throughout the United States, so

## Feature



with the expectation of spring, there is the expectation for an even larger increase in the spate of new merchant setups we typically receive each spring as the sales reps again hit the road.

2. If there is one bright spot, it is refurbished equipment and equipment service. We're seeing renewed interest in buying and maintaining legacy equipment because it is off the IP [Internet protocol] grid; that is to say, it falls outside the Payment Card Industry Data Security and Payment Device standards. This is certainly not what the equipment manufacturers and their major resellers want to hear.

3. CardWare will continue focusing on the electronic transactions industry while exploring opportunities outside its historical base. We envision new opportunities that leverage our investments in technology plus people and their training, along with our core competency of delivering quality service.

4. Simple – we ask them. Each month we are in phone contact with our key clients. We typically speak to one or more people within each organization in order to obtain different perspectives. Just ask a few key questions; then listen to what they have to say. One customer's need led to CWIQuickFix, a new program to simplify handling of equipment repairs.

### Nick Starai

*Network Merchants Inc.*

1. Through hard work and continued product innovation, we haven't felt that we've lost sight of that light. However, we are actively developing cutting-edge technologies and have an interest in determining how mobile payments shape up over the next few years.
2. NMI provides a fully private-labeled payment gateway to a degree unheard of in the industry. Many of our ISOs/MSPs [merchant service providers] have been taking advantage of this feature to help reinforce their customers' brand loyalty.
3. We plan to continue spending resources on emerging markets outside the United States. While many mature economies have struggled, others have grown leaps and bounds.
4. Simple – listen to them. This advice probably sounds like 'Business 101,' but time and time again we find companies ignoring their 'loudest voice': their customers. 

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# Selling Prepaid



## Prepaid in brief

### NEWS

#### Expo scholarship winners revealed

The **Center for Financial Services Innovation** offered scholarships to representatives of nonprofit agencies serving unbanked and underbanked constituents to attend the 2010 Prepaid Expo USA held in Las Vegas. From a pool of over 60 applicants, CFSI chose Erika Eurkus, Accion USA Inc.; Hassan Nicholas, Community Financial Resource Center; Julie Farwell, Community Action of Nebraska; Adam Perry, Capital Area Asset Builders; and Rita Eygabroad, Creating Assets, Savings, and Hope/Empire Justice Center.

The scholarships were sponsored by the Network Branded Prepaid Card Association and Netspend Corp.

#### Green Dot to spot up for IPO

Prepaid card distributor **Green Dot Corp.** filed paperwork with the U.S. Securities and Exchange Commission for an initial public offering in which it would sell up to \$150 million in stock.

In an apparently related matter, the Monrovia, Calif.-headquartered company also applied through the Federal Reserve Bank of San Francisco to become a bank holding company by acquiring Bonneville Bancorp of Provo, Utah. The acquisition reportedly will allow Green Dot to issue its own prepaid cards.

### ANNOUNCEMENTS

#### Blackhawk expands digital content category

**Blackhawk Network**, the prepaid card distributor and Safeway Corp. subsidiary, enlarged its digital content category, which includes cards for online gaming and music downloads, to over 10,000 gift card mall locations nationwide.

#### CardSmith advances into retirement communities

Prepaid program manager **CardSmith** implemented its

card program management service at two retirement communities in North Carolina and one in Virginia. Residents at the United Church Homes and Services-managed facilities are issued personalized prepaid cards that can be used at POS stations across the facilities. Residents have 24/7 access to accounts through a dedicated cardholder account center and Web site.

#### CashStar presents virtual gift platform

Gift card company **CashStar Inc.** unveiled eCorporate Incentives, a business-to-business (B2B) digital gifting solution. The platform allows companies to bulk order personalized virtual gift cards from retailers; the cards can be immediately sent to recipients via e-mail.

#### Fiserv enhances prepaid card capabilities

Information management and e-commerce technology firm **Fiserv Inc.** increased its prepaid card production and packaging facilities and capabilities. The expansion includes a twice as big production space, more packaging options, building on its fulfillment capabilities and adding a broader range of card materials for clients to choose from.

#### MoneyGram settles, expands, gives back

Money transfer specialist **MoneyGram International** agreed to settle federal securities class and stockholder derivative actions that were pending in the United States District Court for the District of Minnesota. The company said the claims arose out of losses from Moneygram investments.

Additionally, MoneyGram expanded its money transfer services in Vietnam by signing Sacombank, thereby adding the Vietnamese bank's 253 locations to its agent network. Also, MoneyGram awarded a \$10,000 grant to Children of Vietnam, a U.S.-based not-for-profit business.

#### Third-party processing via TxVia

**TxVia Inc.**, a platform-as-a-service (PaaS) payment processor, now provides a platform that allows third parties to process payments. The PaaS service affords a wide range of payment companies the opportunity to enter the prepaid card processing market and offer integrated, highly differentiated processing to their customers, TxVia said.

#### Employers benefit from health care suite

Prepaid health care card provider **WiredBenefits Inc.** launched the Employer Benefit Suite to enable businesses to offer health reimbursement account cards to employees. The solution set provides tax-advantaged

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## Selling Prepaid

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## PARTNERSHIPS

### Adility, InComm to empower small retailers

**Adility LLC**, an online gift card platform provider for small businesses, teamed with **InComm** to give neighborhood merchants access to InComm's distribution network of over 150,000 retail locations. Using Adility's proprietary platform, businesses can sell their gift cards to consumers who shop locally.

### RushCard gets new issuer

The **Bancorp Bank Payment Solutions Group**, a division of The Bancorp Bank and subsidiary of The Bancorp Inc., partnered with **UniRush LLC** to issue the Prepaid Visa RushCard.

### CashStar, NGC to incentivize with virtual cards

**CashStar** partnered with **National Gift Card Corp.** to deliver virtual gift cards to NGC's corporate customers. NGC, which markets and distributes closed-loop retailer gift cards to corporate clients, will use CashStar's eCorporate Incentives platform for B2B gifting.

### Data mining to boost card company insights

**Ceridian Stored Value Solutions**, a division of Ceridian Corp., adopted the database solution of analytics specialist for reporting on payment card transactions. Ceridian SVS said the ParAccel Analytic Database will give the prepaid card company "faster and richer information about consumer behavior."

### First Data expands services with TIO

**First Data Corp.** integrated the bill payment processing services of **TIO Networks Corp.** into First Data's Money Network payroll distribution service.

With TIO, Money Network prepaid cardholders will be able to pay bills online, by phone and at certain self-service kiosks, thereby reducing the time and cost of paying bills, First Data said.

### MasterCard, APA band for education

As part of the Money Matters National Education Day, **MasterCard** and the **American Payroll Association** will educate youth about the benefits of prepaid payroll cards. In September 2010, payroll professionals from the APA will hold classes at high schools and youth groups nationwide.

### Peanut Labs gets fresh mix

Social media payment processor **Peanut Labs Media** partnered with three online gaming companies – game publishers **IGG Inc.** and Donnerwood Media's **Meez**, and **Zeevex**, the open virtual currency platform of Zeev Exchange Inc. The companies will use the Peanut Labs Media Monetization Platform to customize how social media and social gaming users purchase virtual goods and currencies.

### New deal struck for MyPlash card

**Plastic Cash International LLC** and **MasterCard** announced a brand-exclusive partnership to offer MyPlash open-loop prepaid gift cards and reloadable prepaid gift cards starting in the summer of 2010. The MyPlash card is targeted at teens – a consumer market MasterCard is aggressively pursuing, said Laura Kelly, Senior Vice President, Global Prepaid & Healthcare Solutions at MasterCard.

### Money Swap to market Sync2 services

**Sync2 Networks** signed a multiyear deal with Hong Kong-based **Money Swap Holdings** to market Sync2's financial tools, including Currency Swap, a peer-to-peer currency trading platform, and a closed-loop, MasterCard-branded prepaid card program. In return, Sync2 will market Money Swap's bar code transaction system under the brand name CashSync.

### Self-service solution moves into TMHS

The **Methodist Hospital System** implemented **NCR Corp.**'s self-service online, mobile and kiosk solutions in its patient facilities. Four of NCR's solutions – Patient Portal, MediKiosk, Wayfinding and Payment Manager – will be available to patients in TMHS's four hospitals and one physician practice.

### Payoneer moves into research payments

The **Theresa & Eugene M. Lang Center for Research & Education of New York Hospital Queens** tapped **Payoneer Inc.** to facilitate its move from paper checks to plastic to pay research participants who partake in clinical trials. Participants now receive their payments on MasterCard Worldwide-branded Payoneer Patient Stipend cards.

## ACQUISITIONS

### MoneyGram purchases Blue Dolphin

**MoneyGram** added **Blue Dolphin Financial Services** as part of the money transfer specialist's strategy to grow its retail network in regions with strong remittance potential. Blue Dolphin services the Belgium and the Netherlands markets with money transfers to Eurasian, Middle Eastern and African countries.

# If It Ain't Broke, Don't Replace It

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## Selling Prepaid

### Rapid Link closes on Mr. Prepaid

As part of its corporate restructuring, telecommunications services company **Rapid Link Inc.** acquired **Mr. Prepaid Inc.**, a former subsidiary of Blackbird Corp. Mr. Prepaid is a prepaid telecommunication and transaction-based POS activation solution provider.

## APPOINTMENTS

### Venker named Kobie Director

Loyalty marketing and technology agency Kobie Marketing hired **Patrick Venker** as the company's new Director of Strategic Services. Venker will oversee Kobie's Strategic Services Division and provide leadership to marketing and campaign management. 



## Features

## Win-win scenarios abound at Prepaid Expo

**A** prevailing theme among speech makers at Prepaid Expo USA 2010, held in Las Vegas from Feb. 22 to 24, concerned the potential for prepaid cards to lift up financially underserved individuals worldwide, while allowing industry stakeholders to flourish at the same time. The three keynote addresses given at the expo hit on the notion that prepaid cards embody the ideal of the win-win scenario.

The first keynote delivered by Arkadi Kuhlmann, Chief Executive Officer at Internet bank ING Direct, focused on how the prepaid card industry can rebuild consumer trust in financial services. He argued that predatory lending practices and hidden fees had given financial services a bad name. But it hadn't always been so.

"There was a time when credit cards were actually loved by consumers," Kuhlmann said. "Then some guys came along and said let's hijack this loving product and turn it into a consumer finance machine and basically push opium on consumers. ... Your job and mine is to turn them around again; consumers can love a card."

Kuhlmann offered ING as an example of how a financial institution can change a negative perception by being upfront and honest with its customers. ING views itself as a retailer offering customer-friendly service, rather than a bank that calculates "what consumers are willing to pay for *if they have to*," Kuhlmann said.

ING has taken a democratic approach by not playing favorites with its customers – no special benefits or preferential treatment is afforded some customers over others. It also doesn't outsource its customer support or use an interactive voice response system, although such cost cutting measures could save ING money. Kuhlmann explained that customers appreciate the personal connection of talking to actual ING representatives.

ING's alternative approach to banking has apparently been a success. Kuhlmann said it has attracted 8 million customers in nine years; it reaches 100,000 potential customers monthly and, of those, sets up close to 5,000 with new accounts.

Because ING is an Internet-only bank and doesn't have physical bank branches, it opened several cafes across the country where individuals can get coffee and engage ING professionals in conversations about money matters. The cafes are not designed to take deposits or enroll account holders, but just to talk about money, he said. "Where do consumers hang out and talk about prepaid cards?" he added.

That provocative question dovetailed with Kuhlmann's main objective with ING – to help people save and manage their money more wisely. Therefore, a tremendous opportunity exists for prepaid players to "turn a product into a cause," he said.

### Hail to the chief

The cause of Bill Clinton, founder of the William J. Clinton Foundation and 42nd President of the United States, is to help impoverished countries reach self-sustainability. His keynote address outlined the three "profound problems" of the modern world: inequality from country to country, instability due to such concerns as terrorism and the global financial crisis, and unsustainability exemplified by the United States' energy policy.

"Can we find solutions that reduce inequality and instability and unsustainability, where people can actually make a good living doing it?" Clinton said. "And I believe that you [the prepaid card industry] are key to that."

Clinton said prepaid cards can have a positive impact by:

1. Reaching the unbanked and underbanked with an affordable, safe product
2. Helping in health care reform by reducing overhead costs associated with paper-based insurance payments and giving patients greater control of their health care choices
3. Teaching consumers healthy financial management habits
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### The 'CEO of Savings'

The self-described rebel with a cause and "CEO of Savings," Arkadi Kuhlmann is on a mission to educate consumers about money management. He maintains that the financial services industry has been too focused on supply-side thinking, in which consumers are seen as an exploitable commodity. Kuhlmann favors a demand-side, consumer-centric philosophy when it comes to financial services.

