



News

Industry Update.....	14
Tepid summer for many Gulf Coast merchants	44
Can the IRS legally attach levies to ISO reserve accounts?	45
The Green Sheet scores three more APEX awards.....	47
Trade Association News	
ETA's Voice of Payments fosters advocacy	48

Features

GS Advisory Board	
Merchant retention, taking the initiative – Part 2.....	32
Selling Prepaid	
Prepaid in brief.....	36
Dynamics of the youth card market.....	38
Gift cards: Value multiplier for merchants By Thom Aldredge, World Gift Card	39

Views

Securing a place for electronic payments By Patti Murphy, The Takoma Group.....	24
The allure of end-to-end encryption By Scott Henry, VeriFone Inc.	26
Uncle Sam might want to pin worker misclassification on you By Sarah Weston Jaffe, Raitt, Heuer & Weiss PC	28

Education

Street SmartsSM	
Who will benefit when the Durbin Amendment dust settles? By Ken Musante, Eureka Payments LLC	58
The importance of PCI DSS compliance By Nicholas Cucci Network Merchants Inc.....	66
Is there any such thing as loyalty? By Nancy Drexler, SignaPay Ltd.....	68
Need intelligence? Tap the feet on the street By Dale S. Laszig Castles Technology Co. Ltd.....	72
Succeeding at PCI compliance – Part 3: Imple- menting the rollout By Dawn M. Martinez First Data Corp.	75
Global acquiring and fraud Q&A By Carrie Hometh, Payvision	78

July 26, 2010 • Issue 10:07:02

The ACH, staking new channel claims

Long a staple of Social Security disbursements and direct deposit employee payouts, the ACH network has incrementally, and somewhat quietly, broadened its reach over the last two decades to establish a significant presence in almost every major payment category. And that presence looks poised for growth.

Two recent events indicate that the ACH's primary oversight body, NACHA - The Electronic Payments Association, is pushing harder than ever before to make the ACH a more mainstream payment player.

Embracing the mainstream

In June 2010, NACHA approved ACH payments for the mobile commerce sector, which finalized an uncharacteristically swift decision to include mobile payments under its existing e-commerce guidelines, according to Patti Murphy, President of payment consultancy The Takoma Group.

"In the past, it's taken a long time to get things out of NACHA," Murphy said. "But more recently NACHA has sped up its cycle, as evidenced by the mobile payments format mapped to its web transactions. That's something it's never done before. They used to have to start from scratch – a brand new transaction format for everything – and everything took two or three years before it came out."

Another sign that NACHA is intensifying its ACH push was the Federal Reserve's decision, also in June, to roll out a limited, same-day ACH settlement service on Aug. 2. Plans for the service had originally been revealed in 2009, but the June disclosure specified a starting date and laid out the rules. Same-day settlement of ACH, a scenario NACHA has talked about for years, is now on the horizon.

Until now, virtually all ACH transactions have used day-after settlement. That's still quicker than the two- to three-day float time typical of checks, but it tends to lag behind the settlement of card payments.

Same-day settlement will begin as an opt-in service for banks that originate ACH payments and will cover only certain types of ACH transactions, among them are consumer checks converted to ACH and person-to-person money transfers conducted online or over the telephone.

According to industry observers, the pilot program is likely to set the stage for a broader same-day settlement offering down the road, and its unveiling signals a breakthrough for a network that began in the 1970s as an alternative to paper checks but now appears to be striving for a greater share of the payments market.

"Make no mistake about it, the Federal Reserve, through their announcement of a new same-day settlement, opt-in product, has single-handedly changed the

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Notable Quote

For straight-shooting businesses, merchant retention has become just as necessary as selling. What good is it to bring business in the door if it just goes right back out?

See story on page 68



**Inside this issue:
CONTINUED**

Company Profiles

Netcom PaySystem

Finding the right balance 41

New Products

RDC on the fly 83

Multipayment and multimedia at the POS 84

Inspiration

Nothing fancy needed 86

Departments

Forum 5

Resource Guide 88

Advertiser Index 102

Miscellaneous

QSGS: Quick Summary Green Sheet 8

Bottom Lines 14

10 Years ago in The Green Sheet 50

Water Cooler Wisdom 86



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Forum

Chasing the Chase platform

I was wondering if any of the editors at *The Green Sheet* know which processors use the Chase bank platform. I am a rep and have most of my merchants with a processor that uses the HSBC Global platform. But one merchant now receives his payments two days later and wants to use a processor that will fund Chase transactions overnight. He could go back to his old processor but is willing to stay with me if I can sign the account with a processor that will provide this feature. I am therefore looking for processors that are capable of this. Can you help?

Belinda Uridale
Uridale Enterprises LLC

Belinda,

While we do not keep a list of processors and the platforms they use, we do have processors listed in our Resource Guide (www.greensheet.com/resource_guide.php) under the heading "Processors Looking for ISOs." You could call them directly and find out if they use the Chase platform. Also, if you register on our website (www.greensheet.com) and then go to the Forums page and register for the MLS Forum, you can post your question there and get suggestions from other reps who have encountered similar situations on the job. I hope this information is of use to you in retaining your merchant customer.

Editor

Hurrah for The Green Sheet!

Congrats to you and your staff on your APEX awards. You are a class act.

Wendy Zucker
Barclay Square Leasing

Wendy,

Thank you for noticing this feather in our cap. Since 2002, we've won 41 such awards for both print and online publishing excellence. (Those who want further information can check out our story on page 47 of this issue of *The Green Sheet*.)

Editor

What's coming up next?

I would be grateful if you could tell me when the next ISO and merchant level salesperson seminar or tradeshow is slated. Anywhere in the United States will do.

Many thanks in advance,
Joshua B. Kenner

Joshua,

Regional acquirers meetings are always popular with the feet on the street. The next one will be the Western States Acquirers Association conference Oct. 13 to 14, 2010, at the La Jolla Marriott in San Diego. Here's a link to WSAA's website, where you'll find full details, including registration information: www.westernstatesacquirers.com. In addition, you can refer to Upcoming Industry Events, a new feature on the right-hand side of our home page (www.greensheet.com) that highlights key events on the horizon. And for a more complete listing of industry events, visit our Datebook page at www.greensheet.com/datebook.php.

Thank you for relying on *The Green Sheet* to stay abreast of events that offer the kind of knowledge and connections that can help you prosper as a payment professional.

Editor



From GS Online's MLS Forum

The premier online network for payment pros

Is Skype a good business tool?

Recently, GS Online MLS Forum member **VMS2000** asked whether anyone in the forum had used Skype in a telemarketing environment. Opinions on this were mixed. For example, **DJARIS45** posted, "I got a call from somebody using Skype the other day, and the quality was miserable. He said it works great overseas, but a local U.S. call was poor quality. If somebody called me using that quality, I would hang up."

MAJOROSDAVID presented a different point of view. "Skype is phenomenal," he wrote. "It is highly dependent on your Internet speed and the speed at which your computer operates. For hard-core telemarketing, I would not recommend Skype. It's perfect for occasional use, not constant use."

You, too, can post questions about the payments business, including those about resources you might want in your sales toolbox. Visit www.greensheet.com/forums, and join the conversation.

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

Cover Story

1

The ACH, staking new channel claims

Long a staple of Social Security disbursements and direct deposit employee payouts, the ACH network has incrementally, and somewhat quietly, broadened its reach over the last two decades to establish a significant presence in almost every major payment category. And that presence looks poised for growth.

View

28

Uncle Sam might want to pin worker misclassification on you

It is difficult to distinguish between an employee and an independent contractor. But if you misclassify employees as independent contractors, the odds that you will face expensive penalties are increasing. This article will help you get a sense of whether you are properly classifying your workers.

View

24

Securing a place for electronic payments

When it comes to security, perception is 90 percent of the process. And a recent report from database security vendor IBM Guardian disclosed that Americans believe they are more likely to have their identities stolen than their automobiles. It's a telling commentary on how valuable data security has become.

Feature

32

Merchant retention, taking the initiative - Part 2

As we grapple with economic uncertainties and changing consumer payment habits, customer stickiness becomes ever more critical. To find out what some of the best minds in our industry are doing to address this, we asked members of The Green Sheet's advisory board four questions. This article contains the second in our two-part series on which initiatives work best.

View

26

The allure of end-to-end encryption

"Scope reduction" should be a magical phrase to merchants, acquirers and ISOs because it refers to reducing the applicability of Payment Card Industry (PCI) Data Security Standard (DSS) controls. PCI compliance is no small matter, nor is it inexpensive. Could end-to-end encryption be the answer for you and your customers?

Feature

39

Gift Cards: Value multiplier for merchants

Stop just about anyone on the street and ask them to reveal the contents of his or her wallet. You are likely to find a major, network-branded card or two, a debit card from the person's bank, a store credit card or two and usually a stored-value gift card. Even someone with no bank account is likely to have a gift card. What does this portend?

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News

44

Tepid summer for many Gulf Coast merchants

In the aftermath of the April 20, 2010, explosion of the Deepwater Horizon drilling platform in the Gulf of Mexico near Louisiana, many coastal merchants in the region are facing economic uncertainty. And this is affecting the ISOs and merchant level salespeople (MLSs) who serve them.

News

45

Can the IRS legally attach levies to ISO reserve accounts?

According to the IRS, it has the authority to attach levies to processors' reserve accounts as part of collecting funds the agency believes merchants owe to the federal government. And payment insiders have said this could be devastating to the acquiring chain. You can, however, take steps to protect your business.

Education

58

Street SmartsSM: Who will benefit when the Durbin Amendment dust settles?

The Debit Card Swipe Fee amendment sponsored by Sen. Dick Durbin, D-Ill., and included in the Dodd-Frank Wall Street Reform and Consumer Protection Act, is critical to us all. Street Smarts asked members of GS Online's MLS Forum how they expect the amendment will impact them, the industry, merchants and acquirers. And they spoke up.

Education

68

Is there any such thing as loyalty?

Now that the merchant acceptance market is saturated and payment processing is a commodity, some folks are trying to profit by grabbing new merchants at virtually any cost. Rather than find ways to undercut price slashing and merchant moving, why not focus on making our merchants impervious to efforts to move them? It's called retention. Loyalty. Reducing attrition.




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Education

72

Need intelligence? Tap the feet on the street

Want to know what's happening in payments right here, right now? Ask a merchant level salesperson. MLSs know the players: merchants, acquirers, manufacturers, distributors and value-added resellers. They know what's hot and what's not.

Education

78

Global acquiring and fraud Q&A

During a recent seminar hosted by Payvision on global acquiring and fraud, seasoned sales professionals raised questions of interest to any business looking to expand internationally. The questions also stimulated lively discussion. This article highlights what was covered.

Education

75

Succeeding at PCI compliance - Part 3: Implementing the rollout

The first step to successful program implementation is to work closely with your PCI compliance vendor to develop a rollout plan that entails clear communication with all parties and ensures that all participants understand their roles. Flexibility should be built in to react to unexpected events or the unique characteristics of your portfolio.

Inspiration

86

Nothing fancy needed

If you use jargon, slang or technical terms that make merchant prospects uncomfortable, you risk being profoundly misunderstood. Instead, learn all you can about your prospects before meeting with them, dress appropriately for presentations, listen well once you are there and use words that will provide a clarity that leads to understanding.

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IndustryUpdate

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NEWS

Strawhecker slams the Durbin Amendment

In an analysis entitled *Trickle-down Legislation: Potential Impacts & Unintended Consequences of Interchange Regulation*, Mike Strawhecker, Director of Marketing & Strategic Research for The Strawhecker Group, condemned the Durbin Amendment to The Restoring American Financial Stability Act of 2010 as politically motivated and ill conceived.

He writes that, in attempting to regulate debit card interchange, "Congress' self-perceived infinite wisdom has once again blinded them from the complexity of an industry they do not understand; the amendment equates to regulation of one part of a fee, of one form of payment, of one size of bank."

"A single infiltration of the federal government's clumsy hand into this highly competitive and innovative industry, armed with the ill-conceived intention to create 'fairness,' will in fact have the opposite result.