"I think that's what America is all about," he said. "We're the home of going to the moon and laptops, the Internet. This is innovation, what we're all about. There is a great roll for cards, but let's look at them from a demand side, not so much from a supply side – about how I can make money off somebody with a card. Here's a way we can make cards a positive thing for people."

Kuhlmann put his thoughts into action with ING Direct, an online-only bank, which offers such services as low-cost checking accounts and fractional investing. ING Direct has authored a Declaration of Financial Independence (found at <http://wethesavers.ingdirect.com/save-money-declaration/>) and has set up cafes (in lieu of bank branches) in seven major cities across the continental United States and Hawaii, including New York, Chicago and Honolulu. "Yeah, isn't that great?" he said. "To hang out with some people and talk about the kind of stuff you and I are talking about. You just hang out, have coffee, there's computers there. ... You can do some [Internet] banking, but it's self service. Buy some cool clothing, have a cup of coffee. Prices are great." Kuhlmann considers himself a retail banker, as opposed to an investment banker – an occupation that has developed a certain stigma given the financial turmoil over the last few years.

"Matter of fact, 90 percent of us in the banking industry are not investment bankers," he said. "We're retail bankers and payment guys. We're not making \$30 million a year. So, I think if you are in retail banking, you are the oil in the machine for America. You're out there trying to do good." Kuhlmann brought to the 2010 Prepaid Expo USA a call to transform the financial paradigm. He said, "The biggest message for the prepaid conference is that we've got to find a way to basically get card technology and cell tech and electronics and computers and networks, get them to thinking holistically and how to build consumer confidence and think positively about cards."

5. Saving disaster relief organizations millions of dollars in aid funds otherwise disbursed through cumbersome and expensive paper-based processes, and affording disaster victims easier access to relief funds
6. Cutting down on the expenses businesses accrue through the packaging, transporting and mailing of paper-based paychecks

In conclusion, Clinton compared the zero sum game, where there is only one winner, to the nonzero sum game. "In an interdependent world, we have to look for more nonzero sum games, where there can be more than one winner," he said. He believes the prepaid card industry can play an important part in that endeavor.

### Entrepreneur banks on prepaid

The final keynote address was delivered by Robert L. Johnson, founder of Black Entertainment Television. In 2001, Johnson sold BET to global entertainment company Viacom Inc. for \$3 billion. Johnson leveraged that windfall to set up his holding company, The RLJ Companies, for which he serves as Chairman.

Under the RLJ umbrella, Johnson rolled out several business entities focused on serving minorities in urban America. One of those companies is Orlando, Fla.-based Urban Trust Bank, issuer of the Urban Trust Success Visa prepaid card.

Johnson recognizes that millions of urban Americans, including African-Americans, are "struggling to fully participate in the American dream." He cited a study conducted by the Economic Policy Research Institute that said the median net worth for African-Americans is \$11,800, compared to \$118,000 for white Americans. When home equity was subtracted, African-Americans had \$300 in net assets while white Americans had \$36,000.

Add to that disparity the estimated 60 million adults, representing roughly a quarter of all U.S. households, who don't have access to bank accounts or rely in some part on nonbank financial services, such as check cashing and payday loan businesses.

"These services often come with a high cost," Johnson said. To cash checks, customers pay \$39 on average, according to Johnson. Then to pay bills, individuals without checking accounts purchase money orders, which Johnson said can cost \$1.50 plus postage at post offices; to pay five bills, therefore, unbanked consumers must fork over \$8, not to mention the fees associated with money transfers.

So the people that utilize such services can least afford it, which gives impetus to Johnson's mission to provide urban Americans with low-cost, transparent financial products. "We believe prepaid products are a key part of that same mission," he said. 🗨️

# CompanyProfile



## Retail Decisions Inc.

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## The heart of fraud prevention

**C**ard issuer, payment processor and fraud specialist Retail Decisions Inc. (ReD) estimates that in the two weeks prior to Valentine's Day 2010, fraudsters spent 36 percent more per transaction online than did legitimate shoppers. The average, legitimate online consumer spent \$158 in that two-week period, while fraudsters using stolen card data averaged \$211. It seems it wasn't just the season of romance, but a lovely time for greed and larceny as well.

According to ReD Chief Executive Officer Carl Clump, that is the sort of regrettable reality that makes global fraud experts like ReD necessary for online retailers. Clump said merchants with an Internet presence need a fraud prevention partner that has a wide perspective on fraud.

ReD operates in the United States, the United Kingdom, South Africa, Australia, Germany, Japan, Korea, China, India and South America. We have "quite a comprehensive network, and that's one of the benefits we bring," Clump said. "Fraud is a global phenomenon, and we see fraud on a global basis. I think we must have seen transactions from probably about 150, 160 countries during the course of last year."

Clump noted that data ReD culls from the 150-plus Level 1 international merchant businesses – such as Wal-Mart Stores Inc., Royal Dutch Shell PLC and FedEx Corp. – that use ReD's fraud prevention services afford the company unique insights into current trends in fraud worldwide.

"For example, when fraudsters would buy flat-screen TVs, it used to be late in the evening," Clump said. "Now we see fraudsters buying flat-screen TVs during the lunchtime rush when [workers] go online and shop online."

Clump deduced that the high-volume of transactions occurring during the noon hour gives fraudsters camouflage for illegal purchases. Another ReD insight into fraudster behavior concerns East Asia.

In China, where ReD handles fraud prevention for airlines China Air Ltd. and Hainan Airlines Co. Ltd. as well as for two prominent travel agencies, Clump noted a distinct trend has developed.

Traditionally, fraudsters bought business- and first-class tickets because "if you're buying a fraudulent ticket, you might as well travel in style," he said. "In China what we see is that fraudsters actually buy economy-class tickets. And, again, it's due to the volume of traffic in that economic area."

### Threat landscape

ReD cites Lexus Nexus data that said the cost of fraud to retailers exceeds \$191 billion a year in the United States. Fraud is increasingly occurring in card-not-present environments, namely the Internet and MO/TO sales.

The reason is that card-not-present transactions typically do not have the level of security afforded by in-person transactions, for which customers making purchases with credit cards have to show identification or, in the case of debit cards, input secret PINs.

## Company Profile

**"I expect to see a lot of card-not-present fraud emerging in Australia," Clump said. "That's very much a focus for us."**

Since it is harder to perpetrate fraud in the brick-and-mortar world, fraudsters gravitate to environments where security is lacking. "The next weakest link in the chain is the online world, because in the online world, you can't use a PIN," Clump said. "And you don't give your PIN over the phone when you buy something because the whole point of the PIN is you keep it secret. And so that's why fraudsters target the online world."

That is why Clump expects online fraud to skyrocket in Australia. In November 2009, Visa Inc. announced that to curtail fraud Down Under, it would begin the migration to chip and PIN technology for all Australian Visa cards. But that move will likely result in fraudsters shifting over to the online channel to perpetrate their schemes.

"I expect to see a lot of card-not-present fraud emerging in Australia," Clump said. "That's very much a focus for us."

Clump advised never to underestimate the cleverness of fraudsters. Two years before the United Kingdom

implemented the chip and PIN standard to bolster data security at the POS, card-not-present environments had already become a major source of fraud. "What I'm saying is that the fraudsters had already changed their strategy," Clump said.

Merchants are often not so quick to change their fraud-fighting strategies. Through in-house developments, some merchants can keep fraud to acceptable levels. But as their businesses grow, via the online channel for instance, their methods may not be economically scalable. Many large, established merchants have come to realize that outsourcing fraud prevention is the way to proceed. But many have not.

Clump has found that certain businesses are reluctant to expand internationally because of fraud concerns. "For a retailer to be able to sell their goods internationally, globally, into a global marketplace, that has to be fantastic," he said. "The sad thing is that some of these retailers don't like taking international transactions because they think they are far too fraud prone. And indeed they are fraud prone."

"But, with ReD, we can help them overcome that. We can help open up the international markets to them. They can be confident about trading internationally."

### Catch and release

To protect merchants against fraud, ReD offers two main products: ReD Shield and ReD Prism. The former is ReD's end-to-end security solution designed primarily for online businesses; the latter is ReD's artificial intelligence application embedded in ReD Shield but also sold separately to banks.

While ReD can provide pieces of a security solution to businesses, its main objective is to offer the complete, end-to-end service: verification, data screening, fraud scoring, identity proofing, analytics, case management, payroll authentication and so forth. However, ReD does not take a one-size-fits-all approach.

"I think it's critical to have a good understanding of a particular merchant," Clump said. "If you talk to two department stores, what they'll tell you about is how they're different from each other."

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For example, an online flower shop, with heavier traffic around Valentine's Day and other holidays, will have a different fraud pattern from that of a garden supply store, he noted.

ReD bases its solution for any given business on the data supplied by that business. ReD analysts crunch the data to pinpoint the individual drivers of fraud for that business. "We effectively become ingrained in the business from a risk perspective," Clump said. Then ReD builds a solution with parameters and strategies specific to the client.

One aspect critical to every company's fraud prevention program, however, is balancing high-catch rates with low-insult rates. The trick is to "catch" as many fraudulent transactions as possible, while minimizing the number of legitimate transactions mistakenly identified as bogus. "It's important that you don't insult too many customers," Clump said.

When a valid customer is flagged as a potential fraudster, the customer will often never buy from the offending Web site again. "So it's very, very important to have the insult rate be very, very low," Clump said. "And the insult rate we have is indeed very, very low. It's typically better than what a merchant will have when they do their own fraud prevention."

According to Clump, it's not uncommon for a retailer that implements its own fraud management system to stop between 6 to 8 percent of domestic transactions from going through, even though the actual fraud rate is only 1 or 2 percent. "So these retailers are really turning away up to 6 percent of good business, and nobody can afford to do that," he said.

### The 0.3 percent solution

It is agreed that stopping fraud altogether is not a realistic goal. But Clump said the average fraud level for retailers that use ReD's services hovers around 0.3 percent. Clump pointed out that in China, where ReD has a reseller agreement with card processor ChinaBank Payment, merchants expect a fraud rate of 0.1 percent.

Clump said this severity is a product of China's relative newness to online payments. As e-commerce has exploded in China, retailers have experienced the detrimental effects of fraud. Their first response, therefore, has been to eliminate just about all fraud rather than tolerate an acceptable level of it. "They can actually afford to see a little more fraud than that," he added.

Coming from an expert on the front lines of fraud prevention, the idea that a little fraud is not a bad thing is a definite sign of the times. ■

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## Legislative outlook: Interchange bills less likely than ID fraud rules

**T**he legislative outlook for payment acquiring is mixed. In issues related to data security, the industry has emerged as a role model of sorts, with lawmakers taking a cue from the Payment Card Industry (PCI) Data Security Standard (DSS). Meanwhile, the debate over interchange has resurfaced amid rumors that at least one ranking Democrat in the U.S. Congress is considering new legislation.

### The Specter of interchange legislation

The National Association of Convenience Stores reported in its member bulletin that Sen. Arlen Specter, D-Pa., plans to pursue interchange legislation similar to a bill introduced in the House of Representatives in 2009 by Rep. Peter Welch, D-Vt. A spokeswoman for the Senator said an interchange bill is under consideration, but no formal decision has been made.

That Welch bill, H.R. 2382, the Credit Card Interchange Fees Act, addresses the permissibility of discounts for cash payments and the honor all cards rules. It has been stuck in the House Banking Committee since its introduction, and in February, Rep. Barney Frank, D-Mass., Chairman of the Banking Committee, said publicly that he had no plans to move interchange legislation through the committee this year.

Sen. Specter is no stranger to the issue of interchange. In May 2008, commenting in response to a General Accountability Office report on interchange, he suggested "remedial legislation" might be necessary if banks and merchants can't come terms over interchange.

### New Massachusetts ID theft law

Meanwhile, with identity fraud reaching unprecedented levels, lawmakers appear to be taking a cue from payment companies and implementing data security rules that closely resemble the PCI DSS.

The latest example is Massachusetts, where new data security regulations that took effect March 1, 2010, mandate that every company with customers in the state have plans in place to protect the private information of these customers from identity thieves. Security measures prescribed by the new regulations include data encryption, employee training and a written plan that details how data will be protected from theft or loss.

The state's chief consumer affairs advocate said the new law was prompted by a recent surge in identity thefts involving residents of the state. "In two years, over one million pieces of information belonging to Massachusetts residents were lost or stolen," said Barbara Anthony, Undersecretary of State for Consumer Affairs

and Business Regulation. "What these regulations do is create a culture of security."

"This is leading-edge legislation," said Eduard Goodman, Chief Privacy officer at Identity Theft 911, a Scottsdale, Ariz., firm specializing in identity management and data breach remediation services. From a lawyer's perspective, it helps to have laws like these on the books when aggrieved parties are seeking damage awards, Goodman added.

### Codification of best practices

The new Massachusetts law follows a Nevada law that became effective Jan. 1, 2010. That law codifies the PCI DSS, making it a violation of state law for any company accepting credit cards in Nevada not to be in compliance with the PCI DSS. Nevada companies that don't accept card payments, but otherwise collect customer data, are required under the new law to encrypt all stored and transmitted customer information.

"What we're seeing is a basic codification of security best practices 101," Goodman said. Goodman believes that,

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taken together, the Massachusetts and Nevada laws are a big deal – as momentous as the first state data breach notification statute enacted by California in 2002. Today, all but a handful of states have similar data breach notification laws in place.

Goodman described this first batch of data security legislation as useful but "reactive." The trend set into motion by Massachusetts and Nevada is all about "prescriptive security," he noted. "I think it's a game changer," he said of the new Massachusetts law. "This is not the last state that will pass something like this. This is a nonpartisan issue."

### ID theft concerns

The Federal Trade Commission reported last month that identity theft topped the list of consumer complaints to the agency's offices last year. About one in five of the 1.3 million complaints received involved identity frauds, the FTC said. Shortly, FTC Chairman Jon Leibowitz and Illinois Attorney General Lisa Madigan are slated to announce a major federal-state initiative to combat identity fraud. ☐

## First Data's composite security system – a game changer?

**P**rocessing giant First Data Corp. recently launched a pilot security program to guard merchant POS systems, and the company hopes it will become a benchmark in the fight against data theft.

The pilot program, which will be tried on about 400 merchants over the next four months, uses a multipronged security architecture that combines "asymmetric" encryption with tokenization. The program was developed through a partnership with EMC Corp., which owns the RSA SafeProxy architecture First Data is deploying. Under the First Data program, the security architecture has been rebranded TransArmorSM.

According to Craig Tieken, Vice President of Product at First Data, the program will run through July 2010; the company plans to launch the product publically thereafter. He said the goal is to have around 100,000 merchants linked to the TransArmor system by the end of 2010. He added that it is aimed at merchants of all sizes.

"You're starting to see increased sophistication of cyber crime that's no longer just targeted at the big guys; it's moving down market," Tieken said.

"So as big guys harden up their systems, [cyber criminals] are going down low, and our market research shows that

although there's quite a bit of education to be done with the merchant community, awareness is growing rapidly."

For merchants with modern terminals, the product can be implemented with a simple computer download, Tieken said. He noted that its implementation would both fortify merchant environments and, through tokenization, dramatically simplify the Payment Card Industry (PCI) Data Security Standard (DSS) compliance process by relieving merchants of sensitive data storage.

"There's the part of your system capturing card data and then encrypting it; that's what's left within the scope of your PCI [compliance burden]," he said. "The rest of it is no longer touching card data. When I'm not storing card data at all and I'm encrypting card data when it's in motion ... it becomes much easier to answer those [PCI] questions, and a lot can be prepopulated as a standard response."

### Extra-strong encryption

According to Tieken, TransArmor's front-end is strengthened beyond standard encryption schemes through a divided, asymmetric encryption method. Data is encrypted within the merchant's terminal but can only be decrypted by First Data at the processing end. Thus,

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thieves who penetrate a merchant's POS system theoretically have no way to view the raw data therein. Even if they crack the encryption scheme, they can't use that formula for decryption.

"It's a method of doing encryption in which you have a key pair that's split apart," Tieken said. "The public key is given to the merchant. That's the component that does the encryption at the merchant location but can't decrypt. So they send [First Data] this encrypted block of data, and we have the corresponding second key in our data center. So even if someone got a hold of the key from the merchant they can't do anything with it."

Tieken added that encrypted payment data is decrypted by First Data and returned to the merchant in the form of a token – a random set of numbers that allows the merchant to conduct chargebacks, recurring billing and other post-transaction functions without handling sensitive card data. The token retains the last four digits of the original card number so that customers can identify their cards on receipts.

#### Extra security layer with recurring billing

Furthermore, under the TransArmor solution, a consumer who uses recurring billing is represented by a unique identification number separate from the token returned to the merchant. If continuous payments were made with the original token, Tieken said, a stolen token could be used just like a credit card number in a recurring billing scenario.

"In the card-not-present recurring base, what we have is a class of the token that actually represents me and the biller to First Data differently than the token that is sent back for purposes of [merchant] reporting and getting paid," he said. "So I actually have a consumer ID that represents me to [for example] my electric company for purposes of recurring billing.

"If I just took my financial token used for reporting and chargeback exception items and said, 'Take that token and submit a new transaction,' then I can start to launder those things, and I've done nothing but replace one card number with another card number."

#### Major step forward

Theodore Svoronos, Certified E-Commerce Consultant with Group ISO Inc., said First Data's program marks a significant step forward in the payment business's long-standing fraud fight. The technology being used isn't anything new, but the deployment of a composite token/encryption security product on the scale intended by First Data would be groundbreaking, he said.

"All these security products have been around since 2000, 2001 – all these bits and pieces," Svoronos said. "The problem we've been having in this industry is the attrition rate,

the low adoption rate, customer drop off and sales going down because [merchants] don't get it. ... By First Data adopting this, they are becoming a leader in this space. They have the wherewithal and financials and ability to do it, and they can cherry pick the best of the best and put it together, and RSA is phenomenal.

"PCI is a wonderful situation and well-needed, but to some point it's still reactionary. I believe in a proactive approach, and this approach First Data is trying is a proactive approach. And those [merchants] that do decide to jump on board this train before it leaves the station will realize the value down the road." ■

## TSYS, FNBO enter joint venture

Seeking a foothold in the merchant acquiring space, processing giant Total System Services Inc. (TSYS) entered a joint venture with First National Bank of Omaha. The partnership, which the two companies anticipate finalizing April 1, 2010, gives TSYS a 51 percent stake in the FNBO acquiring arm, First National Merchant Solutions LLC, with FNBO retaining a 49 percent stake.

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## News

TSYS reportedly paid about \$150.5 million for its share of FNMS, which had a net revenue of \$93 million in 2009, according to FNBO.

### Not unexpected

For TSYS, the deal is a widely expected move into the acquiring space by a prominent payment firm, long a leading provider of processing technology and services to ISOs and acquirers but never directly contracted with merchants until now.

"We've been thinking about this space for several years ... and came to a couple conclusions," said Troy Woods, TSYS President and Chief Operating Officer.

"We have a lot of products but would feel more comfortable if we could get closer to the endgame, if you will, closer to the transaction and the merchant and to have a better channel to our merchants.

"Two, we thought the reverse of that would be important in our business: to get more connectivity and feedback from the merchant and understand what's needed in the marketplace."

Neither representatives from TSYS nor FNBO would speculate about how the respective platforms of the two companies might be integrated; both said their existing acquiring and processing contracts would remain unchanged.

FNBO is already a full-service merchant acquirer – and one of the top revenue-generating acquirers in the United States – although many of its acquired merchants do process with third parties, and, according to Woods, TSYS

might eventually look at providing processing services for merchants acquired by FNMS.

Diana Mehochko, President of FNMS, said FNBO would benefit from the use of TSYS' top flight processing services and technology, which would provide more efficient platforms for its merchant base.

"From a bank perspective, it increases our scale and provides opportunities for extended growth and value creation in synergy," Mehochko said. "They certainly have processing and product expertise, state of the art technology and a payments industry focus that's going to complement us quite well."

### Better margins in acquiring

Greg Cohen, President of Canada-based processor Moneris Solutions Inc., said it had been all but inevitable that a giant processor like TSYS would eventually enter the merchant acquiring arena.

He added that direct merchant relationships tend to yield much better profit margins than indirect ones.

"TSYS for years has put itself in there as a processing partner, and I think it's been proven over the years that that model is a bit challenging," he said.

"Every time an ISO or acquirer's contract comes up for renewal, they ask [a third-party processor like TSYS] to lower their price or they threaten to move all the business. So your margins decrease substantially over time."

Cohen believes the merger is a natural evolution. "I think TSYS has been looking to get into the acquiring business for some time, and the synergies between these two organizations are pretty strong," he said.

Woods said talk about a possible partnership between TSYS and FNBO started in early 2009, but only really revved up later in the year. He added that TSYS was initially one of a large number of interested parties looking to buy into the bank's merchant services division. ■



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# Trade Association News

## W.net is casting a net

**W**omen Networking in Electronic Transactions (W.net), an organization devoted to the development of women leaders in the payments industry, launched its 2010 individual giving campaign. The theme is "Strive-for-Five," in honor of the nonprofit organization's fifth anniversary.

The campaign's goal is to raise \$50,000 to help W.net further its mission "to inspire and empower women in the electronic transactions industry to maximize their individual potential and position themselves for greater personal success." Donations can be made at [www.w-net.biz](http://www.w-net.biz).

Also, W.net holds Local Interest Networking Circles (LINC)s to provide networking and educational opportunities for women in payments in various U.S. locations throughout the year. Its upcoming, semi-annual Super LINC will be held April 13, 2010, the first day of the Electronic Transactions Association's Annual Meeting & Expo in Las Vegas. Interested women may register at [www.w-net.biz](http://www.w-net.biz). 

In addition, the group is seeking submissions written by women in the electronic transactions industry for its quarterly W.net Woman2Woman newsletter. W.net welcomes business articles of no more than 750 words on topics of interest to women in the industry. All contributors will receive a byline. Submissions should be e-mailed to Michelle Jerome at [mjerome@w-net.biz](mailto:mjerome@w-net.biz).

## ETA adds investment forum

**A**n Investment Community Forum is being added to the offerings at the Electronic Transactions Association's 2010 Annual Meeting & Expo in Las Vegas from April 13 to 15. The all-day forum will take place April 13 and feature presentations to investors and other companies in the payments industry value chain.

Speakers will represent leading payment companies as well as investment firms already in the payments space. Collin E. Roche, Principal at GTCR Golder Rauner LLC, will deliver the keynote address. Visit [www.electran.org](http://www.electran.org) for more information. 

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Light alleviating from page 1

### Reasons for optimism in acquiring

The acquiring sector of the payments industry showed positive signs in late 2009 and early 2010, with many acquirers and processors rebounding from a lackluster business year in 2008. Paul Martaus, President of payment consulting firm Martaus & Associates, has observed thawing in terms of the number of transactions processed. "At the beginning of a down cycle in the economy, everybody freezes up like deer in the headlights, and that includes consumers, businesses – everybody," he said. "But people are starting to free up their stuff – even consumers are buying a little bit more often.

"Chargeoffs are still up for credit cards and things of that sort. ... What we are seeing is more transactions but for lower dollar amounts, and that's fairly consistent across the spectrum."

### Companies that fared well

Heartland Payment Systems Inc., Global Payments Inc. and First Data Corp., all among the top 10 revenue earners for bankcard acquirers in 2008, each reported revenue increases in the second half of 2009.

Heartland – rattled by a breach that occurred in late 2008 and generated wide media coverage in the early months of 2009 – reported a \$14.8 billion increase in transaction processing for the fourth quarter of 2009, up 5 percent from the previous year; its quarterly net revenue was \$105.1 million, also up 5 percent.

Global Payments reported that revenues grew 12 percent, to \$409 million, in the second quarter of 2009 (ending November 30), compared to the previous year; the company also projected revenue growth of 12 to 17 percent in 2010.

First Data reported processing increases across the board during December 2009, compared to December 2008. The company reported an 8 percent increase in total transactions. That number is the product of a 4.6 percent increase in

(continued on page 64)

"Also, the three-month moving average is 2.3 percent above the previous year's value, which is the first time that there has been a year-over-year increase since April 2008, 21 very difficult months ago."

### A quarter of light

On the corporate scene, let's observe statistics gathered from the latest quarterly survey focused on the economy, straight from the Business Roundtable. The Business Roundtable is a group of about 160 conservative American companies with an aggregate workforce of 12 million and \$6 trillion in aggregate revenues. These are the nation's corporate giants that do significant hiring.

The report, called the *Fourth Quarter 2009 CEO Economic Outlook Survey* and published on BusinessRoundtable.org, indicates these companies are now seeing a slight recovery and that capital spending will likely follow the increase in revenues.

This doesn't mean large companies will immediately start hiring again. What it does mean is that overall economic gloom and doom might soon begin to fade.

This survey was conducted among 111 CEOs who are members of the Business Roundtable. Of these, 68 percent said they expect an increase in company revenues over the next six months, and 15 percent expected their revenues would be no worse than flat.

This is a notable difference compared with the responses

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credit and signature debit transactions; a 12.5 percent increase in PIN debit; and a 37 percent increase in electronic benefit transfer (EBT) transactions. EBT is used in government public assistance programs.