"It will have deeply adverse effects not only on companies in the payments industry and their employees, but it will also create a less competitive marketplace that brings with it long-term negative consequences for consumers and merchants alike."

To read the full analysis, go to www.thestrawgroup.com/tsg-interchange-legislation-analysis/.

India-born Banga becomes MasterCard CEO

On July 1, 2010, **Ajay Banga** stepped into his new role as President and Chief Operating Officer at MasterCard Worldwide. Banga also became a member

of MasterCard's board of directors. He succeeds Robert W. Selander, who will serve as Executive Vice Chairman at MasterCard.

Born in Pune, India, and educated at the University of Delhi, Banga began his business career with Nestle SA in 1981 and later joined PepsiCo Inc., where he helped launch its international quick service restaurant franchises in India as the economy liberalized, according to MasterCard.

At an April 12, 2010, news conference reported on by *The New York Times*, Banga said he would focus on improving MasterCard's revenue growth and market share in the card brand's core businesses of credit, debit and prepaid cards.

He said he would also emphasize innovation in mobile payments and online commerce and diversifying the company's revenue stream globally.

White House cyber security head to keynote

White House cyber security leader Howard Schmidt will present the keynote address at the **5th Annual Online Trust and Cybersecurity Forum**, to be held Sept. 22 to 24, 2010, at Georgetown University in Washington. The event will be hosted by the Online Trust Alliance.

Other speakers include Greg Link of Franklin Covey, Mark Bregman, Chief Technology Officer at Symantec Corp., Jessica Rich, Deputy Director at the Federal Trade Commission, Larry Clinton, President of the Internet Security Alliance, Ari Schwartz, Chief Operating Officer of the Center for Democracy & Technology, and Josh Glantz, Vice President and General Manager at Publishers Clearing House. Registration is open to the public. Register at <https://otalliance.org/dc.html>.

BOTTOM
LINES

HEADLINES
FROM THE
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- According to the 2010 Back-to-School Survey by Parents magazine and outdoor apparel retailer **Lands' End**, 98 percent of moms surveyed said quality and durability were important for back to school shopping, while 99 percent said price; 68 percent plan to shop within a budget.
- The June 30, 2010, Crow's Weekly Market Report cited a 35 percent drop in building materials costs since April. Based on Crow's **Construction Materials Cost Index**, the wholesale cost of lumber and panels for framing an average home dropped from \$7,511.80 to \$4,951.44 due to the decrease in supply-driven price run-ups in the first quarter.
- The Achieving Excellence in Retail (AERO) Study 2010 by **A.T. Kearney** revealed: top retailers capture and use both transactional and customer information; geography doesn't play a role in store operations performance; and a holistic approach to setting in-stock goals can reduce out-of-stock rates by more than 25 percent.

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IndustryUpdate

GET celebrates 10 years

Payments processor **Global Electronic Technology Inc.**, the parent company of **OrbitalPay LLC**, celebrated its tenth anniversary in June. The privately held ISO/Merchant Service Provider was founded in 2000 by Steven H. Bryson.

"What started out 10 years ago as a one-man operation has grown into a sustainable business that has exceeded everyone's expectations," Bryson said. "We are extremely proud of this milestone and grateful to all of our friends and merchants who made this accomplishment possible."

GET maintains two payment gateways in order to provide a range of payment services and options, including **OrbitalPay's** online billing capability for web-based retailers.

ANNOUNCEMENTS

Comodo acs the Proactive Security Challenge

Comodo was ranked as the top Internet security vendor by software-testing firm **Matousec.com**. Among 18 ven-

dors, **Comodo's** Internet Security 4.0 was the only software to achieve a perfect score in **Matousec's** Proactive Security Challenge, which involved 148 tests.

Matousec tested a specific kind of security software that had to meet fixed criteria in order to be included in the challenge. Only products with application-based security models were tested. The challenge tested Internet security suites, host-based intrusion prevention systems, personal firewalls and behavior blockers.

The test results are posted at www.matousec.com/projects/proactive-security-challenge/results.php.

Herrin named a top CTO by InfoWorld

IDG's **InfoWorld** named **Kris Herrin**, Chief Technology Officer at **Heartland Payment Systems Inc.**, to its list of the top 25 CTOs for 2010. Herrin joined Heartland in 2008 and was named CTO in August 2009. He has since redesigned Heartland's disaster recovery capabilities and has been active in the development of E3, the company's end-to-end payment card security technology.

ABC Supply adds more stores to NxGen

NxGen Payment Services reported that one of its merchants, **ABC Supply Co. Inc.**, added 129 recently acquired locations to **NxGen's** processing service. **NxGen** said **ABC**, a wholesale distributor of roofing and siding materials in the United States, brought its 350 stores onto the **MerchReport** system in 2009. **NxGen** said its ability to develop custom analytical reporting software was a key factor in the distributor choosing the processor.

NxGen, a merchant service provider for **Elavon Inc.**, said the arrangement enables **ABC** to lower its card processing fees by identifying and addressing internal factors that lead to downgrades. **NxGen** added that its **MerchReport.com** tool allows **ABC** to quantify downgrades by reason and dollars lost per branch.

Panini creates industry blog

Check-capture product manufacturer **Panini** launched a blog as a discussion forum for industry trends. The blog is written by Chief Marketing Officer **Michael Pratt**, who invites the industry to participate with comments. The blog is posted at www.panini.com.

Trustwave joins cloud computing organization

Trustwave became a member of the Cloud Security Alliance as a corporate sponsor. The organization promotes best practices for providing cloud computing data security. Cloud computing is software and data storage provided as a third-party, hosted service. **Trustwave** provides cloud-based fraud detection and security services.

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IndustryUpdate

UP Solution is DSS compliant

Products and services from **UP Solution** have received compliance validation with the Payment Application (PA) Data Security Standard (DSS). The validation, performed by Trustwave, covers UP Salon, UP Restaurant and the UCharge payment gateway.

Visa smart cards to reach new threshold

Visa Europe said the number of Visa contactless cards in use in the U.K. will reach 12 million by the end of 2010. The contactless feature can be added to debit, credit and prepaid cards. Visa launched its contactless technology in 2007.

PARTNERSHIPS

Bodum inks deal with GlobalCollect

Coffee Products supplier **Bodum Inc.** chose **GlobalCollect** to provide card processing for its e-commerce platforms around the world.

Using GlobalCollect's Hosted Merchant Link, the automated data exchange between the retailer and the processor is expected to lower Bodum's cost per order.

Savings Oil teams with Cardtronics

Cardtronics Inc. won a contract to provide ATM services to **Savings Oil Co.** Through its high-availability processing platform, Cardtronics will manage Savings Oil-owned ATM machines at 47 Savings Oil convenience stores.

VSoft partners with Cathay Bank

Cathay Bank, based in Los Angeles' Chinatown, chose the hosted software and service provider **VSoft Corp.** for check processing and reporting. VSoft said Cathay has been a client for five years and will migrate to VSoft's software-as-a-service platform.

Central Bancompany, Clearent join forces

Missouri-based **Central Bancompany** picked **Clearent LLC** as its merchant services partner. Central Bancompany is a holding company serving customers of 13 banks with more than 225 locations. *The Nilson Report* ranked it the 79th largest U.S. merchant acquirer, with 4,000 merchants in its portfolio.

Central Bancompany will use Compass, Clearent's online reporting tool. Clearent's "easy-to-understand" self-assessment questionnaire for merchant compliance with the Payment Card Industry DSS was a factor in choosing the processor, according to Central Bancompany.

Ice cream e-social unveiled

Cold Stone Creamery became the first merchant to use **First Data Corp.**'s eGift Social gifting service when it teamed with the acquirer to enable consumers to give the gift of ice cream to friends via Facebook accounts or email. Recipients of Cold Stone Creamery e-gifts receive account numbers, which they can redeem for ice cream at any of the 1,300 Cold Stone Creamery stores in the United States.

Serbia's DinaCard teams with Discover

Discover Financial Services and Serbian-payment network **DinaCard** partnered to allow DinaCard holders to use the Discover, Diners Club International and Pulse networks for purchases and cash access outside Serbia. DinaCard is operated by the National Payment Card Center, a division of Serbia's central bank – the National Bank of Serbia. Discover said the service will go live by the end of 2010.

Moneybookers partners with Failsafe Payments

Failsafe Payments N.A. integrated **Moneybookers Ltd.**'s online e-wallet capabilities into Failsafe's Certo Payment Gateway. Failsafe, a merchant service provider based in Cleveland, Ohio, and the nation of Cyprus, said its partnership with Moneybookers broadens Failsafe's global network, since Moneybookers has 12 million

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Industry Update

account holders.

State associations partner with Heartland

Two state industry associations recently endorsed Heartland Payment Systems Inc. The California Medical Association chose Heartland as its preferred partner. The CMA's 35,000 physicians may utilize Heartland for card processing, payroll and check management services.

In addition, the Texas Hotel & Lodging Association endorsed Heartland as its provider of processing and other services. The association has 1,800 members.

Integrators Indra, Telvent pick Hypercom

Systems integrators began installing more than 1,000 self-service card payment terminals made by Hypercom Corp. at 293 Metro de Madrid transit stations in Spain's capital. Integrators Indra and Telvent GIT S.A. chose the Artema Modular terminals to speed ticketing for 90 million passengers that use the stations annually, Hypercom said.

Kanoo adopts SCL for currency services

Kanoo Travel (UK) Ltd. deployed the UltraPoS automa-

tion system from Stanton Consultancy Ltd. at all 26 travel offices in the U.K. The system is being used for Kanoo's currency exchange services, including money transfers and travelers' checks.

Mitek signs more partners for mobile RDC

To further expand its mobile remote deposit capture (RDC) footprint, Mitek Systems Inc. added new partnerships with software and service providers for the financial services industry in the United States. The latest agreements were signed with Wausau Financial Systems Inc., Skyline's DirectFED Payment Solutions Corp., Secure Payment Systems Inc. and Bluepoint Solutions Inc.

Mitek's technology enables remote mobile deposit of checks by people using camera-equipped smart phones.

TransFirst teams with NBT Bank

NBT Bank of Norwich, N.Y., a division of NBT Bancorp Inc., signed with TransFirst. The payments processor will provide services to merchant customers of NBT Bank and Pennstar Bank divisions in upstate New York, as well as areas of Pennsylvania and Vermont.

Three organizations choose Skyline for RDC

An online rent payments provider and two credit unions partnered with Skyline's DirectFED for RDC. PayYourRent.com will use Skyline's RDC technology to allow property manager clients to scan paper checks for direct deposit.

Texas-based Right Choice Credit Union and Pennsylvania Students Federal Credit Union also signed on to use Skyline's RDC system.

TASQ to resell Epson equipment

TASQ Technology Inc., a First Data company, partnered with Epson America Inc. TASQ joined the Envision partner program, allowing it to resell Epson printers and scanners and provide repair and service fulfillment. TASQ said it will ship replacement hardware overnight to reduce merchant downtime.

China UnionPay teams with USBSI

U.S. Bankcard Services Inc. partnered with China UnionPay in the United States. Founded in 2002, Shanghai-headquartered CUP is the sole domestic bankcard organization in China, operating under the People's Bank of China.

USBSI said the partnership will allow its merchants to accept CUP debit and credit cards from Chinese tourists. CUP has issued more than 2 billion cards, according to USBSI.

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ACQUISITIONS

Fifth Third Processing buys TNB Card Services

Fifth Third Processing Solutions LLC bought the assets of TNB Card Services from Texas-based Town North Bank N.A.

TNB provides electronic payments processing to credit unions nationwide. Town North Bank had serviced 1.4 million credit and debit accounts through TNB.

APPOINTMENTS

Cho joins UMSI

United Merchant Services Inc. appointed **Yong C. Cho** as Chief Financial Officer. Cho was Senior Manager in the Assurance Division of PricewaterhouseCoopers Korea. Cho will assist the company as it expands in Korea, as well as in the United States.