Meanwhile, terminal manufacturer VeriFone saw its first quarter 2010 revenue increase 3 percent from the previous quarter to \$223 million. The company reported increases in both domestic and international sales; its most significant growth was in Latin America, where revenue increased 14 percent over the fourth quarter of 2009.

### Shifting consumer trends

Martaus said the large increase in PIN debit likely related to a shift among many consumers from credit to debit card use, while the astronomical jump in EBT use reflected soaring numbers of citizens receiving government aid. "We're seeing more of a shift to debit than anything else, and that's a big deal for an acquirer," Martaus said.

Another significant bit of news in the acquiring sector involved a newly formed partnership between two industry titans: processing giant Total Systems Services Inc. (TSYS) and First National Bank of Omaha. On March 1, 2010, the two companies issued a joint press release announcing the merger, under which TSYS will acquire 51 percent of First National Merchant Solutions LLC., the main acquiring arm of FNBO. The transaction, which the companies expect will be finalized on April 1, cost TSYS a reported \$150 million. (See "TSYS, FNBO enter joint venture" in the News section of this issue for more details.) The deal appears to be a good one for both companies; FNBO gets the product capabilities of a leading industry processor, while TSYS gets a direct merchant channel through which to deploy its vaulted services.

The travails of the economy did not deter the two companies from taking this significant step. It is therefore a positive development that acquisitions and partnerships – core growth areas for the payments industry – remain strong.

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from a third quarter 2009 survey. In that survey, only 51 percent of CEOs expected to see a sales increase in the six months that followed, while 26 percent projected a decline in revenues.

### Jobs, jobs, jobs

Using a broader spectrum, CareerBuilder.com surveyed 2,720 hiring managers for its 2010 job forecast. About 20 percent of those interviewed expect an increase in hiring this year, but according to CareerBuilder CEO Matt Ferguson, the second quarter of 2010 looks brighter than the first.

Ferguson stated, "Although 20 percent of employers plan to add headcount in 2010, up from 14 percent last year, they still remain cautious in regards to their hiring. We're headed in the right direction, but should not expect to see actual job growth until at least Q2 2010." (This quote was taken from an article by Timothy Prickett Morgan published by *The Register*.)

In addition, an article posted on Feb. 9, 2010, by Montgomery, Ala.-based WSFA 12 News on [www.wsfa.com](http://www.wsfa.com) revealed that some industries have grown despite the poor economy. For example, this seems to be a prime time for the tech industry. Cisco Systems Inc. recently announced plans to hire up to 3,000 new employees, and Oracle Corp. indicated it intends to hire about 2,000 workers.

Dan Vivoli of Nvidia Corp. said it is "super important that we invest now, when a lot of people don't think it's a

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## CoverStory

good idea. It's the right thing to do, because our customers will be more efficient, and that creates jobs and a better economy."

Business spending on software and equipment is also on the upswing, according to the latest survey by the National Association for Business Economics. In an article posted by Dave Hannon of Purchasing.com, the NABE survey results show that this type of business spending has increased by 7.2 percent. And because of this increase, NABE predicts a 3.1 percent growth in the U.S. gross domestic product (GDP).

On a smaller but maybe just as significant front, the *Richmond Times Dispatch* reported in late February that Morgan Lumber Co., a Charlotte County, Va., lumber company, is adding at least 25 new jobs and investing \$4.2 million into operations, which will result in more work for loggers, equipment repair specialists and trucking contractors.

### Markets rebounding?

Now let's take a close look at two markets that have been greatly affected by the economic recession: the housing and automobile markets. Though many businesses felt the jolt of the economic downswing, these two spheres seemed to be at the center of the American media scope.

Every day for a couple of years, it seemed the headlines brought more shattering news about mortgages and foreclosures, auto sales branches closing their doors et cetera.

In a notably positive article titled "The Economic Outlook, January 2010," written by Jeffrey Lacker, President of the Federal Reserve Bank of Richmond (Va.), the author predicted continued economic growth and rises in employee incomes this year.

Based on data he has gathered since last summer, Lacker said that "single-family housing starts have increased by 35 percent, and, new home sales have increased by 8 percent. And there are signs that home prices have bottomed out as well. One widely followed index of existing home prices nationwide rose a seasonally adjusted 3.9 percent from May to October."

Lacker also sees positive activity in the automotive industry. "Sales have improved steadily in the last four months," he stated. "Granted, sales are still well below the long-run trend that would be needed to keep the stock of vehicles growing in line with population.

"But, just as with housing, autos are no longer a drag on GDP growth and should make positive contributions going forward, in welcome contrast to the last two years."

So if bad news about the housing and auto markets were indicators of a poor economy, could slight improvements in those sectors be our thread of hope for better days ahead?

### Taking stock

And how is the stock market looking these days? On March 11, CNNMoney.com reported that the Dow Jones industrial average had added 44 points (0.2 percent) that day, according to early tallies, ending at a six-month high.

More than just a few companies have seen recent stock appreciations, among them Sara Lee Corp., Perrigo Co., Lancaster Colony Corp., Zarlink Semiconductor Inc., Integrated Silicon Solutions Inc., Micrus Endovascular Corp. and Pain Therapeutics Inc.

Additionally, the U.S. Department of Commerce recently released a statement showing that the GDP grew at an annual rate of 5.9 percent for the fourth quarter of 2009. This is the fastest growth rate since 2003's third quarter!

These increases in company revenues, the housing market, employment, automobile sales, the stock market, lumber mill expansion and regional job growth reflect an economic resilience that seems to be propelling the United States toward healthier economic times.

So hold on. We might well see drastic movements in a positive direction later this year. 

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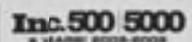
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# Education

# StreetSmarts<sup>SM</sup>

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## Parting thoughts for readers

**By Jon Perry and Vanessa Lang**

*Merchant Services Inc., Fort Worth, Texas*

**W**e would like to send our sincerest appreciation to *The Green Sheet* team for stepping outside the box and allowing us to share our hands-on experience in this column.

The information and education that this industry publication facilitates is a cornerstone for a thriving merchant services business – whether it is a merchant level salesperson (MLS) sole proprietorship, acquiring bank or vendor.

### Trusted resource

GS Online's MLS Forum contains a wealth of knowledge maintained for all MLSs to access. The uses of this tool can be as simple as community interaction, a professional support system, or troubleshooting hardware and software. We encourage all readers of Street Smarts to get out and post. Take some time each week to share your knowledge with our community so that we all may grow and continue to serve our clients.

We earned the opportunity to write for Street Smarts simply by attending the regional tradeshows and being seen and heard. No matter where you are in your business, your help is needed somewhere. The partners and friendships we have developed by spending a few days each year with other like-minded industry people are priceless.

Especially when you are a newbie in our industry there is much to learn, and the quicker you can come up to speed the more successful you will become. Getting involved is one way to do that.

### Business milestone

This year we celebrated our four-year anniversary, a major milestone for a new business. At the beginning,

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we did not even know that there was cost for merchants to accept credit cards. We came from a background of marketing and engineering with nothing but the drive to grow a business that would provide residual income month after month.

While some may disagree, the low barriers to entry in our industry are what make this an opportunity like no other. Few are able to create long-term sustainable income in the bank card industry. Those who have made a lifelong career selling merchant services are to be commended; it is not easy but is well worth the journey.

### Solid partners

We want to take a moment to recognize some of the industry partners who have been part of our journey, which began in 2005 with a company out of California that was all high-dollar leases and low residual payments to its contractors.

Following nothing but a gut feeling, we immediately began researching other companies and contracted with Humboldt Merchant Services.

As many know, HMS was acquired by Moneris Solutions Inc. The HMS team, including Ken Musante, Xavier Ayala and Scott Defazio, cared for and fed us over many years. They remain some of our best industry colleagues. We then selected Equity Commerce as our primary processing partner. Jeff Brown and Jerry Julian continue to exceed

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## StreetSmarts

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Steve Sotis, President of eProcessing Network, has shown us what it truly means to resell gateway accounts. The company's technical acumen has helped us earn more business. Behind all these industry leaders are a vast array of technical support, customer service and most – important – sales support personnel.

### New branding

At the beginning of 2010, we outgrew our home-based office and moved into our first retail office. This is a major step toward growing our team. While we originally registered with Visa Inc. and MasterCard Worldwide under 888QuikRate, we are now nationally known as Merchant Services Inc. of Texas and locally serve our community as DFWCard Merchant Services.

Rebranding has resulted in increased recognition in the community we service. Our online presence is growing every day. One key piece of advice we can share is to be flexible.

Stay tuned to the industry, anticipate changes and take the steps necessary to ensure your long-term sustainabil-

ity and profit. And always stay above board and above the fray.

### A standout successor

It is with a great amount of excitement that we pass the writing torch to our mentor and friend Ken Musante, who is now Executive Vice President and Chief Sales Officer at Moneris.

He will bring to the table his experience in the acquiring industry and a wealth of knowledge on interchange. Please help us in welcoming him to the MLS Forum and as the next author of Street Smarts.

So, while ending our formal commitment to Street Smarts will afford us a bit more time each month to spend on sales, please call us whenever you need someone to confide in or to just get an honest opinion. ☑

*Jon Perry and Vanessa Lang are the owners of Merchant Services Inc., an ISO based in Fort Worth, Texas. 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@dfwcard.com](mailto:jon.perry@dfwcard.com) or [vanessa.lang@dfwcard.com](mailto:vanessa.lang@dfwcard.com).*

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## Education (continued)

### Police warn of new skimming devices

By Nicholas Cucci

*Network Merchants Inc.*

**P**olice throughout the nation are warning cardholders that tech-savvy thieves are stepping up their game and swiping customers' hard-earned money through increasingly sophisticated skimming devices. These devices, which are smaller than cell phones, can be placed on ATMs or used by untrustworthy employees to steal sensitive data.

Recently, a band of thieves in New York City rigged ATMs to steal over \$500,000. The worst part is these criminals are on the loose. Police have all three suspects' pictures but are unable to locate or identify them. Their appearances, through disguise, change daily.

Skimmer devices are placed directly over slots where customers swipe their cards to get cash from ATMs. The skimmer reads and stores sensitive personal information kept on the card's magnetic stripe. The skimmers are so small authorities have difficulty finding them. In New

York, police were able to identify the location of the theft by analyzing victim data.

In Chicago, police are on the hunt for similar tech-savvy crooks who are snatching card information and later creating fraudulent cards to make withdrawals. The police obtained snapshots of the criminals but they, too, are still on the loose. They've hit five towns in the last year and stolen over \$100,000. Recently, they made 17 fraudulent transactions in only 14 minutes.

#### What we're up against

Historically, fraudsters sent short message service (SMS) text messages to their cell phones when cards were wiped. Today, they use Bluetooth technology to connect to their computers or handheld devices, pulling information in real time. The skimmers directly connect wirelessly to any laptop or phone that supports a Bluetooth connection.

Fraudsters also use hidden cameras that are usually the size of a pinhole and extremely hard for the untrained eye to find. Previously they had to align the video and the swipe to see a victim's PIN. This was unreliable since crooks had to link the magnetic data with PIN data. Now, Bluetooth devices allow crooks to steal information faster and with accuracy.

"The thieves collect the magnetic stripe data and film the victims entering their PIN at the same time," said Roy Derby, Deputy Chief of Police in Bloomingdale, Ill. "Then the criminals create their own phony cards and use the PINS to dip into the bank accounts."

Skimmer devices affect everyone. Customers feel violated and are frightened about identity theft. Banks are troubled, too. Their customers' information is stolen; they're losing money and goodwill and are ultimately responsible for reissuing new cards, which isn't cheap. People typically don't realize they have fraudulent charges on their accounts until it's too late.

Some thieves remove the daily allowed limit from the account right off the bat. Bank customers who have mobile alerts set up on their accounts can receive SMS alerts when they've reached or exceeded their daily limit. Others are not as lucky.

#### How theft will happen

According to the Federal Trade Commission, the five most common ways ID theft will happen in 2010 include:

1. **Dumpster diving:** Rummaging through trash looking for bills or any kind of paper with personal information in it.
2. **Skimming:** Stealing card information by using cameras and special storage devices.

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3. **Phishing:** Pretending to be financial institutions or other trusted companies and sending spam in an effort to get you to reveal information.
4. **Changing your address:** Diverting billing statements to another location by completing a change of address form.
5. **Old-fashioned theft:** Stealing wallets and purses with sensitive information inside, pre-approved credit card applications, checks and even tax information.

### What you can do

Here are common-sense tips you can employ, as well as convey to your merchant clients for them to use and pass on to their customers:

- Before swiping your card, check the machine and make sure nothing is attached. Most skimming devices are attached with double-sided tape or a magnet and can easily be removed.
- Shred all financial documents and paperwork with personal information before you throw them out.
- Do not carry your Social Security card in your wallet or purse. Keep it in a safe place, and do not give out the number unless absolutely necessary.

- Do not give out any personal information over the phone, through e-mail or over the Internet unless you know who you are dealing with.
- Make your passwords to accounts advanced. For example, do not use the last four digits of your Social Security number or your birth date; use a combination of random letters and numbers instead.
- Monitor your credit cards online; check daily or weekly for unauthorized charges. The law requires the three major consumer-reporting companies to give you a free copy of your credit report. View your credit report often and make sure no accounts are open that you don't recognize.
- Monitor your bank accounts online.
- When conducting financial transactions, watch out for suspicious activity around you, including at ATMs and restaurants. If an ATM looks tampered with, use another ATM. 

*Nicholas Cucci is the Marketing Director for Network Merchants Inc. He is a graduate of Benedictine University. Prior to joining NMI, Mr. Cucci worked in the payment processing division for a Fortune 500 company and has advised several large retailers on credit card fraud protection, screening and risk assessment. Nicholas can be reached at [ncucci@nmi.com](mailto:ncucci@nmi.com) or 800-617-4850.*

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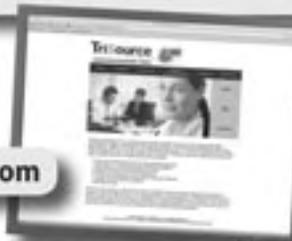
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## Education (continued)

# Ripples on the mobile Web

By Dale S. Laszig

*Castles Technology Co. Ltd.*

**T**here's a theorem in quantum physics that the observer affects the observed. That's certainly true for the mobile Web, a shape-shifting phenomenon that's changing our world. Each end user has a ripple effect on the mobile Internet and its always-on, always-connected community. Even die-hard laggards have been dragged into the mobile age, in which access to friends, colleagues, e-mail, Internet search and social networking is only a click away.

The next big thing for merchant level salespeople (MLSs) is to start viewing the mobile Web as a profit center. Following are 10 top trends in mobile computing that can help merchants create unique mobility strategies to stay connected with customers.

### 1. Mobile commerce

Rising popularity and falling prices are helping mobile payments go mainstream. Merchants can choose to process payments on portable credit card terminals, smart phones or laptops paired with card reader peripherals that communicate via cellular networks or Wi-Fi. Even brick-and-mortar merchants occasionally travel or attend tradeshows. These portable and cost-effective solutions can be taken along on business trips to securely manage cardholder data, expedite settlement and deliver lower card-present discount rates.

### 2. Micropayments

The ability to transfer money and make payments from mobile devices offers hope to a global population of unbanked and underbanked consumers. The Bill and Melinda Gates Foundation committed \$12.5 million to fund mobile banking in the developing world. The Financial Services for the Poor Initiative is a far-reaching plan to make microfinance and savings accounts widely available, and a call-to-action for payments industry professionals.

"We believe this is a historic opportunity to make financial services accessible to billions of people in the developing world," the foundation's Web site states. "New technologies and innovative partnerships make it possible to create a 'next-generation' banking system. Working together with banks, governments, mobile phone companies, retail store chains, and others, we believe it is possible to deliver quality savings accounts and other financial services to the doorsteps of the poor."

(Visit [www.gatesfoundation.org](http://www.gatesfoundation.org) for more details.)

### 3. Mobile CRM

Customer relationship management (CRM) began years ago when companies attempted to understand customer buying habits and preferences. Today's CRM is a nuanced and interactive relationship, controlled more by consumers than the businesses they patronize. These days an opt-in message on a mobile phone can lead to an impulse buy, and customized alerts keep consumers aware of bank balances and sales.

### 4. The mobile Web

Just as films are restructured for DVDs, corporate Web sites are provisioned for the mobile Web, with automatic mobile versions that can be read on a number of hardware platforms, including the Research in Motion BlackBerry, Google Inc. Android and Apple Inc. iPhone product lines. Mobile Web sites need to be clear, attractive and easy to navigate on small screens.

### 5. SMS marketing

An increase in unlimited text plans offered by wireless carriers has accelerated short message service (SMS) usage, not just by teenagers but across the entire demographic spectrum. Businesses have found innovative uses for text messaging, such as over-credit-limit and payment-due alerts, event reminders, polling and opt-in messages for customers who would like to be notified about specific promotions.

Enterprise SMS solutions help businesses stay connected with their remote workers and customers through programmable, customized broadcast messages. Programs offered by third-party providers enable administrators to download entire databases into smart phones, forward responses to e-mail addresses, and use additional tools to manage data and trend analysis.

### 6. E-mail marketing

Now that we're using our phones to check e-mail, doesn't it make sense for companies to increase the frequency and variety of targeted e-mail promotions? It's a great way to stay in front of customers while continuing to build brand value. E-mail is less invasive than telemarketing. It also has a better chance of reaching its target audience by virtue of reaching consumers however they happen to be logged on, whether via smart phones or desktop or laptop computers.

### 7. Mobile coupons

Coupons are hot again, thanks to the recession.



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## Education

Books on how to leverage coupons are making best-seller lists, and we're seeing increased usage across the board. The latest trends are opt-in coupons with instant savings and rebates, and rich media coupons on smart phones with bar codes read by POS scanners. Merchants like mobile coupons because they can be tracked, making it easier to analyze the success of promotions.

### 8. Mobile social media

The increasing popularity of social networks in all sectors is driving demand for mobile access. Facebook, MocoSpace and foursquare lead the pack in mobile social media applications. The primary functions of

social media – exchanging information, sharing content, forwarding links, and managing network referrals and invitations – can be easily done on mobile devices.

### 9. Mobile search marketing

Most major companies recognize the value of advertising on the top three search engines: Google, Yahoo and Bing. Mobile searchers usually have a greater sense of urgency than their stationary online counterparts, presumably due to an immediate need for the product or service they seek.

Advanced forms of mobile search utilize global positioning satellite technology to offer proximity-based search results.

### 10. Mobile video and event programming

Remember the Sony Watchman? A tiny handheld portable television set enabled viewers to watch TV from anywhere. Advanced Internet technology has given us so many more sources of on-the-go video content. Consumers can create and send their own mobile videos, contributing content to a broad range of media, including network news.

Mobile video technology is emerging. Expect to see more variety and quality as videos are specifically designed for viewing on smaller screens. Advertising is a natural add-on in this space, as retailers compete to promote and sponsor a range of local, national, free and pay-per-view events.

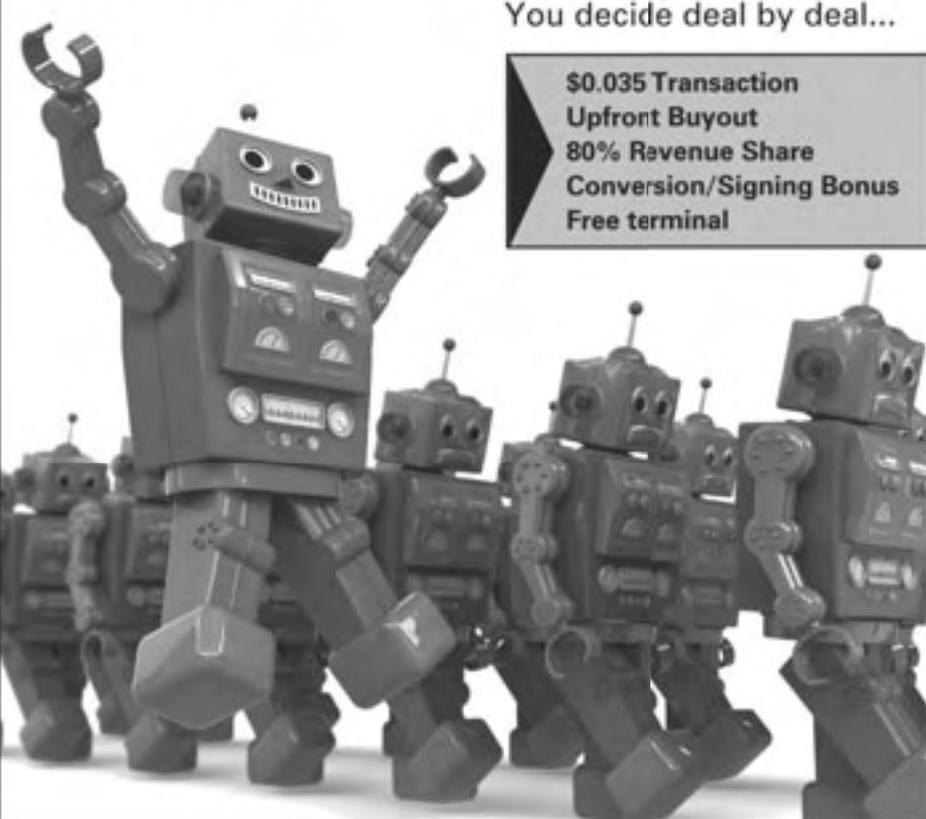
Connecting in real-time is the defining element of today's consumer-centric environment. Web sites alone will not do the job. It's time for MLSs to join the expanding mobile Web community and turn some of those ripples into waves. ■

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

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## Education (continued)

# Digging into PCI - Part 9: Restrict physical access to cardholder data

By **Tim Cranny**

*Panoptic Security Inc.*

**T**his installment of our multipart series on the Payment Card Industry (PCI) Data Security Standard (DSS) drills down on the ninth of the PCI's 12 requirements. Herein, I will discuss the issues, what merchants need to do, and what ISOs, merchant level salespeople and other service providers can do to help merchants achieve compliance.

Requirement 9 is "Restrict physical access to cardholder data." It is the third and final part of the PCI section titled "Implement Strong Access Control Measures."

The first part of that section (Requirement 7) sets forth the general high-level principles of access control; Requirement 8 provides technical details about access controls for computers; Requirement 9 contains specifics on the other main area of access control: physical security.

### What Requirement 9 is all about

The core idea behind Requirement 9 is simple: your computer systems and records are not safe unless you stop attackers from physically getting their hands on them. This is obviously true for paper records, but most people don't appreciate that it is also very much true for computers.

Too many merchants think breaches are always a long-distance, over-the-Internet thing. In reality, several types of attacks on computers that are almost unstoppable once underway can only be launched when the perpetrator is physically sitting at the computer under attack.

In this situation, expensive and sophisticated security software and devices are less useful than a good deadbolt or burglar alarm. What merchants need to do, and what PCI demands they do, is use the right physical security solutions (locks, alarms and security cameras, for example) in addition to the right software and devices.

Requirement 9 is an example of defense in depth, a core security principle that entails using multiple overlapping security solutions so that if one of them fails or is not activated, others can still protect you.

### The challenges of Requirement 9

The good news is few challenges are associated with this requirement. Also, Requirement 9 is easy to understand: unlike most sections of the PCI DSS, the average merchant can read through the list of details and not get confused by technical jargon. Furthermore, it's easy to understand

what the problem is, as well as the 'what' and 'why' of situations governed by the requirement.

In Requirement 9, as in other PCI requirements, merchants with more complex or risky environments face a heavier, more complicated documentation and compliance burden.

Merchants might think physical security is the one area where computers and electronic records don't make much of a difference, but that is not true. In reality, merchants with multiple computers and/or electronic records have much to identify and protect. They need to address the physical security of the computers themselves, network jacks, wireless access points and so on.

Physical media (paper documents, CDs, thumb-drives, et cetera) need a surprising amount of attention as well, since merchants must be careful in organizing and classifying these media correctly, as well as in thereafter protecting, tracking, controlling and even destroying sensitive ones, as required.

### What merchants need to do

To comply with Requirement 9, merchants must make sure unauthorized people (including unauthorized staff) can't get their hands on anything sensitive, including POS equipment, computers, paper records, electronic files and so on. The associated tasks can be broken down into the following five general categories:

1. Make sure all paper and electronic media that contain cardholder data are physically secure (using obvious solutions like burglar alarms and locks on doors, offices, and/or filing cabinets, as appropriate).
2. Restrict access to protected areas: keep customers and potential attackers out of such areas. And make sure you can always tell the difference between customers, potential attackers and staff authorized to access protected areas.
3. Make sure you control how media (paper, CDs, thumb-drives, et cetera) are used. This is more complicated than it sounds and includes the following:
  - Knowing precisely which media have sensitive cardholder data on them (if you don't have a careful classification and tracking system in place, you have to protect all media as if it were sensitive all the time)
  - Distributing sensitive media and information

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## Education

only to people (inside the company and outside) who absolutely need them and have a right to them, and making sure the distribution system is secure (no sending it through the mail or via e-mail without encryption)

- Controlling who can take such media out of secured areas
  - Restricting who can go in to secured areas
  - Keeping logs on access attempts and requests for permission to access records
4. Protect backups of sensitive data as carefully as you do the original data.
  5. Destroy sensitive data carefully when it is no longer needed for business or legal reasons. Destruction is not merely throwing something into a garbage can or recycle bin: it means destroying the physical object.