ProPay adds two to its security team

Payments security specialist ProPay Inc. added **Chris Mark** and **Dr. Heather Mark** to its data security and

regulatory compliance team. Chris Mark, a Certified Information Security Systems Professional (CISSP), Certified Payment Card Industry Security Manager/Auditor (CPISM/A) and Certified Information Privacy Professional (CIPP), was named Executive Vice President at Propay. He has worked in payments security with card brands and trained Qualified Security Assessors on behalf of the PCI Security Standards Council.

Dr. Mark, PhD, CISSP, CPISM/A and CIPP, is now Senior Vice President for Marketing Strategy. She is experienced in data security and compliance.

MoneyGram taps Shields

MoneyGram International appointed **James E. Shields** Executive Vice President and CFO. Most recently Shields was Senior Vice President of Finance and Treasurer at Royal Caribbean Cruises Ltd.

Compliance11 hires Straub

Tracey Straub joined Compliance11 Inc., a provider of regulatory compliance solutions, as Vice President of Strategy. He has 17 years of compliance and risk management expertise, previously with Prudential Securities Inc., Bear Stearns and MF Global Ltd. 



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Insider's report on payments**Securing a place for electronic payments**

By Patti Murphy

The Takoma Group

When it comes to security, perception is 90 percent of the process. Years ago, when I resided in a suburb of Washington, D.C., I installed a brand-name security system following a spate of break-ins in the neighborhood. As part of the package, I received several decals to place on windows and doors, to indicate the house was in the security company's program.

Within days of placing the decals I was inundated with requests from neighbors looking to buy leftover stickers. "Do you really think a couple of window stickers will protect you?" I asked one neighbor. "Not really, but chances are good they will make robbers think twice about breaking into my place, and maybe they'll choose another house."

I was reminded of this recently as I reviewed a report from database security vendor IBM Guardium, *Information Security: Changing Perceptions and Changing Realities*. Among the trends reported: Americans believe they are more likely to have their identities stolen than their automobiles.

It's a telling commentary on how critically valuable data security has become in the 21st Century, as well as on the bad rap banks and retailers are getting for playing fast and loose with customer data.

"The number of people who have experienced identity fraud due to data breaches pales in comparison to the number of people who fear it," wrote Phil Neray, Vice President for Security Strategy at Guardium and author of the report.

Yet, there's plenty of evidence to suggest financial data theft is big business. In 2008, the communications carrier Verizon Wireless investigated data breaches involving a total of 285 million records; 80 percent of those records contained payment card information. Verizon also revealed 91 percent of compromised records were linked to organized crime gangs.

Consumer concerns run high

Guardium queried consumers in four countries – Germany, France, the U.K. and the United States – to gauge concerns about the security of personally identifiable information and credit card data.

Eighty percent of Americans surveyed said they were

either "concerned" or "very concerned" about the security of their credit card information. In the U.K., 72 percent of consumers expressed concerns about the ability of banks to safeguard personal financial data; in France 70 percent were most worried about the security of information accessible through their national health insurance cards.

As Neray wrote, "We're also currently witnessing a boom in the public's technological literacy. With each RockYou, TJ Maxx or Hannaford breach, consumers are gaining new information about the potential dangers to their data."

Furthermore, about 16 percent of all consumers polled by Guardium had been victims of fraud already; Americans had been especially hard hit. For more than 55 percent of U.S. fraud victims, the money involved exceeded \$1,000; for 3 percent, the amount exceeded \$10,000, Guardium reported.

The costs of data breaches at banks, retailers, processors and other organizations that deal in consumer financial data are substantial.

The Ponemon Institute, a security think tank, reported that it cost breached U.S. companies \$204 per compromised record in 2009, up from \$202 in 2008. The average total per-incident cost to breached organizations was \$6.75 million in 2009, compared to \$6.65 million in 2008.

The most expensive incident cost the breached company \$31 million to resolve; the least expensive cost \$750,000, according to Ponemon's latest *U.S. Cost of Data Breach Study*.

According to the *Lexis/Nexis 2009 True Cost of Fraud Report*, U.S. banks spent more than \$11 billion dealing with data breaches last year.

Retailers spent more than \$100 billion on fraud losses, fees and costs related to chargebacks on fraudulent transactions, the report said.

Token action

Cyber-thieves attack databases for the same reason Willie Sutton robbed banks: because that's where the money is. (Sutton stole an estimated \$2 million in his criminal career.) But unlike in Sutton's day, it's not easy to tell who the bad guys are and when a bank is under attack by cyber-criminals.

That's why it's a really good idea for retailers not to store data on company systems. "The optimal solution is to purge your systems of data and partner with a third party that can store the data in such a way as to enable clients to interact with it," said Aaron Bills, founder and Chief Operating Officer of 3Delta Systems Inc.

Based in Chantilly, Va., 3DSI has developed a set of products, known as CardVault, that rely on encryption, off-site

data retention, and randomly generated codes, or "tokens," to secure real-time, business-to-business card payments. Data is stored in off-site centers that have been deemed Payment Card Industry (PCI) Data Security Standard (DSS) compliant for six years running, according to company statements.

As the name implies, CardVault works like a bank safe deposit box. Companies can access stored information as they need, with no risk of loss, Bills said.

And he claims that businesses using 3DSI's CardVault qualify for the lowest possible Level 3 interchange rate.

Tokenization isn't a new idea. It's typically used with encryption; now it's beginning to look like the next big step in securing payment data.

"Where properly implemented, tokenization may help simplify a merchant's payment card environment," said Eduardo Perez, Head of Global Payment System Security at Visa Inc. But Perez is quick to add that it's not a perfect solution, since it may be possible for cyber-crooks to manipulate tokenization systems undetected.

Visa views tokenization as complementary to the PCI DSS, Perez explained.

So does George Peabody, Director of Emerging Technologies at Mercator Advisory Group.

"Tokenization is one more element in a merchant's anti-fraud and PCI compliance tool kit," he said.

"Particularly valuable for card-not-present and recurring payment applications, tokenization also retains the merchant's ability to perform marketing and fraud analytics while getting card number data off the merchant's systems and easing some of their [PCI] obligations," Peabody added.

In early July 2010, Visa released a set of best practices for card data tokenization, explaining that the document grew from industry and investigative insights regarding past data compromises. Visa has also clarified existing rules to ensure acquirers and issuers permit merchants to present truncated or masked card numbers for dispute resolution purposes.

It remains to be seen whether perceptions of card data security fall in step with this changing reality. ■

Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. Email her at patti@greensheet.com.



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The allure of end-to-end encryption

By Scott Henry

VeriFone Inc.

"Scope reduction" should be a magical phrase to merchants, acquirers and ISOs because it refers to reducing the applicability of Payment Card Industry (PCI) Data Security Standard (DSS) controls. PCI compliance is no small matter, nor is it inexpensive. The larger an organization, the more costly the effort to ensure compliance, but smaller organizations may have to devote comparatively larger proportions of their resources than more sophisticated outfits.

So, large or small, compliance is a big issue that many organizations want to reduce. Any step to limit the scope of that compliance is welcome. That's why end-to-end encryption (E2EE) is now one of the most talked-about concepts in the payments industry. And consensus is growing that E2EE is a vital step not only in containing the costs of compliance, but also in making card data much more secure.

An initial goal of the Secure POS Vendor Alliance was "to create an industry encryption framework ... to adequately secure cardholder information before it enters the application environment."

In 2009, Visa Inc. published industry best practices for E2EE. Even the PCI Security Standards Council (PCI SSC) is developing guidance on how E2EE (which it prefers to term "point-to-point encryption") will satisfy certain PCI requirements.

What's the buzz?

Retailer environments are too complex to completely and constantly lock down against all intruders. Encrypting cardholder data from end-to-end may be the only way to meet current security requirements.

The potential liability associated with cardholder data breaches is daunting. The per-record cost estimates for a security breach range from around \$100 to several hundred dollars, so a breach could easily result in costs in the millions of dollars. Unfortunately, the number of attempted and successful data breaches is increasing, even among retailers that meet PCI DSS compliance requirements and audits.

End-to-end encryption entails encrypting cardholder information on acceptance inside a secure, trusted device and keeping it encrypted throughout an organization, ideally all the way to the acquirer or processor.

Retailers aren't in the business of security or payment technology; they must focus on understanding customer needs and delivering the right goods at the right time and

place. PCI requirements were on a two-year update cycle, so by the time a retailer got up to speed, it was time to learn the next set of requirements. The PCI SSC recently extended the cycle to three years, but even so, merchants need significant guidance from ISOs and merchant level salespeople to understand the compliance process.

Technology soup

A variety of encryption techniques have been proposed for the retail industry. All offer strengths but also have limitations that make them less than complete:

- **Database encryption** is widely used in the computer industry to protect records. Various methods and tools exist to encrypt fields, records or an entire database. Databases can be encrypted on a single server or on distributed servers, and both software- and hardware-based products and solutions are available.

This form of encryption does not, however, protect data end-to-end. Many organizations have a hodgepodge of servers, applications and networks that may require access to the database information, resulting in data being frequently unencrypted and exposed to rogue sniffers.

- **Tokenization schemes** replace cardholder information (usually the primary account number) with a randomly generated, numeric token. This type of security is inexpensive and allows a retailer to store information that does not violate PCI DSS restrictions. But the tokenization doesn't occur until after the transactions are authorized, and somewhere along the line, cardholder data is being encrypted and decrypted, causing potential exposure.
- **Secure Sockets Layer (SSL)** is widely deployed and enjoys broad support across multiple industries. Based on public key cryptography, it bears little or no cost and has become the standard for Internet commerce. With SSL, however, data is only encrypted while in transmission on the network, so the sending and receiving servers must encrypt and decrypt, respectively, the cardholder data, creating potential exposures on either end.
- **Hardware-based encryption schemes** are built around a secure, tamper-resistant hardware module that generally sits at a central location on a corporate network, providing strong key management and secure key storage. Hardware-based encryption is widely held to be superior to software-based encryption but can be expensive to deploy at store locations, where changes will be required at the POS.

Putting E2EE to the test

VeriFone favors a total systems solution approach that encompasses the following:

- End-to-end encryption so that cardholder information is encrypted at the instant of acceptance inside a secure, trusted device and remains encrypted throughout an enterprise
- Key management per industry standards, including a secure transport, tamper-resistant security module (TRSM)
- TRSM storage and secure key generation in a facility certified with proper controls and procedures
- A monitoring component to provide 100 percent device- and transaction-encryption compliance and instant notification of potential issues

An independent assessor, Coalfire Systems Inc., recently completed a review of this approach and came to some compelling conclusions regarding E2EE: "As most of the DSS controls are designed to manage risk to card data from specific threat scenarios, it is therefore possible to reduce their applicability by securing the card data in the merchant environment, so that the threat scenarios are no longer a viable risk.

"By strongly encrypting card data at the point of capture in a secure and restricted device, where no ability to decrypt the card data exists, you can effectively 'isolate' the majority of the merchant's environment from scope. If specific deployment scenarios are adhered to, the merchant environment can be treated as an untrusted environment similar to a public network when using strong transmission encryption."

Coalfire stressed that PCI compliance scope reduction cannot remove the need for PCI compliance and does not eliminate merchants' responsibility to

validate compliance to their acquirers, but Coalfire noted that scope reduction has big benefits: "PCI compliance scope reduction's biggest payoff for merchants is the opportunity to eliminate the cost of PCI control deployment for the sole purpose of meeting compliance obligations. The second major benefit is the reduction of cost and effort to validate PCI compliance of the merchant environment."

No doubt you'll be hearing more and more about E2EE. It's important to know how different vendors and service providers implement this technology. 

Scott Henry is Director, North America Product Marketing, for VeriFone Inc. He can be reached at scott_henry@verifone.com.

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Uncle Sam might want to pin worker misclassification on you

By Sarah Weston

Jaffe, Raitt, Heuer & Weiss PC

It is difficult to distinguish between an employee and an independent contractor, especially because of the ever-changing and often confusing rules the IRS uses to make that determination. However, if you misclassify employees as independent contractors, the odds that you will face expensive penalties are increasing.

Due to the sagging economy, legislators are seeking additional sources of revenue. State and federal officials are becoming more aggressive in investigating companies that misclassify employees as independent contractors.