Paper should be cross-cut shredded, burned or pulped. Hard disks, thumb-drives and so forth should be physically smashed, not just erased through reformatting. (Memory devices are getting cheaper every month, so it isn't expensive to follow such a policy. It can be far more expensive not to do so.)

## What you need to do for your merchants

Requirement 9 is one of the simplest, do-it-yourself parts of PCI compliance, so there are relatively few opportunities for ISOs and other portfolio owners to do much good (or harm, for that matter).

A small percentage of merchants might want assistance finding point solutions like shredders or video cameras, but other parts of PCI DSS compliance will be far more painful and demanding.

So Requirement 9 should be a minor background issue most of the time.

ISOs and other merchant service providers should emphasize to merchants that, although it is simple, Requirement 9 is just as critical as the more complicated parts of PCI, and then spend most of their time helping merchants ensure that their PCI programs can deal with the messier, more demanding aspects. 

*Dr. Tim Cranny is an internationally recognized security and compliance expert and is Chief Executive Officer of Panoptic Security Inc. ([www.panopticsecurity.com](http://www.panopticsecurity.com)). He speaks and writes frequently for the national and international press on compliance and technology issues. Contact him at [tim.cranny@panopticsecurity.com](mailto:tim.cranny@panopticsecurity.com) or 801-599 3454.*

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# Online banking in Canada: What happens next?

By Joseph Iuso

UseMyServices Inc.

*Editor's note: This article originally appeared in E-Finance and Payments Law and Policy, January 2010; reprinted with permission. © 2010 by Joseph Iuso.*

**T**he Canadian online banking industry is in constant movement and is modernizing rapidly. This article examines developments identified as potential market changers and revenue generators in the Canadian banking and finance sector and evaluates their potential impact on the online banking industry within the next five to 15 years.

## X.25 to TCP/IP conversion

Firstly, there was a change in the standard protocol for wide area network communication. Although TCP/IP was not thought of as a major market changer at the time, the vast majority of ATM and POS devices, in 1999 in Canada, were still connected to the X.25 protocol. Part of this situation was due to the passage to the year 2000.

However, in the past decade, this has been completely replaced with the quicker and more cost effective TCP/IP connection, using the Internet and related technologies.

Not only has this improved the offer of products and services, it has also allowed a wider variety of offerings at ATMs and POS devices – everything from linking loyalty cards to reward programs and managing these from the very same internal networks that were once just the domain of the banks.

Consumers now have access to a lot more information as it relates to themselves, the banks, the retailers and merchants.

## Statement printing/passbook updating

In late 1993, I was involved with a pilot at the Canadian Imperial Bank of Commerce that dabbled in adding statement printing and passbook updating to ATMs. For non-Canadians, this means that there is no monthly statement; you just keep a passbook with all the transactions and update it whenever you go to the branch.

This system is still around. Who would have thought, in 1993, that the CIBC alone would save an estimated \$20 million to \$40 million annually?

## Electronic bill payment and presentment

Despite electronic bill payment and presentment being novel concepts, they were implemented to some degree in Canada in the past 10 years. With the merger of eRoute

and ePost early on in the decade, the one stop for any company that needed to issue an invoice was solved.

An invoice can now be provided through most major banks so any consumer can pay the relevant invoice right away by using online banking. The only problem that remains is automation to the point that it is a 'click and pay' scenario. Meaning, as of today, only the delivery of the invoice through online banking has been accomplished.

The pay portion has not changed since electronic bill payment was originally introduced. It is still a manual setup process through online banking.

With the advent of Mint and the acquisition by Intuit, I suspect this final piece will be accelerated in the next five years, and a seamless solution will be implemented where the consumer will be able to click on the invoice and simply make the payment without the hassle of setting up the payee and then making the payment.

## Real-time transaction availability

The idea back in 1999 was to allow as many points of entry for personal and business customers to access their transactional data for debit, credit and other financial products. At the time, this was a novel concept.

With the advent of such technologies as those developed in Apple iPhones and Google Androids, through Web browsing account consolidators such as Cashedge and Yodlee and through one-click bill presentment and payment companies such as Billeo and Mint, real-time transaction availability has been essentially achieved.

Banks will most likely be following once their usability people are able to push the benefits through. How easy it will be.

## Co-branding capabilities

The idea here was to extend banking relationships through online banking with various partners, retailers and distribution channels. This included issues such as loyalty programs, reward programs and additional cross-selling opportunities, as they related to the products and services being offered through the multiple channels.

At the end of 2009, the evidence was clear. In order for banks to leverage their brands, they have created, worked with and implemented some of the most interesting and successful programs in Canada. Everything from bank sponsored credit cards, such as the CITI-Petro Canada Mastercard, to the BMO Credit Card that offers AirMiles.

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## Feature

**The arrival of Web 2.0 turned it all upside down. A few years later, phishing and MIM attacks had become mainstream, and banks were looking for solutions to combat this huge threat.**

This seems to be a strategy that we will see continue and be broadened to all aspects of the Internet between online banks and the co-branding opportunity through the retailers and distribution channels, now widely available on the Net. Don't be surprised if this includes your favorite social network site or tweet.

### Security services

In late 1999, security was a very hot topic. So hot that phishing and man-in-the-middle (MIM) had yet to be fully adopted as terms to describe what was happening. Banks did not see any real threat, as they felt that the security of user IDs and passwords was adequate at the time. And, of course, why would a consumer ever give out their online user ID and password?

The arrival of Web 2.0 turned it all upside down. A few years later, phishing and MIM attacks had become mainstream, and banks were looking for solutions to combat this huge threat. Over the past decade, many banks out-

side North America opted for some sort of scratch pad, RSA device or other off-Net, one-time code. Canada, for the most part, is still far behind in this respect.

Canadian banks have only deployed a challenge/response based solution where the online banking customer selects a few questions and answers. Whenever the bank determines a new device is being used to access online banking, the challenge is presented, and the proper response is expected to gain access.

There are only a few banks which have added an extra step and implemented an off-Net solution. One example is ScotiaBank where, anytime a new payment is being issued, a one-time code must be inputted. This one-time code only comes through your e-mail account and must be preset at the bank level via the branch or over the phone.

However, when compared with the rest of the world, this is still only a small step to the ultimate step, which will require a serious off-Net solution, as e-mails are still inter-ceptable if consumers' computers are hacked.

### Wireless applications

Back in 1999, little did one know that Apple, Google and many others would make this idea huge. At the time, none of the following was really available through online banking:

- payment to a retailer supporting wireless devices
- buying and selling stocks
- online loan origination
- online insurance origination
- smart card applications
- e-mail applications
- inquiry applications
- purchasing applications

In 1999, many of the above had yet to be determined. In the decade that ensued, online loan origination, online insurance origination, and buying and selling stocks have pretty much been embedded in most banking applications.

There is still the potential for banks here in Canada to leverage the Apple and Google experience to combat potential market changes. These include PayPal's PayAnyone API and Google and Apple's dominance

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## Feature

in the application space, as it relates to everything someone wants to do on their smart phone versus their PC. The next few years will see a replication of many of the same functions commonly done on the PC to a smart phone.

### Instant credit application

At the time, it was just becoming clear that offering instant credit based on lower criteria and a smaller risk factor would allow for the expansion of the "don't-pay-until" concept. And it certainly has proven to be so.

As late as 2007, it was becoming clear that extending this type of credit into things such as cars, homes and vacations was an extreme burden. In 2008, through a series of mismanagement practices, it became clear that this could not go on. Now, in 2010, banks in Canada have pulled the reins on this and allow this to be done by third parties and others. It is suspected banks will not get back into this kind of game for some time.

### Prepaid debit/credit cards

With security a big concern for consumers these days, and the reality that credit is no longer available for an extended period of time, Canada will start to see more banks getting involved in the prepaid market.

To be clear, to date, the Canadian prepaid market has been dominated by a few low-key credit unions and third-party payment processors. This is not surprising: why would banks add something else to their portfolio of activities when debit is so pervasive in Canada?

The fact is, if they do not get into this market soon, there may not be any further opportunities, as the market will soon reach saturation point. BMO has taken the plunge recently and introduced a prepaid travel card and decided to keep their regular credit cards safe.

### Online service representatives

With most nonbanking Internet providers getting in the game, banks are starting to follow. Around the world it has already begun. Mexico, the U.K. and some U.S. banks have joined in.

Today, most banks have a message-based system where you can leave your query and get a response pretty much immediately. Soon, most Canadians will enjoy the ability to talk to a bank service representative directly through their online bank interface. It will be as common as telephone banking. ☒

*Joseph Luso is CEO of UseMyServices Inc. You may contact him at [info@usemyservices.com](mailto:info@usemyservices.com).*



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# Research Rundown

## PCI compliance audits are not cheap

According to a study by global technology provider Thales and research firm The Ponemon Institute, titled *PCI DSS Trends 2010 – QSA Insights*, large merchants who must undergo on-site Payment Card Industry (PCI) Data Security Standard (DSS) audits spend an average of \$225,000 a year toward compliance.

The study also found that 10 percent of these merchants pay \$500,000 or more a year.

The report indicated that 2 percent of merchants receiving on-site audits by Qualified Security Assessors (QSAs) fail their audit, and 41 percent would fail without the use of what are called "compensating controls" under PCI rules.

These controls involve certain stopgap measures outside strict PCI guidelines to address technical difficulties.

The study surveyed 155 QSAs worldwide about their customers' spending on annual on-site PCI audits, which the card brands require of large merchants (those processing over 6 million Visa Inc./MasterCard Worldwide transactions a year) to process electronic payments.

Fifty-four percent of the surveyed QSAs said their clients feel PCI DSS compliance is too expensive; 52 percent said most merchants are not proactively taking sufficient measures to handle data security.

Sixty percent said encryption is the most effective technology their clients use to protect consumer data.

Regarding the micromanagement of encryption processes, 41 percent of QSAs said controlling access to encryption keys is the most difficult task involved. Eighty-one percent recommend using a hardware security module for encryption and key management.

Not surprisingly, most QSA respondents said card data is under the greatest threat when stored in merchant networks and databases – an assertion long made by industry security analysts.

For more information, visit [iss.thalesgroup.com](http://iss.thalesgroup.com). 

## Trends in mobile banking

According to a research paper by Celent LLC, *Are Banks from Mars, Mobile Banking Vendors from Venus?*, of the top 50 U.S. financial institutions, 20 offered mobile banking in 2008; 25 did in 2009, a jump of 25 percent.

While this would seem to foretell the continued adoption of mobile banking by other banks that don't presently use it, the report predicts its adoption will essentially plateau among large banks.

According to the report, none of the top 50 financial institutions without mobile banking in 2009 had adopted the service as of January 2010.

Of the remaining 25 institutions not to offer it, almost all are either not truly "retail banks" – meaning they don't have branch networks or offer retail banking products – or are foreign owned.

The report also found that, among all commercial banks, savings institutions and credit unions in the United States, the 25 top financial institutions offering mobile banking account for 45 percent of the nation's mobile banking deposits.

Among financial institutions generally, mobile banking has yet to plateau – suggesting that the growth in this market will likely be greatest among smaller financial institutions. The total number of institutions offering mobile banking between 2007 and 2009 grew from 100 to 613; that number jumped to 696 in the first quarter of 2010.

For more information, go to [www.celent.com](http://www.celent.com). 

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# NewProducts

## A mobile payments bundle

**Product: MerchantWARE Mobile**

*Company: Merchant Warehouse*

**S**mart phone payment terminals are spreading like wild wildfires. Many were initially limited to Apple Inc. iPhones or Research in Motion BlackBerrys, but more and more makers are aligning their offerings with a range of smart phones as they strive to make their products available and cost-effective for just about any merchant who dreams of handheld payment acceptance.

That is the case with MerchantWARE Mobile, the mobile terminal from Merchant Warehouse that is now available on the iPhone, BlackBerry, Google Inc. Android and Microsoft Corp. Windows Mobile.

### Terminal and gateway in one

According to its makers, what's special about MerchantWARE Mobile is that Merchant Warehouse is both its provider and the ISO that enables gateway connectivity.

The merchant's life is simplified because setup, upgrade and troubleshooting issues are the province of one company. And, as a bonus, the payment application is free.

"We're one of the first ISOs to actually own the application end-to-end, not only the application but the gateway it flows through," said Henry Helgeson, President and co-Chief Executive Officer of Merchant Warehouse. "When you download the application and sign up for the merchant account, we automatically light up the gateway that goes with that.