For example, the U.S. Department of Labor and Department of the Treasury are pursuing a joint proposal to enhance their ability to penalize employers that misclassify workers.

Under the proposed 2011 federal budget, an additional \$25 million will be provided to the Department of Labor to add 100 enforcement personnel and provide grants to states to enforce penalties for misclassifications.

The IRS intends to audit 6,000 companies to ensure compliance with worker classification rules. Additionally, many states are proposing legislation and creating task forces to investigate worker misclassification.

Why misclassification occurs

Employers have an incentive to classify workers as independent contractors, rather than employees, because by doing so they can avoid paying the employer contributions to Social Security and Medicare, unemployment insurance, payroll taxes, mandated minimum wages and overtime, and workers' compensation insurance.

Generally, companies using independent contractors also avoid providing health insurance and other benefits that are typically provided to employees, such as sick time, flextime and vacation.

Thus, the government alleges employers have strong incentives to classify as independent contractors workers who are really employees.

For ISOs and merchant level salespeople (MLSs), this means it is time to take a second look at your agreements to make sure that MLSs, for example, are being properly classified as independent contractors. The following tests can help with this process.

Criteria the IRS uses

The IRS uses two tests to determine whether a worker should be classified as an employee or an independent contractor. The first is a three-factor test that weighs the amount of behavioral control the employer has over the worker, the financial control the employer has over the worker and the type of relationship the employer and worker have.

While employees are dependent on their employers for everything needed to perform their jobs, independent contractors are in business for themselves; they control their own transactions and cover their own expenses. With this in mind, it is easy to see why the more control an employer has over a worker, the more likely it is that the worker will be classified as an employee.

The second IRS test involves 20 factors. Again, the more control the employer has over the worker, the more likely the worker will be classified as an employee. Below are the seven factors most relevant to the payments industry. No single factor is dispositive, and having a certain number in either category is not conclusive.

1. **Place of performance:** If a worker performs job responsibilities at the employer's place of business, the worker is more likely to be designated as an employee; however, if the worker does not work at the employer's office and instead has a separate office or works from home, the worker is more likely to be classified as an independent contractor.

If you want to make sure your agents will be deemed independent contractors, your agents should have their own place of business. If they're working in your office, it is an indication that they are actually employees.

2. **Realization of profit or loss:** If a worker has liability for losses, he or she is more likely to be determined to be an independent contractor. However, if your business does not have liability for merchant losses because you are exempt from bearing such losses as agreed between you and the processor, this factor may be irrelevant.

But if you take liability through your processing relationship and you want to make sure your agent will be deemed an independent contractor, you may want to pass that liability down to the agent.

3. **Instructions and training:** While you can train your independent contractors about how the payments

Using agents who are entities, as opposed to individuals, is one way to stack the odds in favor of their being classified as independent contractors.

industry operates generally, the more instruction and training is provided to a worker regarding how to perform job functions, the greater the chance that the worker will be designated an employee. For instance, training a worker on how interchange works may not amount to an employer-employee relationship, but telling a worker what equipment to use, when to work and how to do a given job probably does.

If you want to make sure your agents will be deemed independent contractors, limit the amount of training required, and do not tell them how to perform their jobs.

4. **Work hours:** If full-time work is required, the worker is more likely to be determined to be an employee. If there are no set work hours, it is more likely the worker will be determined to be an independent contractor.

If you want to make sure your agents will be deemed independent contractors, make it clear that they can perform their job duties on their own schedule without mandatory work hours.

5. **Exclusivity:** If an independent contractor is exclusive to you, this is a big indication that the worker will be determined to be an employee. However, if the agent is permitted to place merchants with other processors, perhaps even under another name, the worker is more likely to be classified as an independent contractor.

If you want to have some certainty that the worker will be available but still want your agents to be nonexclusive, consider using minimums. Minimum levels should be low enough that the independent contractor has a reasonable amount of time to acquire merchants for other processors. In other words, don't set minimums that are so high that agents will effectively be prohibited from marketing for other companies, even if they are technically "nonexclusive."

6. **Right to terminate:** A worker will more likely be classified as an employee if the employer can discharge him at will, meaning for any reason or no reason at all. On the other hand, a worker that may only be discharged upon the occurrence of specific events (for "cause") will more likely be determined to be an independent contractor.

If you want to make sure your agent will be deemed an independent contractor, make sure your agent agreements run for a specific term, terminable early only for specific causes.

7. **Entity status:** If an agent agreement is between your company and another legal organization, such as a corporation or a limited liability company, this is an indication that a worker associated with that organization will be deemed an independent contractor. Workers who are protected by a corporate form are generally considered to be self-employed and thus seen as independent contractors.

Using agents who are entities, as opposed to individuals, is one way to stack the odds in favor of their being classified as independent contractors. Remember, when entering into an agreement with such an agent, obtain proof of the legal status of the other entity, such as a good standing certificate from the applicable state or the entity's certified articles or certificate of formation.

Reasons to assess your practices

The factors listed herein may help you determine whether you are classifying your workers appropriately. If several factors indicate you exert behavioral or financial control over your workers' services, consider having your accountant or attorney review your practices.

Further, it is not sufficient to simply change the wording of a contract unless the underlying relationship also changes to mirror what the contract requires. In other words, if your contract reflects an independent contractor relationship but your actions reflect an employment arrangement, any investigating party will focus on the way the relationship actually works, not the way the contract says it should.

Companies caught misclassifying employees as independent contractors – even unintentionally – not only risk penalties, they can also be required to make retroactive payments for minimum wages, overtime, payroll taxes and interest that, but for the misclassification, would have already been paid for workers' past services. 📌

The recommendations herein are general suggestions; they are not a substitute for legal advice. For specific information, consult experienced legal counsel. Sarah Weston is an attorney at Jaffe, Raitt, Heuer & Weiss PC and advises businesses on contract and regulatory issues in the merchant acquiring, stored value, automated clearing house and payment systems industries. You can reach her at 248-351-3000 or at sweston@jaffelaw.com.

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ADVISORY BOARD

We all know it's cheaper to hang onto existing customers than to acquire new ones. So, as ISOs and their partners struggle with economic uncertainties and changing consumer payment habits, customer stickiness becomes more important than ever. To find out what some of the best minds in our industry are doing to address this, we asked members of our advisory board the following:

1. What kind of initiatives are you taking at your organization to keep clients happy and loyal?
2. How critical are value-added services to this process?
3. What types of value-added services do you feel merchants need/desire these days, and why?
4. Are their wish lists realistic?

Following is the second, and final, portion of their responses. The first segment was published in *The Green Sheet*, July 12, 2010, issue 10:07:01.

Tim McWeeney

WAY Systems Inc.

WAY Systems owns the recurring model that all of our merchants are a part of. We have taken a very aggressive path with our ISOs, agents, banks and financial institutions in upgrading them from the old 15xx base to the new multi-application way5000.

We know the details of our merchants' processing environments. We offer a severely discounted trade-up price to merchants who exchange any 15xx series model for a new, fully compliant terminal. Happy, compliant merchants equal longer-term merchant accounts for our ISO, agent and banking partners.

Additionally, as we continue with our market launch of the way5000, we have deliberately kept our prices low on new equipment through our distributor partners, relying more on the long-term relationships they've established with customers, which provides the success for our model.

Larger merchants require data that is meaningful in growing their businesses. Trending on where spending is growing and declining is essential to them. WAY offers data mining for these merchants as well as for the ISOs and others who sell to them. By having every active terminal

Merchant retention, taking the initiative - Part 2

on our server, we can extrapolate macro- and micro-data. Our larger clients find this type of information invaluable. It's included at no charge in our value-added model.

I have yet to run across a request from a customer that could not be fulfilled with the right resources. The challenge is to prioritize requests and blend them into availability for the larger market.

If one customer has a unique wish list, that does not make it unrealistic, it makes it a challenge. There's an old saying: If it's "difficult" we'll do it now. If it's "impossible" it may take us five minutes longer.

Justin Milmeister

Elite Data Processing Inc.

We have definitely noticed an unusually high number of long-term merchants calling for rate reviews. In these hard economic times merchants are searching for any way to save a buck. Unfortunately, merchant service companies are often the target for cost-cutting missions.

We have implemented several programs to help merchants increase sales and help us retain their business. We created a spreadsheet with specific variables that qualify merchants for incentives, such as free gift cards, free point of sale equipment or other products that we offer.

In some cases, we will combine the incentive with a rate reduction. Qualifying factors include how long a given merchant has been a client, type of industry and profitability.

We have had great success with this program. This has definitely helped retain merchants that would have otherwise gone shopping. The types of value-added services merchants need today are gift and loyalty cards. It is imperative for retailers to offer some type of gift or loyalty program because the advantages are so great. It not only brings in new customers but repeat customers as well.

Merchants desire cash advance during these tough times. Banks are saying no more often than in the past, so merchants are forced to weather the storm with cash advance. The problem is that cash advance money is expensive.

Merchants generally go back and forth between the angel on one shoulder and the devil on the other. More often than not, the devil wins. They take the money because they either need it for an opportunity or to stay afloat.



Today's merchants are looking for the best deal possible, but their demands are often unrealistic. On the one hand they want to be served well and have instant access to sales representatives.

They also want to be priced like a Wal-Mart. And finally they want free equipment and supplies. This type of relationship doesn't work, and something usually has to give. There is a sweet spot, and that's where Elite Merchant Solutions sets up camp.

Jeffrey Shavitz

Charge Card Systems Inc.

"Merchant retention," "attrition" and "account longevity" have all become very significant buzzwords when evaluating the health of your merchant portfolio. As our industry becomes increasingly competitive, merchants are leaving one processor and joining another to save money on fees and basis points.

When was the last time you "touched" your merchant? If it has been over three to six months, the odds of that merchant giving you the opportunity to "match" a competitive bid become almost nonexistent.

Charge Card Systems, in cooperation with our sales partners, is establishing dedicated programs to maintain the merchant relationship (even if that means just a simple phone call, direct mail and/or email communication).

The issue we are experiencing with our portfolio, as an aggregate, is that when we do experience attrition, we are losing our more profitable merchants (ones that were converted six or seven years ago) and replacing them with interchange plus or deals placed at much more competitive margins. In essence, it takes us almost two deals to make the same profit as a single deal did just less than a decade ago.

How can we maintain our valuable portfolios?

- Provide continuous communication with merchants as previously mentioned
- Become the leader in a vertical market and offer additional value-added services that bundle into the merchant services program
- Win the endorsements of associations, franchisers and buying groups where, similar to number two, our service is part of an integrated approach

Like others, we have tried to "save" an account after receiving the cancellation and/or termination letter. Although we do give it a real effort, our winning percentage at this point is very small. Once they convert to a new processor, it is too late to earn back that account. I hear from lost accounts that the owner plans to monitor fees

"Merchant retention," "attrition" and "account longevity" have all become very significant buzzwords when evaluating the health of your merchant portfolio.

Jeffrey Shavitz
Charge Card Systems Inc.

and contact us if the fees and respective savings are not what the salesperson disclosed. But this rarely happens.

One final comment that I believe is worth mentioning. Some accounts are not worth maintaining, and at CCS we have been in bidding wars over a \$10,000 per month merchant who claims he has interchange plus 10 basis points, no transaction fee, no statement fee and no other fees.

My response to that merchant is – good luck. We will continue to charge enough so we can have a fair profit for our value-added service.

Rick Slifka

Exec-Links LLC

It has always been critical at Exec-Links that expectations are made very clear. For example, there must be total agreement on contracts, position profiles/job descriptions, candidates' characteristics, preferred attributes and so forth.

Having been in the search industry since the early 1980s, I quickly learned that there are always three sides to every story: theirs, ours and (to me, the most critical) how our conversations are being interpreted. It did not take long for me to learn that everything coming out of my mouth was not always being absorbed or heard in exactly the manner that I thought it was.

Think about everyday conversations. Are you really listening or are you already thinking about a response before the other party has completely finished his or her thought? Human nature dictates the latter.

We establish our clients' expectations upfront, fine-tuning the process as the search process unfolds and constantly checking to make sure we are adhering to the parameters agreed upon with our clients. Additionally, clients are updated weekly on the status of the searches we are engaged in on their behalf. We have found that the few minutes this takes prevent anyone or anything from falling through the cracks.

There is a proven scientific phenomenon referred to as "spaced repetition" that is often used by marketing departments. Basically, by sending out information about

AdvisoryBoard



your organization at least six times per year, your company and/or product will become better known.

Clients get used to relationships that include a consistent work ethic. Our clients will tell you that we respond to their requests literally within minutes.

We work very long hours. Candidates and clients of ours will often see emails from us between three o'clock in the morning and ten o'clock at night, including weekends. Immediate follow-up is another hallmark of Exec-Links.

In any type of business, it's imperative to differentiate yourself from the competition. It's also important to be flexible, to a point, and present a realistic response supported by provable facts. Everyone would prefer to be driving around in a Lexus for the cost of a Volkswagen, but keep in mind what's realistic.

Anna Solomon

FrontStream Payments Inc.

We recently stepped up our quality assurance program and retention systems. By calling on our merchants before they have a problem, we find that we're able to address

When merchants are given solutions to deal with employee fraud, or the streamlining of a system, they really feel that they have found a partner in you.

Anna Solomon
FrontStream Payments Inc.

other needs by suggesting a new type of service or equipment. Merchants appreciate the attentiveness. Remember, by the time the issue becomes a problem, most merchants will leave or switch rather than call to resolve the issue.

Merchants today are struggling just to survive, which means they are searching for new ways to cut their costs and processes. In doing so, good communication with the ISO or agent can lead to an up-sell or a value-added service that will make a big difference.

Periodic review of merchant processing statements can lead to a change in rate structure, as well as increased efficiency and effectiveness with product support or integration. Many times a system solution creates a cost reduction without the need to lower any rates. When merchants are given solutions to deal with employee fraud, or the streamlining of a system, they really feel that they have found a partner in you.

And even if the competition comes in offering lower rates, they know from past experience they will lose the value-add of your quality service. For pennies on the dollar, for most merchants, it isn't worth switching.

Scott Wagner

GO Direct Merchant Services Inc.

This is a very relevant topic and quite likely near and dear to the hearts of all ISOs and merchant level salespeople (MLSs). Many of us, including those who contribute articles to *The Green Sheet* as well as readers, know how very competitive our great business is.

Merchants have become savvy, so our daily jargon is no longer Greek to our audience. Moreover, we are no longer "shooting fish in a barrel" (the majority of you know exactly what I am referring to). On the contrary, our industry has seen extreme margin compression.

And lastly, it sure does seem like merchant services has gone viral. Everyone from Uncle Bob and Aunt Betty and their kids are all now payments industry experts. Add up all of these factors and we have a very combustible situation.

Good grief, what are we to do? *The Green Sheet* asks:

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What initiatives are we implementing? What value added services are we adding to our arsenal? What are we doing to add stickiness to our portfolio?

First, we wouldn't be doing our job if we didn't keep current with merchants' needs and wants. We have all the traditional (and some not so traditional) value-added services like gift cards, payroll processing, automated clearing house, and a variety of mobile/text marketing and processing options available.

We are all familiar with the adage that the more products we can sell, the stickier merchants become. True enough. However, after doing this for 20 years, I have learned from so many great mentors, and I'm still learning. One of the single most valuable lessons I ever learned is one of the most basic: be honest.

We all know life can be difficult and that nothing is ever perfect in the merchant services world. Every MLS is going to run into issues. The question is what are you going to do about it?

Run and hide because you already made a couple of upfront bucks and heck you didn't really know the merchant anyhow? Or are you going to roll up your sleeves, attack the problem, fix it, gain a happy merchant and ask for referrals? Obviously we prefer the later and seek to turn disgruntled customers into our biggest fans.

In a scene from the movie *The Hunt for Red October*, one of the submarine pilots turns his boat directly into the path of the oncoming torpedoes. Those torpedoes didn't have time to arm and bounced harmlessly off the submarine. I hope you can see how clearly that scene translates to our business – every day.

At the end of the day we can all sell lots of sizzle, and to some degree it is important. But when an employee, partner or merchant has a problem, we must face the music. Do you want to

talk with the GO Direct president? Call me. Do you need an issue addressed? Call us and we will endeavor to fix what ails.

Our merchants are sticky because of simple solutions. Our merchants and partners know they can reach us whenever they need to. Being upfront, being present, being reachable, not running from any issues and doing the little things – it seems pretty easy.

At GO Direct, it is part of our culture; it is what makes us unique. Something as elementary as being honest and available for merchants and partners is what creates true stickiness. 📧



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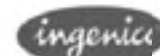
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Prepaid in brief

NEWS

Springbok files for bankruptcy

Prepaid card processor and program manager **Springbok Services Inc.** filed for Chapter 11 bankruptcy protection on June 18, 2010. A phone recording left at company headquarters in Englewood, Colo., said Springbok's change in fortune was not anticipated and that most of the Springbok staff had been laid off.

The recording went on to say that of Springbok's three issuing banks – MetaBank, The Bankcorp Bank and KeyBank – only KeyBank continues to fund newly activated cards. A report by the *Denver Business Journal* said court documents showed Springbok had debts totaling \$35.9 million, with KeyBank's parent company, KeyCorp, being owed \$15 million.

Simmons sets the record straight

Russell Simmons, founder of prepaid card provider UniRush LLC, issued a statement to dispel misstatements he believes media outlets made in portraying his role in getting certain types of prepaid cards exempted from the Durbin Amendment to The Restoring American Financial Stability Act of 2010.

Countering statements in the *Washington Post* and *Bloomberg Businessweek*, Simmons said his motivation for lobbying members of Congress was not a selfish attempt to further the business interests of UniRush and its RushCard prepaid card product, but to protect the interests of financially underserved people who rely on prepaid cards as alternative financial tools.

The Visa Inc.-branded RushCard is a general-purpose, reloadable (GPR) prepaid card. It is the type of card exempted from the interchange regulations imposed by the Durbin Amendment because it was successfully argued that limiting interchange on GPR cards would force card issuers to raise fees they charge unbanked or underbanked consumers.

Comment window open for FinCEN proposal

Prepaid card stakeholders have until July 28, 2010, to submit written comments regarding proposed rule

changes to the **Financial Crimes Enforcement Network's** (FinCEN) anti-money laundering (AML) regulations. To bring prepaid cards more fully into the fold of the AML provisions of the Bank Secrecy Act, FinCEN wants to substitute the term "prepaid access" for "stored-value" in its regulations, among other initiatives.

Comments can be submitted online or via written letter. To access the proposal, and the addresses for comment submissions, go to www.dwt.com/portalresource/FinCENProposal.

ANNOUNCEMENTS

Alliance Data gets \$1.5 billion infusion

Loyalty and marketing solutions provider **Alliance Data Systems Corp.** reported that it closed \$1.5 billion in conduit liquidity facilities, resulting in an increase of \$175 million in overall conduit capacity. Alliance said it will use the money to "fund growth and/or portfolio acquisitions."

Blackhawk website wins Stevie award

Gift card mall operator **Blackhawk Network** won the Stevie Award for Web Site or Blog - Financial Services for its website GiftCardMall.com. The 2010 American Business Awards, nicknamed "The Stevies," was held at the Marriott Marquis Hotel in New York City on June 21.

CardSmith integrates campus cards for St. John's

Campus card provider **CardSmith** implemented the St. John's College 1Card for St. John's College of Annapolis, Md. The card is designed to give St. John's students electronic payment access to campus services.

MoneyGram targets Morocco

Money transfer company **MoneyGram International** signed three new agents in Morocco. The World Bank estimated that \$6 billion in money transfers was sent to Morocco in 2009, MoneyGram said.

Affinity card for medical humanitarians

Tempo Payments Inc. said the international medical humanitarian organization Doctors Without Borders will offer its supporters a MasterCard Worldwide-branded, affinity prepaid card processed by Tempo. When supporters use the Doctors Without Borders Debit MasterCard, the organization will receive a percentage of the transaction fee to help with medical aid globally.

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Xoom.com helps disaster victims

Xoom.com, the money transfer arm of Xoom Corp., helped victims of Mexico's Hurricane Alex by waiving fees for money transfers sent to Mexico from the United States. The program ran from July 2 to July 7, 2010.

Western Union enters Japanese market

Under Japan's new Act Concerning Settlement of Funds, The Western Union Co. said it registered to operate international money transfer services in the Asian country, becoming the first money transfer provider authorized to offer "cash-to-cash" transfers across 200 countries and territories.

PARTNERSHIPS

Alliance struck to 'augment' gift card

Retail Information Technology Enterprises and LAN Services LLC launched a new application designed to integrate in-store gift card offerings with online stores. The solution utilizes Microsoft Corp.'s Microsoft Dynamics Retail Management System platform to allow e-merchants to accept gift cards in brick-and-mortar locations or via web stores.

New teammates bring opportunity to Africa

Financial services company Societe Generale partnered with mobile money transfer specialist Obopay to make mobile payments available to the Republic of Senegal in western Africa. The new service is called Yoban'tel.

APPOINTMENTS

Lebofsky promoted at TopGrading

Payments employment agency TopGrading Solutions Inc. raised the rank of Larry Lebofsky to Equity Partner. Lebofsky joined the firm as an Account Executive in 2002 and became Vice President of the Payment Systems Division in 2008. His division represents the largest revenue generating division in the company, TopGrading said. 📧



Features

Dynamics of the youth card market

As part of its syndicated market research report *Cardbeat*, Auriemma Consulting Group studied the development of prepaid cards targeted to children and young adults. It concluded that the market for youth cards, also called teen cards, seems poised for substantial growth.

Youth cards, like travel or payroll cards, are part of a large class of general-purpose, reloadable (GPR) cards. The main difference between GPR cards is how and to whom they are marketed. According to Nancy Stahl, Editor of *Cardbeat*, growth in the youth card market will be gradual but steady, with the speed of adoption driven by how effectively the cards are marketed.

Card issuers and program managers have to "reposition the product in the consumer's mind right now," she said. "There are people who are interested in it. It's just got to get out there more – awareness, familiarity with it, and marketing."

The first word

An online survey of 528 credit cardholders conducted by *Cardbeat* in April 2010 showed that 64 percent of parents with children between the ages of 10 and 20 were unaware of the youth card. Of the 36 percent who had heard of youth cards, *Cardbeat* found that the main way parents became informed of them was from other parents. "Word of mouth was definitely the top one," Stahl said.



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On the other hand, only 4 percent of respondents heard about the cards from their children. The conclusion is that, while the cards are marketed and targeted to "youth," they should be marketed to parents as well.

"It's parents talking to parents or adults talking to kids," Stahl said. "They buy into it because they're the ones who are going to fund it pretty much and introduce their children to it." Stahl added that youth cards should be positioned as prepaid debit cards. "The younger folks, the younger generations, they are the ones who really gravitate more toward the debit card than the credit card," she said.

"It's almost like a managing finance tool. So that's what issuers would be best to emphasize. It's security as well. It's a fixed amount of money until you add money to it."

Cards with benefits

In its survey *Cardbeat* asked cardholders the reasons why they would purchase youth cards for their children. The top three answers were:

- Useful in emergency situations
- More secure than carrying cash
- Helpful for teaching financial responsibility

As for the impact of current legislation on the youth card market, or on the GPR market in general, Scott Strumello, Associate at ACG, doesn't see much of an effect. The Durbin Amendment to The Restoring American Financial Stability Act of 2010 would not affect GPR cards because "they're mainly driven by fee income," not interchange, according to Strumello.

Additionally, provisions of the Credit Card Accountability, Responsibility and Disclosure Act of 2009 mainly target fees and expiration dates on closed-loop gift cards, Strumello said.

Stahl predicts slow but steady growth for GPR cards as consumer awareness of the cards gradually increases in the coming years. 📊

Gift cards: Value multiplier for merchants

By Thom Aldredge

World Gift Card

If you remember the popular comic strip *B.C.* set in prehistoric times, payments were made with clams. It was an example of the barter system – an economy based on the trading of one good for another.