"It's a huge advantage in this marketplace to the educated merchant or MLS [merchant level salesperson]. Because we own it, we can give it away, so the agent gets to make more money on it, the merchant gets a cheaper price, and all the support on it is done in-house."

### Safeguarded data

Another feature of MerchantWARE Mobile is that all customer payment data is stored within a vault operated by Merchant Warehouse, rather than on the mobile device, where it is more vulnerable to hackers, Helgeson said.

Furthermore, while the service is obtained as a mobile download, it can be accessed through a Web portal on any computer, affording merchants a more encompassing view of reporting data than what's available on the tiny screen of a handheld phone. Merchants can also connect

Features of **MerchantWARE Mobile** include:

- Compatibility with a range of smart phones
- Connectability with same provider's terminal and gateway
- Free terminal
- Consumer payment data storage outside of mobile device
- Companion device for swipe transactions



to the Merchant Warehouse gateway and conduct payments from desktop or laptop computers.

"They do have [standard computer] access to the gateway, so if they lose their phone or anything like that, they can go in and make these charges on their system," Helgeson said. "We have a virtual terminal where they can log in from their computer. So you're not just limited to your [personal digital assistant] – you have access to the back-end from your computer. That's much more robust than what you can put on a smart phone, because the screen size limits you."

Helgeson said the product has proven especially popular with mobile micro-merchants, including taxi cab drivers, flea market vendors and plumbers.

"Our chief competition in this market has been cash or check, and when we put something like this in a merchant's hands, we allow them to take payments more quickly, more easily and more securely than they would normally," he said.

Helgeson added that MerchantWARE Mobile has a companion product in the MagTek Inc. encrypted card reader for merchants who want to conduct swipe transactions. He noted that the card reader is currently available with every smart phone that supports MerchantWARE Mobile, except the iPhone, but that a swipe product for that instrument is under development and will hit the market soon. ■

### Merchant Warehouse

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

## NewProducts

# Statistical analysis of prepaid

## Product: The Stats Tool

Company: Stanton Consultancy Ltd.

**U**.K.-based prepaid card processor Stanton Consultancy Ltd. found the reporting tool it developed to track the sales from its prepaid card vendors so useful that the company is now bringing the product to market.

The program, a hosted, Web-based software application known simply as The Stats Tool, provides tailored, specific, real-time sales data to prepaid card vendors. The Stats Tool will hit the market in the next business quarter, according to SCL Managing Director Ray Stanton.

### Parsed to order

The program provides statistical data in a variety of forms depending on a client's needs, Stanton said. Information typically includes real-time reporting and analysis of daily fluctuations in sales volume, along with the parsing of sales data by time period and/or sales location (such as store-by-store, day-by-day or year-over-year sales comparisons).

Stanton said the prepaid card business serves large retail chains and groups and needs a way to track in real-time what's selling, where and when it's selling, and who's selling it.

"As our transaction volume grew, it became difficult for us to keep track of what was happening, so we developed a statistics database where we periodically scan our live databases in real time," he said. "Currently we scan them every five minutes. So you can see your sales progressing in a real-time basis.

"We can see our entire world – which sellers are selling how many cards, what their load values are, and it gives us a sense of [whether] the system performing properly at the moment and to our expectations. ... You can break it down by outlet, by user, by individual till, any number of ways."

### Convert that, would you?

Stanton said The Stats Tool is aimed especially at franchises with multiple locations, enabling them to view disparate sales data (including data culled from kiosk and mobile phone-based sales) within a single portal.

The program has a currency conversion feature for international firms, allowing users with multicurrency sales information to homogenize data under a single currency and thus more easily compare and contrast the returns from different global outlets.

Features of **The Stats Tool** include:

- Specific, individually tailored statistical sales info for prepaid card vendors
- Real-time reporting
- Currency conversion feature for international firms
- Fraud fighting capability
- Incentive provider for staff and/or specific locations



Stanton added that the program is helpful in tracking not only prepaid card sales but a variety of items sold on the foreign exchange market. Among them are traveler's checks, precious metals and bank notes.

He named financial institutions dealing in foreign currency sales as potential clients, along with shopping malls that sell open-loop gift cards.

He also said The Stats Tool can serve as a fraud fighter by highlighting sales discrepancies or peculiarities that indicate possible foul play.

"We have used it in a proactive fashion before," Stanton said. "There was trading at a mall at an unusual time of night when the mall was quite clearly closed, and transactions were still happening.

That's a potential flag for fraud, so we did go through to the mall and establish it was closed and then went through to the program manager. It turned out to be legitimate – somebody was actually preloading some cards for a huge bulk order." 📷

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# Inspiration

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**We cannot hold a torch to light another's path  
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- Ben Sweetland

## Unleash the power of networking

**T**he term "networking" often has negative connotations due to its frequent use in pyramid schemes and the like. But networking is actually a very real, necessary part of marketing for any type of business or idea. The amazing thing about networking is you can do it successfully without scaring off your friends and family. Let's look at some simple ways to unleash the power of networking among those you know.

### Be genuine

Nothing you say or do will have merit unless you are truly genuine in heart and mind. There's some truth to the old saying, "If you help enough people get what they want, you will eventually get what you want." Keep that in mind when going about your daily business. Make a sincere effort to focus on others and put your interests on the back burner.

Somehow, helping those around you tends to come back around in unexpected ways. If you own a business, helping others can become a form of networking without your even realizing it. When folks love and respect you because you have been kind to them in word and deed,

do you honestly think they'll send potential customers to your competitors?

### Ask for referrals

Getting referrals from friends, family or current customers is one of the most powerful ways to expand your business. Think about it. A referred customer already trusts your company and is usually already sold on your service when he or she calls or arrives at your place of business. All you have to do is deliver the caliber of service promised by the one who referred the customer to you.

### Offer gifts

Referrals should always be a priority in your networking efforts. Keep some business cards on hand and write a special offer on the back for those who decide to refer a friend. Ask for referrals on your Web site, and let customers know you will send out a referral gift the moment their referred person buys from you.

If you own a local business, offer to leave business cards with your referral offer in other local businesses. These could be printing shops, supply stores, retail stores, your accountant, maintenance persons (electrician, handyman, landscapers and so forth), lawyers, your favorite restaurants, or anyone who might come in contact with your potential customers.

Offer to hand out their business cards to return the favor.



## Inspiration

### Join local networking groups

There are likely several groups you can join in your geographic area or even online where you can network with other business owners. Consider attending local chamber of commerce meetings, networking group meetings with other business owners, online discussion forums et cetera.

In addition, attend industry tradeshows, both for the payments industry and for vertical markets your business is focusing on. The Electronic Transactions Association, all of the regional acquirers associations and many other special-interest organizations have annual or more frequent meetings that set aside time specifically for networking.

And don't just join these groups; get involved in the ones that appeal to you the most. Volunteer on committees, help organize events, greet newcomers and take on other assignments, and you'll see the value of your relationships within these organizations grow accordingly.

### Be ready to give an answer

When someone shows interest in your company or products, be ready to give an answer when the person asks you questions about your business. Many business owners are actually stumped when asked the big question, "What exactly do you do?"

Owning a business and being able to clearly explain what the business does are two entirely different things. Think through ahead of time how you will explain what you do and the purpose of your business. Consider your primary purpose and who your business is meant to help (your target customer). This will help those who refer you to others understand how to present your company in a positive, informative manner.

### Give and receive help

Enlist the aid of other professionals in your circle. Take turns answering questions about your businesses and giving each other feedback. As with everything, practice will lead to great improvement.

As you meet new people, keep in mind that you are a representative of your company or product. Everyone you meet is either a potential client or a possible referral source for new sales leads. Seize every moment to network your business.

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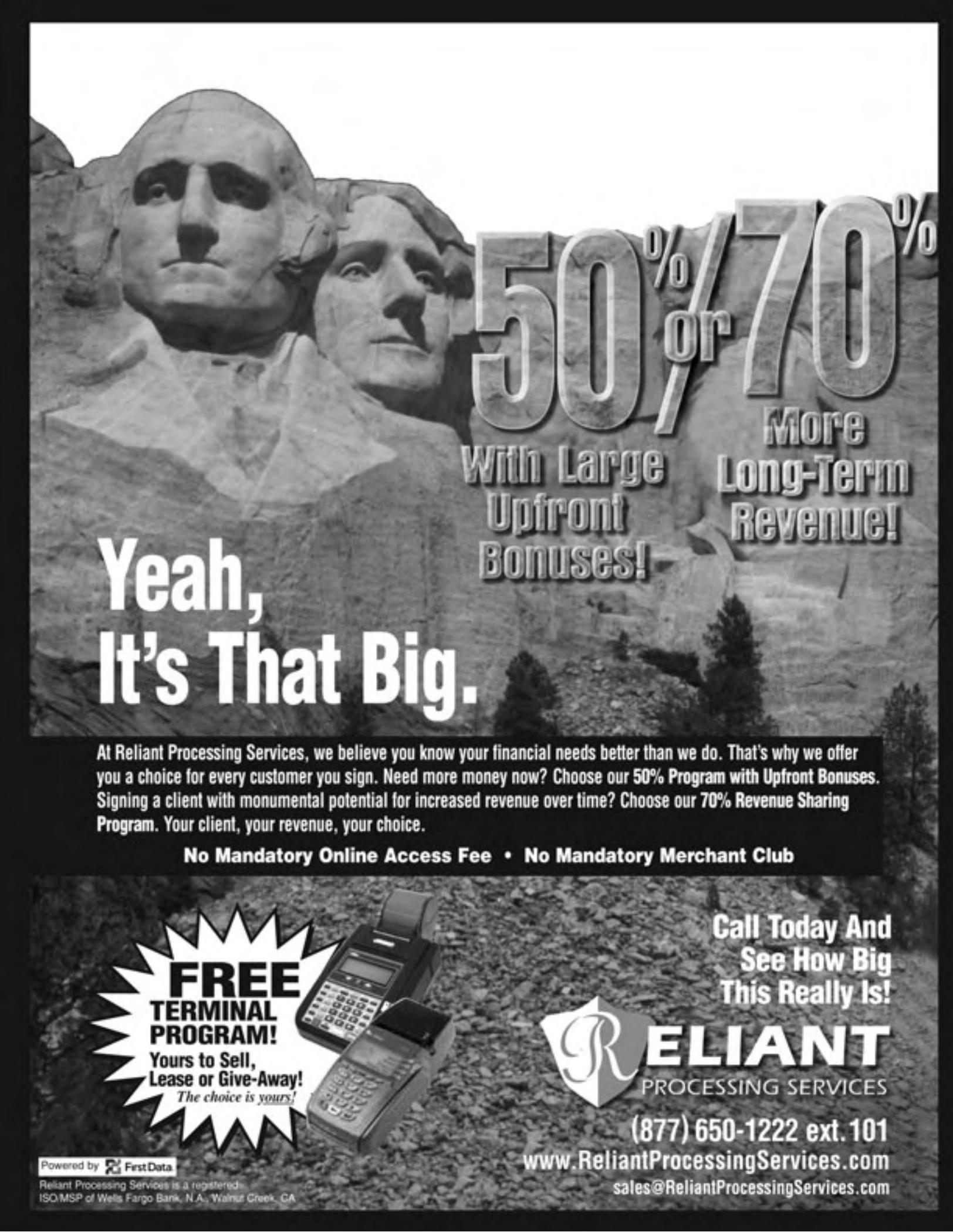
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This is our already popular **"90 Days Same as Cash"** program which allows your merchants to generate more sales by offering their customers the power to pay for their goods or services over 90 Days. In this option, merchants accept paper checks, obtain the guarantee, and deposit the items in 30 day intervals.

#### (2) The New RETAIL PAYDAY "EXPRESS"

This program offers the same **"90 day same as cash"** convenience, only now your merchant no longer has to make a trip to the bank to deposit the checks, or incur bad check service charges, or mail the physical check to us for reimbursement in the event it bounces. We automatically debit the consumer's bank account at each deferred deposit date via Check21 image deposit while settling the funds directly to your merchant's bank account electronically via ACH credit.

#### (3) The New One of a Kind ... RETAIL PAYDAY "EXPRESS PLUS"

This program is by far the most exciting program of all. This is identical to the new "EXPRESS" program, but with this option your merchant is funded 100% of their monies **IN ADVANCE**, and not waiting until after we electronically deposit the images! Your merchant's customers will have their accounts debited over the 90 day period while your merchant gets **ALL OF THEIR MONEY** as soon as the batch is closed!

This is so unprecedented that SPS has submitted the unique variable attributes of this process for patent approval. **Can you blame us?**

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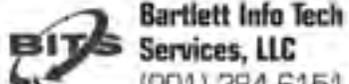
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We look forward to seeing you at ETA 2010.