Barter predominated in the early history of civilization. Wampum and cowries – types of sea shells – were important bartering goods in agrarian societies. Greece, which had a rudimentary banking system around 4000 BC, took deposits and lent money.

Gold bars and rings in Egypt and Mesopotamia began to do the trick around 3000 BC. The Lydian Lion coin presumably was the first coin to be minted, around 650 BC.

Coincidentally, the Chinese began making coins at about the same time, although the two cultures had yet to overlap. The Romans had an early form of the check in 1 BC. China, as you might guess, created paper money in the 10th century AD.

In 1914, the Western Union Co. offered a paper-based "charge" card. In the early 1920s, gasoline could be purchased on credit. You could get a dog tag called a Charga-Plate in the early 1930s from many large retailers.

In 1950, Diners Club allowed cardholders to pay multiple merchants with the same card. In 1959, American Express Co. was the first to offer an embossed, plastic charge card. In 1958 and 1966, the VISA card and the Mastercard were born, respectively. Electronic check cards – "debit" cards – appeared in the late 1980s. And here we are. Whew!

Gift certificates showed up in the 1930s, but only in 1994 did upscale department store Neiman Marcus offer the Express card, the first electronic gift card.

It was not well marketed, so the first mass-marketed electronic gift card to succeed is attributed to the Mobil GO Card, used to purchase gas, launched in 1995 by the Mobil Oil Corp.

Also in 1995, Blockbuster Inc. began to display gift certificate cards at the POS for customers to purchase on impulse.

The prepaid exchange

Stop just about anyone on the street and ask them to reveal the contents of his or her wallet. You are likely to find a major, network-branded card or two from Visa Inc., MasterCard Worldwide or AmEx, a debit card from the person's bank, a store credit card or two and usually a stored-value gift card.

For certain people, many more cards would be present; for the unbanked, many fewer. But the two will more than likely have one thing in common: they will both be carrying gift cards. And that's where this thread goes.

I am looking at the \$25 iTunes gift card on my desk. It was given to me by my wife two weeks ago for our wedding anniversary. Not a tie (was business casual the greatest achievement of the early 21st century?), no pictures of our children, not even tools – my usual fave.

The first component of the Trifecta is that it is a revenue stream the merchant controls. All of the other forms of payment mentioned above are accepted by a merchant's competitors. But the balance on a gift card has to be spent at the merchant's place of business or not spent at all.

No, she gave me the gift of downloadable music for my iPhone – tunes that she and I can share, but I get to make the choice of music, at my leisure. Perfect.

Could she have given me a Visa credit card? Maybe, but it would include the hassle of the credit underwriting process and other paperwork.

And, anyway, we already have one. A debit card? Why have two? A check? So I could a) make a trip to the bank to deposit it, b) wait for the check to clear; and c) then go to the iTunes store to use my credit/debit card. Cash? Same process. Barter? Hardly.

I don't have to spend the gift card all at once. I can research my purchases so I can spend it down to 1 cent if I want. And the balance will stay put until I am ready to add to it or someone gives me another iTunes card.

The gift card bargain

In the history of merchant retail sales, how often has the following occurred? The customer comes to the store wanting to find the perfect gift.

Now, if the person knows in advance exactly what the gift recipient wants, it's a no-brainer. If the customer knows what a person likes, it is easier to make a thoughtful choice.

But if the person only knows what the gift receiver is interested in (cooking, antiques, fabric, etc.) or a particular store that the person has expressed interest in, then a gift card purchase becomes a life saver.

Merchants need to be tuned in to the idea of the "gift" economy and the indecisive giver. We train our resellers on the Gift Card Trifecta so merchants understand the value of offering gift card programs.

The first component of the Trifecta is that it is a revenue stream the merchant controls. All of the other forms of payment mentioned above are accepted by a merchant's competitors. But the balance on a gift card has to be spent at the merchant's place of business or not spent at all.

Second, the merchant's current customers become an unpaid salesforce who go out and bring in new customers. Look at it this way: a current customer who likes a particular merchant and is aware of the merchant's gift

card program will think of someone he or she believes would like to shop at that merchant as well. The customer buys a gift card and gives it to a family member, friend, business associate, whatever, and presto – new customer for the merchant.

Finally, gift cards are the best "hand-to-hand" advertising a merchant can invest in. Gift cards are often passed along from individual to individual. Therefore, the potential is great that a single gift card sale can bring multiple new customers to a business.

A good trade

So if a merchant can obtain and retain new customers via gift cards, why wouldn't the merchant do it? And if the relative cost to accept that form of payment were less than credit or debit cards, why wouldn't the merchant want to encourage customers to use them?

In that sense, having a customer purchase a gift card with a credit card limits the interchange/discount to one transaction for a card that multiplies value beyond that one purchase.

All of the subsequent transactions with the gift card would be at a fixed cost, with no variation. Plus, the merchant receives the payment upfront, and in the bank it goes.

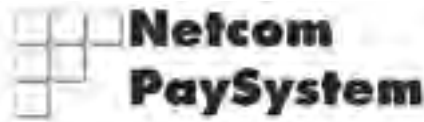
The merchant can list the balance as a liability and achieve some accounting benefits. And since that is the merchant's card in circulation, the cardholder is directed to that merchant to use the balance.

The value of gift card programs to merchants is therefore much more than that first time a gift card is purchased at the POS. It's a clam that keeps on giving.

In my next article I will discuss the differences and features of open-loop and closed-loop gift cards, including the effect of the Credit Card Accountability, Responsibility and Disclosure Act of 2009 and the recent financial reform legislation. 📄

Thom Aldredge is President of World Gift Card, a turnkey gift and loyalty card program provider based in Plano, Texas. He is a spokesperson for the gift card industry and serves on the Electronic Transactions Association Government Relations Committee. Call Thom at 888-745-4112 or e-mail him at thom@worldgiftcard.com.

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- LifePay residual program for MLSs
- Web reporting for retailers and MLSs
- Extensive MLS and retail support and training
- No ETF or PCI fees for retailers

Finding the right balance

Netcom PaySystem prides itself on being as eager to practice good, old-fashioned customer care as it is to pioneer new products. The first inkling that this ISO has a decidedly personal slant on customer relations comes when you call the company's location in Roswell, Ga., and a live operator greets you. It's a pleasant departure from working your way through the gauntlet many corporate automated phone systems have become.

"If someone calls our office, he can have a live person talk to him from 9 a.m. to 5 p.m. every day," said Bill Plummer, Netcom's Vice President of Product Development. "If it's a customer who calls in with an issue, we have a 24-hour rule: the customer will have a response within 24 hours, even if it's to say we're working on a solution. One way or another, the customer will know within a day what's going on."

Count among Netcom's happy customers Damian Hayes, owner of three restaurants in South Carolina: the British Open Pub in Hilton Head, another British Open Pub in Bluffton, and the Hidden Cypress Grille, also in Bluffton. Hayes has used Netcom's credit and gift card services for 13 years.

"Any time I've had a problem, it's been handled very efficiently and immediately taken care of," said Hayes. "The competition doesn't touch them in terms of rates and service." Hayes added that he has recommended Netcom's services to several other local restaurants and businesses, and all have remained customers.

A beneficial affiliation

Bill Plummer founded the company (under the name of Netcom Data Southern Corp.) in 1987 as an ISO specializing in payment services for both medium-sized merchants and national accounts.

"We learned the business from the ground up," Plummer said. "So has my son, Mike. He started working for me when he was 16 years old, downloading terminals, setting up terminals, delivering 'paper.' We got into the business for zero money and just grew from nothing."

Mike Plummer (who is not quoted in this profile) became President of Netcom in 2003 and still manages the day-to-day operations.

In 2008, United eSystems Inc., an electronic payment services provider, purchased Netcom, which became a wholly owned subsidiary. "I never really thought about selling the company, but United was a vendor, and we were selling the United check systems through our company," Plummer recalled. "We became one of their biggest sales agents. They just saw an opportunity to bring us in-house and let our product line grow with them."

The affiliation is mutually beneficial: "United has taken all of the accounting functions out of Netcom's hands and moved them to the processing center in Gulfport, Miss., and to our corporate headquarters in Covington, La.," Plummer said. "It allows us to concentrate on hiring, rolling out new programs

Company Profile

and just being a marketing company, which is what we do best."

Netcom handles sales and marketing of all products; United is responsible for all check processing, as well as financial control and support. According to Plummer, United will soon offer publicly traded stock.

A plethora of products

Netcom sells bankcard, automated clearing house and Check 21 services in addition to several proprietary products developed by United eSystems in concert with selected vendors.

"Our latest and greatest product is our InStor Services, which includes InStor BillPay, Same Day BillPay, InStor Debit Loading, InStor Wireless Loading and AnyTime Money Orders, a revolutionary product that we are rolling out right now," Plummer said. "We're going to hit the market soon and give the money order business a run for its money. With InStor Services, including Anytime Money Orders, we're going after the underbanked or unbanked."

United's other relatively new product, ID CheX, allows for ID and age verification during check cashing, a capability particularly important for nightclubs, wine and tobacco

Internet sales, rated entertainment, insurance companies, accountants, attorneys and banks.

"ID CheX is Homeland Security compliant. So if a business is classified as a money service business, ID CheX is a natural product for them," Plummer said. "It gives them OFAC [Office of Foreign Assets Control] checking, and it does all the Homeland Security searches needed to ensure the person is not a terrorist and is not laundering money.

"We even have a hot button that gives the customer a Suspicious Activity Report that goes right to Homeland Security. No one else has a similar hot button."

Support for reps and customers

According to Plummer, United's suite of products can be bundled and made live within 24 hours through the Mult_ePay Gateway Virtual Terminal. "I see the InStor Services and our own Mult_ePay Gateway product – the virtual products that can go on someone else's computer – as products that drive our other sales," Plummer said.

He added that Netcom endeavors to "grow into new products that are very accessible for our reps, easy to understand and that can be sold to the greatest spread of retailers in the marketplace. How nice it would be to

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"If you bring a new rep in on Monday, and the following Tuesday you try to train him on six products, it's not going to work."

Bill Plummer, Founder
Netcom PaySystem

walk into a shopping mall and be able to sell every door – accountant, attorney, doctor, dentist – no matter who it is."

While the variety of products helps Netcom meet a range of customer needs and remain competitive, Plummer emphasized that new product offerings "have to make sense in the mix we have. There are a whole lot of products out there, but if they don't help our reps, then they don't help us."

Plummer pointed out that Netcom takes support for its merchant level salespeople (MLSs) as seriously as it does customer support – throughout the life of the relationship. "When we hire someone, we try not to step on a territory," he said. "If it's a regional rep, we don't try to hire 12 people in that area all at the same time. We want to give a rep who intends to grow that area, or even perhaps wants to become a regional manager with us, that opportunity. All he has to do is show growth."

The company believes in targeted, customized training offered in manageable doses, particularly given the scope of its services. "If you bring a new rep in on Monday, and the following Tuesday you try to train him on six products, it's not going to work," Plummer explained. "We get the sales rep up and running first on the product that attracted him and let the other products roll in as he picks that up."

If training or customer support requires "face time" from Netcom, staff doesn't hesitate to head out into the field. "If, for example, a bank wants some attention and wants to see someone from our corporate office, we're there," Plummer said. "We'll go support any rep, anywhere. We also try to take as much of the load off our reps as we can with incidental problems so our reps can keep selling."

Plummer mentioned that Netcom also looks after MLSs' interests by guaranteeing long-term residuals. "If someone brings us a portfolio of accounts over a period of 10 years, we continually pay residuals to those reps, as long as they stay within the limits of our contract," Plummer said. "We want them secure in their equity because they've worked hard to get it."

The wisdom of retaining customers and reps

Plummer seems to embody the company's equal penchant for conquering new markets and cultivating customer and sales rep loyalty. As Vice President of Product Development, he naturally waxes enthusiastic about the

spectrum of services that United has either developed or represents, from card processing to bill payment options for those without checking accounts.

Plummer also pointed with pride to the company's success at retaining its merchant accounts: "Because of how good we are at maintaining our customers, we only lose 2 to 4 percent of our customer base per year, while a lot of other ISOs lose 14 to 15 percent of their business per year," he said. "If you're constantly selling to make yourself grow, and you have to sell 10 times the number of customers per month just to stay even, what have you gained?"

Perhaps it's no surprise then that you'll find phrases such as "let us unleash the power of technology for your business" and "customer happiness and maintenance is our cornerstone" seem to co-exist comfortably on Netcom's website. It reflects the happy marriage Netcom and United have embraced between "high-tech" and "high-touch" in their daily operations. ☑

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Tepid summer for many Gulf Coast merchants

In the aftermath of the April 20, 2010, explosion of the Deepwater Horizon drilling platform in the Gulf of Mexico near Louisiana, many coastal merchants in the region are facing economic uncertainty as would-be tourists turn away from beaches that are typically crowded at this time of year. And this is affecting the ISOs and merchant level salespeople (MLSs) who serve them.

According to Dun and Bradstreet's 2010 *Deepwater Horizon Oil Spill, Preliminary Business Impact Analysis for Coastal Areas in the Gulf States* prepared in June, the BP PLC oil flow has the potential to impact 7.3 million active businesses throughout the gulf states, affecting 34.4 million employees and \$5.2 trillion in sales volume. And at least 1,034 fishing industry businesses could lose as much as \$177.2 million in sales due to fishery closures.

Struggling gulf businesses get support

As of mid July, nearly 90 percent of Florida's more than 1,260 miles of coastline were not affected, according to Visit Florida.com.

Christian Murray, National Director of Business Development for Global eTelecom Inc. (GETI) in Fort Walton Beach, Fla., said, "We have yet to experience the full force of the oil spill as it sits in the gulf about seven miles out. Currently the Gulf Coast is seeing some regular tar balls and discernible material hitting the beaches. More of this will hit the coast in the coming weeks.

"Our ISOs and merchants near the Gulf Coast are holding firm and doing what they can to keep business going. Unfortunately, the hospitality and fishing industries are getting hit hardest along with any tourist type business.

"The merchants are seeing a 50 to 70 percent drop in sales based on what we have been told. BP is cutting checks to many of these merchants as we speak, and this is helping to keep many afloat for an unknown period of time."

So far, GETI has helped several ISOs with gulf merchants who've lost their businesses close accounts without penalty and, in some cases, temporarily lowered fees to help struggling gulf merchants continue their processing.

"We are doing what we can to assist our resellers and their merchants," Murray said. "We look at it on an individual, case-by-case basis to determine if, in some small way, we can assist in keeping a merchant's doors open."

In addition, GETI employees have volunteered in

BP PLC oil flow has the potential to impact:

7.3 million active businesses throughout the gulf states

34.4 million employees

\$5.2 trillion in sales volume

1,034 fishing industry businesses could lose as much as **\$177.2 million** in sales due to fishery closures

Source: Dun & Bradstreet

beach cleanup efforts and provided donations of cash, towels, blankets, wading pools and other supplies for the Emerald Coast Wildlife Refuge to assist with animal rescue efforts. "The oil spill affects us all, on a personal and professional level," Murray said.

Fewer tread pristine beaches

Sheri Andrews, owner of Bank Card Services and SEA Chaser Watersports in Destin, Fla., started her business back in 1995. "I usually take off in the summers when my credit card business quadruples," she said.

"This year I opened a water sports company, renting pontoon boats and wake runners; however, tourism is down 50 percent. The media has portrayed this area as being covered with oil, which isn't the case. We've had tar balls, but beaches remain open," she added.

Andrews indicated that tourism in Destin, which consistently ranks as one of America's top family beach destinations, has been sporadic at best.

Visitors from neighboring states who normally book weeklong vacations are now averaging just two to three days in the area, as they continue to monitor weather reports and shifting oil penetration throughout the region.

"I haven't had any merchants go under yet that I know of," she said. "I do a lot of the charter fishing business, and they're still limping along. It's the whole claims process. BP wants a lot of paperwork and documentation.

"I've witnessed some business closures, but I think it will be this fall when we see the big fallout. All the condos right now are offering steep discounts and oil refunds, which allow tourists to cancel without penalty should the oil spill impact our area."

According to Andrews, BP has contracted with a majority of Destin's charter fishing boats to perform oil-skimming duties in the gulf. Vessels contracted with BP are not permitted to fish.

Local fisheries are closed, but certain types of fishing are permitted within a nine-mile radius of the coast. The National Oceanic Atmospheric Administration has established a fishery closure area of nearly 78,264 square miles, viewable at www.noaa.gov.

Andrews has also contracted with BP as a member of the wildlife observation crew. She patrols local waters in one of her pontoon boats searching for oil-damaged wildlife. Once an animal is spotted, she contacts trained wildlife personnel and offers water transport for pickup and treatment of the injured animal.

Andrews feels fortunate, however, because as an MLS, she has tremendous flexibility. "I have a nice residual income coming in every month. ... I can meet with someone and have the merchant signed up the very same day. Other types of businesses in our area don't have that kind of opportunity. As an MLS, you can go right into business anywhere," she said.

Vicki Daughdrill, owner of Small Business Resources LLC in Hattiesburg, Miss., said that, until very recently, Mississippi had been less impacted than Louisiana. "Even with CNN coverage, I think the general public still doesn't grasp the catastrophic nature of what is happening," she said. "We are 60 miles from the Gulf of Mexico, which is far enough inland so that my business and my clients have been spared for the time being.

"MLS residual income will definitely be impacted as certain types of merchants are doing less credit card processing. There will be fewer startups to approach as well. MLSs with solid businesses that generate sufficient income and cash reserves will survive.

"One thing they'll have to do for existing merchants not involved in seafood or tourism is to find ways to cross-sell additional products and services to drive new revenue streams."

More help is needed

As the hurricane season approaches, many people are concerned about the potential for even more widespread negative repercussions. "What we are worried about is the high probability of a hurricane picking up the oil and sending it miles inland and covering our communities in toxic oil," Murray said. "It was estimated that if this happened, the oil could be spread up to 20 to 30 miles inland and devastate vegetation, causing another major catastrophe."

Several organizations are offering assistance to the Gulf Coast. For example, a CNN and Larry King Telethon *Disaster in the Gulf: How You Can Help* helped raise funds for the United Way, National Wildlife Federation and the Nature Conservancy.

The Gulf Coast Fund, www.gulfcoastfund.org, is providing

grants and accepting donations. And for details on the \$20 billion BP set aside to cover claims for bodily injury or illness, property damage and/or loss of income caused by this event, visit www.restorethegulf.gov/claims. ■

Can the IRS legally attach levies to ISO reserve accounts?

A webinar sponsored by the Electronic Transactions Association and conducted by representatives of the IRS outlined the requirements of banks and processors when they receive notice of levies for the collection of funds the IRS believes merchants owe to the federal government.

The IRS said it has the authority to attach levies to processors' reserve accounts as part of that collection process.

During the webinar's question and answer period, several call-in participants voiced concern about the potential damage caused to processors if they are forced to remit proceeds from those reserve accounts, which are set up to safeguard processors when problems with merchants

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News

arise, such as chargeback issues or fines levied upon merchants by Visa Inc. and MasterCard Worldwide.

One caller who represented a small ISO said the ISO underwrites 100 percent of its merchant accounts and therefore takes on 100 percent of the liability and risk from those accounts.

To minimize its exposure to losses if merchants encounter financial difficulties, the ISO holds back merchant funds in reserve accounts that can be tapped in case of precipitous revenue shortfalls, the caller said.

According to the caller, the money from reserve accounts can then be used by the ISO to fulfill its financial obligations to the card brands, but if reserve account money is seized as a way to pay off a merchant's debt to the IRS, the ISO itself is going to experience "a huge loss." The caller added, "So if you're saying that you guys can just come in and take our reserves for our liability, we could go out of business."

Bad for business

Payment attorney Paul Rianda agrees that attaching levies to reserve accounts could be devastating for processors. "You've got a processor that's determined that they're willing to take on risk given that they're holding these

funds, and the IRS can swoop in and basically completely skew their risk analysis by taking that money," he said.

Rianda said reserve accounts can be funded by a merchant upfront, as a condition that must be fulfilled before the processor agrees to process the merchant's card payments; or the account can be built up over time, with a processor adding to the reserve by transferring a small percentage of ongoing card payments to the account.

If the IRS takes the reserve account money, the processor is then "left in a situation where they're going to try and get that money again out of the merchant," Rianda said. "And the merchant may not be immediately able to replenish that reserve.

"And it puts you [the processor] in a situation where now you've got to start collecting money from that merchant out of their processing revenue and not put them out of business at the same time."

Property at risk

Frederick Schindler, SB/SE Collection Policy Director at the IRS and webinar presenter, said the IRS' ability to attach reserve accounts to levies is contained in section 6332, subsection a, of the Internal Revenue Code.

Paraphrasing the language: all of a merchant's "property" (monetary funds) is subject to a levy, even if that property is in the possession of a processor via a reserve account.

Schindler said the funds in a reserve account are "the property of the taxpayer [merchant], but they don't have complete control over it."

But payment attorney Theodore Monroe said funds in a given merchant account are not always legally considered the property of that merchant. "Reserve accounts are governed by the contracts between the ISO, the bank and the merchant," he said. "In a properly written contract, the reserve does not become the merchant's property until all contingencies are finalized.

"For instance ... until all chargebacks have run their course – all possible Visa fines, etc. Until then it's not the merchant's property; title doesn't pass. A lot of contracts aren't written that way. And it's a major deficiency in those contracts."

Monroe recognizes that the IRS and other government agencies have an opposing viewpoint. "I've seen this with the Federal Trade Commission," he said. "And in context with lawsuits with the FTC, they've taken a different view. This issue is an open issue, and I've not yet seen it definitively decided by a court."

Steps to take

Rianda said that to protect themselves from levies attached

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to reserve accounts, processors should investigate the financial soundness of the merchants in their portfolios – especially the larger merchants since the larger the processing volume from a given merchant, the greater chance of trouble for the processor if the IRS issues a levy.

According to Rianda, investigations should include searching public records to discover if merchants have had levies issued against them.

"The fact that people owe money to the IRS is usually something that you could find out," he said. "So it would probably be something you'd want to do ... during the initial underwriting and, as time goes on, continue to monitor to see if any levies are coming up so you can either scale back processing with the merchant or shut them down entirely if it seems prudent to do that." ■

The Green Sheet scores three more APEX awards

The 22nd Annual Awards for Publication Excellence (APEX) honored The Green Sheet Inc. with three awards for content published in 2009. The Rohnert Park, Calif.-based media company won two Awards of Excellence: one for issue 09:04:02 of *The Green Sheet*, which focused on social networking websites, and one for the entire website content of SellingPrepaid, which reports on the prepaid card industry.

The Green Sheet also received APEX's highest honor, a Grand Award for its article entitled "The Road Ahead for Mobile Payments," *The Green Sheet*, June 22, 2009, issue 09:06:02.

Complex but clear

APEX, an enterprise of Communications Concepts Inc., said 3,711 entries were evaluated, with 1,132 Awards of Excellence given out in 127 categories and 100 Grand Awards granted in 11 categories.

"Each year, the quality of entries increases," the APEX judges said. "Overall, this year's entries displayed an extraordinary level of quality. The APEX judges saw only the most promising publications that professional communicators could enter. From them, they had the truly difficult task of selecting the award-winning entries."

Of the "The Road Ahead for Mobile Payments," the judges said it is a "tightly-written and very clear analysis of complex financial and technical topics. Readers come away with an excellent understanding of the subject matter."

APEX, an enterprise of Communications Concepts Inc., said 3,711 entries were evaluated, with 1,132 Awards of Excellence given out in 127 categories and 100 Grand Awards granted in 11 categories.