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Network Merchants has created many ways for its Partners to generate additional revenue and residual income beyond credit card transactions such as e-check, iSpyFraud™ and Verified by Visa and MasterCard SecureCode programs.

Our Partners choose Network Merchants based on a foundation of innovation and trust. We cultivate mutually-beneficial relationships and provide our Affiliate Partners and ISOs every opportunity to make working with us very profitable for them. In addition to offering the best tools in the industry, we also offer our **Non-compete Guarantee!**

We'd like to learn more about your business and provide you with some very unique industry tools to make you more successful

**Contact us today!**

Phone: 847-352-4850

Web: [www.nmi.com](http://www.nmi.com)



**NETWORK  
MERCHANTS INC.**

*Building Payment Gateways... One Partner at a Time®*



NETWORK  
MERCHANTS INC.

*Building Payment Gateways...  
One Partner at a Time™*



## NMI Gateway Solutions Where Your Growth Takes Root

**Like the healthy root structure of a blossoming tree, NMI's robust and easy-to-use payment gateway provides a secure foundation and more ways for your business to branch out and grow.**

Our Partners consistently earn some of the highest gateway residuals in the industry – residuals beyond the typical fees they make when they acquire merchant accounts.

Our flexible branding allows ISOs and their agents to brand their own Partners and merchants too. This unique functionality gives Partners an advantage over other gateways through leverage.

And with cutting edge reporting tools you'll be able to track sales and manage unlimited levels within your organization.

ISOs and Agents choose NMI based on a solid reputation of innovation and trust – qualities we demand to uphold each and every day. These qualities result in a variety of unique benefits for each of our Partners:

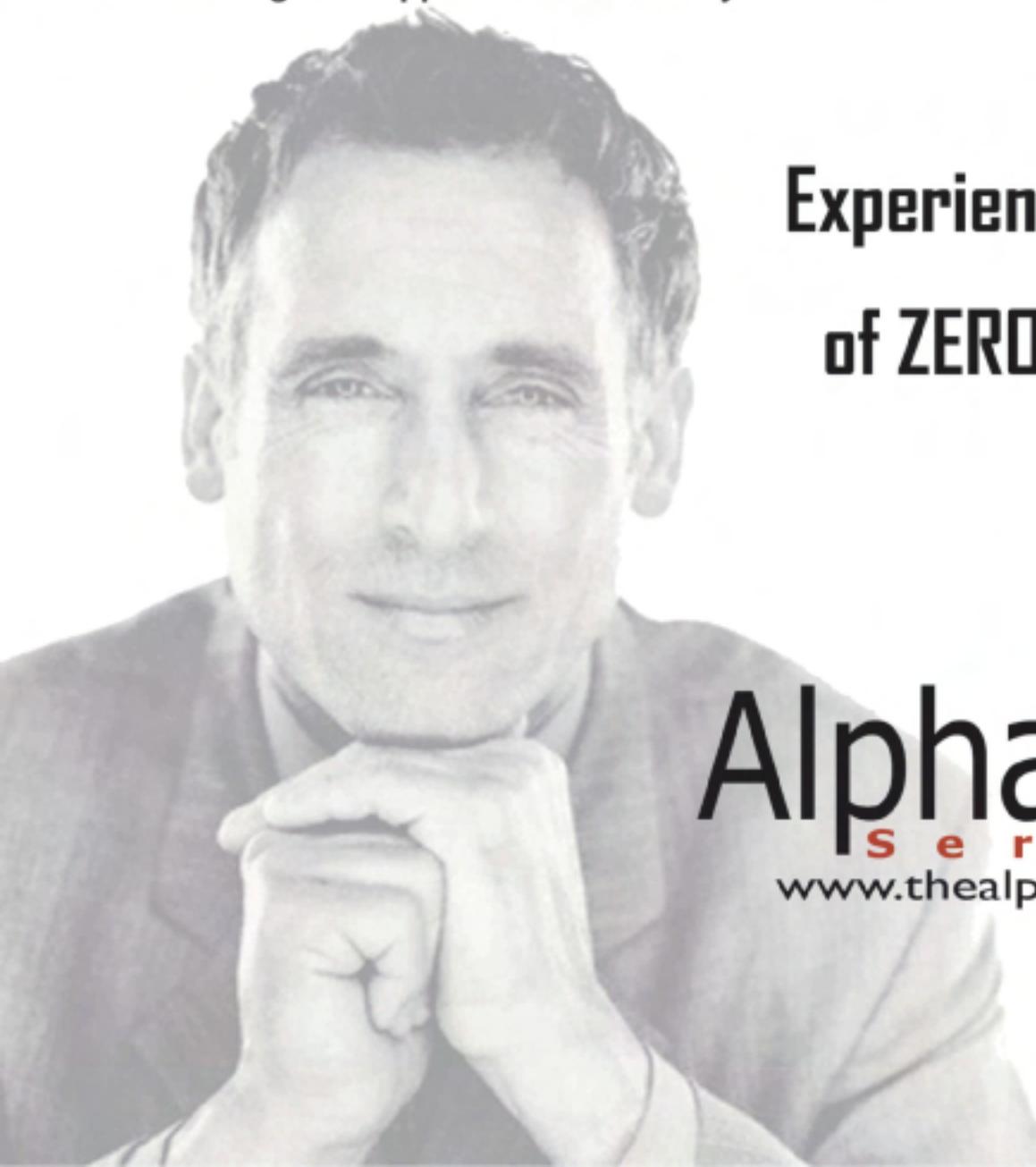
- **Innovative Tools** – From our patent pending ATRI™ (Advanced Transaction Routing Interface) and Three Step Redirect™ to Certify PCI™ and Customer Vault™, NMI supports its Partners with the most robust tools available today.
- **Non-Compete Guarantee** – For merchants to use the gateway they must be sponsored by an NMI Partner. We do not sell directly to merchants!
- **Full Industry Compliance** – NMI undergoes third party PCI Level I audits, security and compliance reviews, Visa and MasterCard TPP/MSP registration and compliance, MasterCard RAMP reviews and is an active member in the security community.

Please accept our invitation to meet at the ETA Annual Meeting & Expo in Las Vegas or contact us with any questions. We'd like to know more about your business and provide you with some very unique industry tools to make you more successful.

Call us today at **847-352-4850** to speak with one of our professionals or to set up an appointment.

Visit us online at [www.nmi.com](http://www.nmi.com)

- Multi Year Inc 500 Company
- Multi Year Philadelphia 100 Company
- Ranked # 2 by the Strawhecker Group for Emerging ISO's of 2008
- Residuals Paid **CORRECTLY** on the 20th of Every Month - We Are Never Late!
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- Guaranteed Third Party Sell & Loan Rights
- Zero Hold Times
- All Departments in House
- True Partnership Share in All Income and Expenses Equally
- In House Encryption Facility
- Low Attrition Rates
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- Back Office Agent Portal
- Professional Merchant Proposals
- QuickBooks Integration
- The Best Agent Support in the Industry



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## Let CCS Bankroll Your Business

With Charge Card Systems' new Line of Credit Program, you can build your business without draining your bank account.\*

- Set Up an Office
- Invest in Marketing
- Purchase Sales Leads
- Attend Key Events
- Hire a Team of Sales Agents
- Invest in Technology
- Participate in Tradeshows
- Manage Operating Expenses
- Build a Website
- Join Industry Associations

Whether you are an individual or a multi-agent team, CCS provides the working capital to bankroll your business.



For more information on our Line of Credit Program, contact Jeffrey Shavitz, EVP at 800.878.4100

\*Call for details. See reverse side for complete CCS program benefits.



**Not Only Will Charge Card Systems Get Your Business Rolling,  
But We Are the Only ISO to Offer You  
"The Winning Combination"**

**70% Residual AND Bonus Money**

**+ 1.9¢ Transaction Fee, Dial-up & IP**

**+ 12-Hour Funding on Visa, MasterCard,  
Discover & AMERICAN EXPRESS**

**= MORE DEALS, MORE MONEY**

Join the Industry Leader and Take Advantage of the ISO Program Designed to  
Provide **SHORT TERM INCENTIVES** and Build **LONG TERM WEALTH**

**CHARGE CARD SYSTEMS' COMPLETE PROGRAM BENEFITS:**

- **70% Residual**
- **Activation Bonus**
- **1.9¢ Transaction Fee** on all Retail, MOTO and Internet Processing; Dial-up & IP
- **12-Hour Funding** on All Card Types
- **Earn Residuals** on American Express and Discover Transactions
- **Access to Multiple Platforms** including First Data Omaha, Nashville, North, Buypass; PNS, Vital/Elavon & Global
- **High Risk Merchant** Processing Options
- **Cash Advance** Program
- **ACH** through Check 21
- **Niche Marketing** Divisions

**PARTNER WITH US AND WATCH YOUR BUSINESS GROW.**

**CALL NOW!**



For more information on CCS, contact Jeffrey Shavitz at 800.878.4100  
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# CHANGE FOR THE BETTER.



We've changed our cost structure to give you **8x Upfront Bonuses** and **3.5¢ (dial-up)** and **2.5¢ (IP)** pricing.

Get the most profit from every deal — **3.5¢ (dial-up)**  
and **2.5¢ (IP)** pricing **AND** the power to choose:

**8x** Upfront Bonuses  
**50-65%** Residuals  
**Free** Terminal Placement

OR

**70%** Split for the  
Highest Commissions

#### DO IT ALL, WITH TOTAL MERCHANT SERVICES.

Need a free terminal to close a deal? You've got one with 8x upfront bonuses, up to \$750 per merchant.

If you simply want the highest commissions possible, choose our 70% revenue sharing program.

Both options have the **best cost structure** in the marketplace — only **3.5¢ (dial-up)** and **2.5¢ (IP)**.

#### NOW IS THE TIME.

Start processing all your accounts with us today!

Call **1-888-84-TOTAL, ext 9727**

Or get the full program details at  
[www.upfrontandresiduals.com](http://www.upfrontandresiduals.com)





# Now Serving Hot Leads!

Until now, one of the tenets of being an ISO was that your office was entirely independent, responsible for obtaining your own sales leads. UBC is changing the game with a ground-breaking new leads program\*. UBC will be doing all the legwork to deliver hot leads directly to you. Although other processors may have offered marketing lists, new business lists, new phone number lists and so forth, the UBC program will provide you with hot, pre-set appointments with merchants that are specifically interested in our free ECR program. You will also be given online access to a real-time, interactive leads management system to manage these appointments. This system has advanced CRM functionality including text and e-mail alerts. In the past, it was your responsibility to obtain your leads; this program changes everything. Contact your UBC National Sales Manager today for more information.

\* A fee will apply for each lead provided. Please contact your National Sales Manager for details.  
\*\*Visit [www.isoprogram.com](http://www.isoprogram.com) for complete contest information.



Visit [www.isoprogram.com](http://www.isoprogram.com) for more details

For more information, contact:  
Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136  
Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145  
Max Sinovoi, National Sales Manager West: 800-201-0461 x 219  
Brian Fitzgerald, National Sales Manager Central: 800-201-0461 x 257

United Bank Card 

**When it comes to transaction processing,  
we've got all the bases covered.**

**NEW!**

**Residual Programs on a Deal by Deal Basis!**

**UP TO 70%!**

United Bank Card has developed the most flexible revenue sharing program available. With three different options to choose from, you can customize your own residual program by selecting the best option for each deal you submit!



▶ **THE ORIGINAL FREE TERMINAL PROGRAM**

The newest generation of our revolutionary Free Terminal Program offers the most diverse selection of free equipment available from any processor, including the Verifone Vx510, Hypercom T4210/T4220, Nurit 8020 (wireless), Hypercom T7Plus, Nurit 8320 and Nurit 2085.



▶ **FREE ELECTRONIC CASH REGISTER PROGRAM**

The industry's first and only fully integrated electronic cash register program, delivered free of charge to merchants. The most popular Casio cash register models integrated with credit card processing technology deliver the ultimate sales tool to our ISO partners.



▶ **HARBORTOUCH POS SYSTEMS**

Harbortouch offers the lowest pricing in the industry for the highest quality POS system, providing our ISO partners with unmatched commissions and residuals, rejuvenated leasing revenue and the lowest attrition rates in the industry.

**UNITED BANK CARD'S \$1 MILLION GIVEAWAY!\*\*\***

Every new merchant account signed with UBC, including accounts signed from the leads program, will earn you an opportunity to win one million dollars! With the entries capped at 27,000, each approved merchant account gives you an unprecedented chance at winning. Compare that to odds of 1 in almost 200,000,000 for some lotteries!

\* A fee will apply for each lead provided. Please contact your National Sales Manager for details.  
\*\*\*Visit [www.isoprogram.com](http://www.isoprogram.com) for complete contest information.



Visit [www.isoprogram.com](http://www.isoprogram.com) for more details

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