Three's a charm

Kate Gillespie, Chief Operating Officer and General Manager of The Green Sheet, said, "This would not be possible if we did not have such an outstanding team. We constantly strive to achieve excellence." SellingPrepaid's recognition was especially rewarding because of the hard work put in by the entire Green Sheet staff in making the new website and e-magazine relevant and entertaining, Gillespie added. The website went live in March 2008.

Since first entering the competition in 2002, The Green Sheet has scored 41 APEX awards. ■

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TradeAssociationNews

ETA's Voice of Payments fosters advocacy

During the Electronic Transactions Association's 2010 Annual Meeting & Expo held in Las Vegas in April, the ETA launched a new website with the mission of strengthening its core member legislative advocacy program at both state and federal levels.

The Voice of Payments website, www.voiceofpayments.org, actively informs payment professionals, government officials and the media as to the potential effects of proposed legislative and regulatory actions on the payments industry.

Immediate activation

"Normally when you launch a new program like this, there would be a big opening push to educate members about what the site can do and its intrinsic value," said Mary Bennett, ETA Director of Government & Industry Relations. "However, we did not have time to do that because almost immediately we had the Durbin

Amendment surface in the Senate. Before we could properly introduce the site to everybody, we really had to activate it immediately."

Despite the lack of initial promotion, the website gained immediate popularity among payment professionals seeking information about the Durbin Amendment. For the first two months, The Voice of Payments focused almost entirely on notifying registered users about new developments in the proposed legislation. Throughout the process, the ETA encouraged the site's visitors to contact elected officials directly.

Direct link to elected officials

"A very essential part of government relations is to have members know what is going on in the legislative world, so they can contact their congressional representatives and voice their opinions. The site is designed to help members do exactly that," Bennett said. The new site is open to everybody. Even nonmembers can register for action alerts, which provide details on proposed legislation and regulations, next steps and the ETA's suggested actions.

"The Voice of Payments has helped organize and concentrate the voice of people in the electronic payments industry on a level that has not been done before," Bennett noted. "We represent a lot of people in a variety of businesses throughout the payments chain that until now didn't have a central resource for learning about what is happening in Congress. Now, with the click of a button, registered users can voice their opinion directly to members of Congress."

Spreading awareness

The website currently features a number of key issues, such as data security legislation, the newly created Consumer Protection Agency, and the progress of the IRS's proposed revisions to the 6050W Internal Revenue Code, which will change the method of reporting payment card transactions and are scheduled to go into effect in 2011. New content is being added to the website every day, including expanded coverage of state issues.

According to Bennett, who meets regularly with congressional staff in Washington, the new website has made members of Congress even more aware of issues pertaining to ETA members. "I definitely see a raised profile for ETA," she said.

To learn more about The Voice of Payments website, visit www.voiceofpayments.org.

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10 years ago in The Green Sheet

Check conversion patent contested

A battle brewed over ownership of Electronic Check Conversion, patent No. 5,484,988. Original patent holders, Robert Hills and Henry Nichols, agreed to sell the patent to a Canadian company, LML Payment Systems Inc. However, the pair exercised a repurchase right when LML failed to satisfy funding criteria.

Billions lost to fraud

SVPCo estimated check fraud losses to banks totaled \$1.3 billion in 1999; losses to payees were projected to be \$12 billion. Chain Store Age reported that the card Associations suffered \$1 billion in combined fraud losses, while private-label cards lost \$250 million. National Consumer League's Internet Fraud Watch estimated consumers lost \$3.2 million due to Internet fraud.

TSYS on global fast track

Total Systems Services Inc. (TSYS) was well on its way to serving its 210 millionth account and over 300 million consumers worldwide. In 1999, TSYS had converted the Sears Roebuck & Co. portfolio of 64 million retail cards, making it the payments industry's largest conversion to date.



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was
36
pages.



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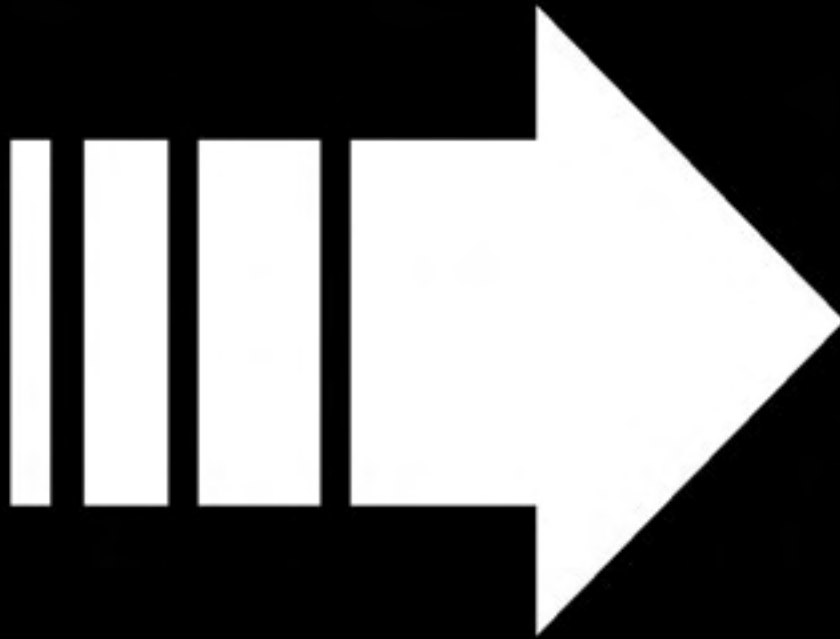
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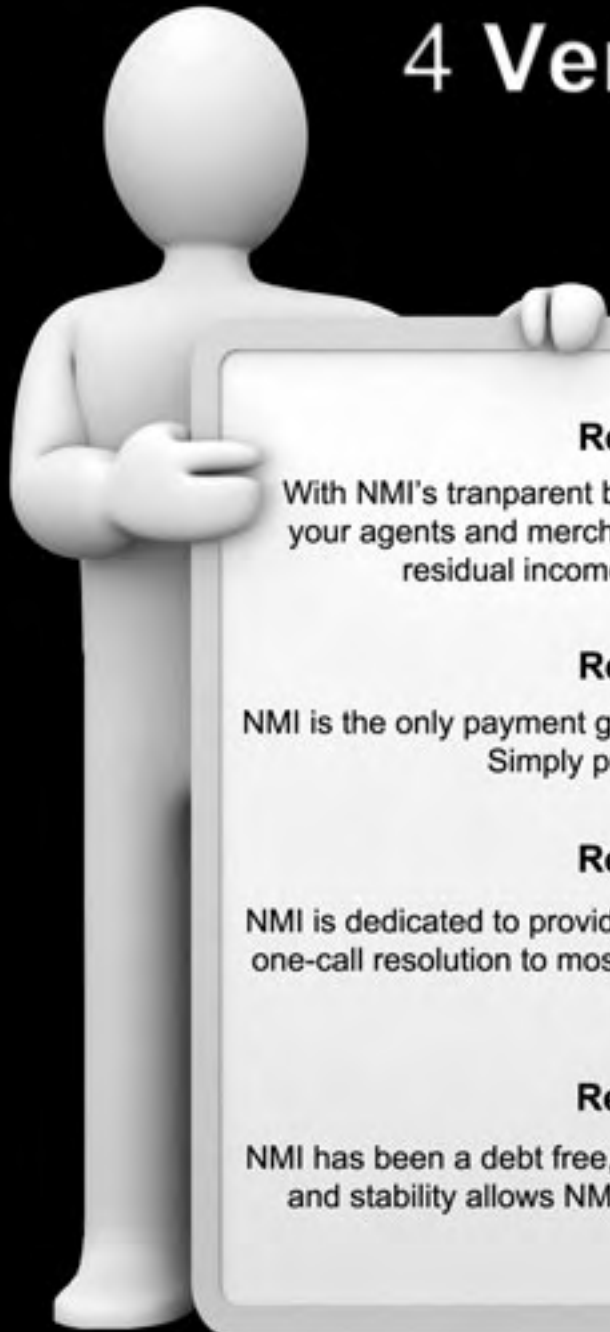
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Reason 2 - Non-compete Guarantee

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Reason 3 - Unparalleled Support

NMI is dedicated to providing the highest level of support in the industry. By providing one-call resolution to most problems, NMI's "whatever it takes" culture allows them to respond quickly and effectively.

Reason 4 - Reliable Business Partner

NMI has been a debt free, solid established business since 2001. It's financial position and stability allows NMI to be a reliable business entity to ISOs and the industry.

The logo for Network Merchants Inc. (NMI) is displayed in a square frame. The letters 'NMI' are rendered in a large, white, serif font against a dark background.

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ACH payments from page 1

competitive relevance of the ACH system," Dan Fisher, President and Chief Executive Officer of payment and technology consulting firm The Copper River Group, wrote in his blog. "The new service is a small first step to changing the entire payments system by offering a same-day settlement feature that ultimately will be able to compete with and match up to the transaction efficiency of the card networks."

Connecting bank to bank

ACH transactions involve connecting one bank to another for such things as direct deposits, electronic payments and money transfers, using only checking account numbers and the receiver's routing number as the primary payment vehicle.

This obviates the use of an intermediate payment device, like a debit card or check. Some ACH transactions do originate as checks, but pass through the settlement network only as account and routing numbers.

Transaction information is sent from its starting point to an originating depository financial institution (ODFI), which then either credits or debits an account at a receiving depository financial institution (RDFI). In most cases, the transaction is routed through a third-party processor on its way to the RDFI, which can be either the Federal Reserve or a private operator.

As it currently operates, the ACH is a "batch processing, store and forward" system, meaning transactions are stored until the end of the day and then sent off together for processing.

ACH through the years

The ACH began as a collaboration between the Federal Reserve and some of the country's largest banks, and for a time the network's governance was divided between several regional associations with distinct rule sets. NACHA was founded in 1974 to establish uniform rules for a national ACH network.

According to NACHA's website, ACH payments exceeded 1 billion annually by 1988; 18.2 billion ACH payments were made in 2008, an increase of 1.2 billion over 2007. "The 2007 Federal Reserve Payments Study revealed ACH payments had the largest compound annual growth rate, 18.6 percent, of all U.S. noncash payments," according to NACHA.

The first ACH payments involved payroll direct deposits for the United States Air Force, followed closely by Social Security benefits payments, according to Michael Herd, Managing Director, ACH Network Rules.

Among the ACH's earliest adopters in the corporate world were large service providers, such as insurance firms and utility companies, that used recurring billing to

dock relatively small sums of money from huge numbers of clients on established timetables.

For such companies, the ACH provided a relatively safe and simple way to dramatically cut the time and expense of traditional billing by mail.

The simplicity of ACH

Champions of the ACH say it is a cheap, convenient alternative to paper checks that skirts both postage costs and the tedium of manual sorting.

"If you're a consumer or a merchant, it's cost effective, and that's probably the best thing going," said Bryan Smith, President of N.D.-based ACH processor InterceptEFT. "Simplicity of clearing is nice, and you don't have different levels for [processing] business cards and all that. It's a system geared for low dollars and high volume."

The other main selling point of ACH processing is that the network doesn't impose the percentage-based interchange fees levied on merchants by the card networks.

NACHA rules call for a flat fee on all financial institutions that use the ACH network, and allow them to impose their own fees on secondary players. What those fees consist of is completely determined by the parties directly



CoverStory

involved; by and large, merchants pay lower fees on ACH transactions than they do for card acceptance.

"There was a big movement about 10 years ago to charge interchange for ACH transactions, so that these RDFI's can be recompensed for some of the work they do," said Brandes Elitch, Director of Partner Acquisition for check processing and guarantee firm CrossCheck Inc. "But that was a big political football at NACHA, and they decided there would never, ever in the future be any discussion of interchange. They realized the merchants hate interchange more than anything else."

Big ACH strides

In the past 12 or so years, the ACH has adopted a number of new channels, a development that sources have said reflects NACHA's desire to grab market share from mobile providers and the card brands. In addition to its recent step into mobile commerce, the ACH has gained footing in the brick-and-mortar space with paper check to ACH conversion, joined the e-commerce mix and branched out to include cross-border transactions, among other actions to broaden its reach.

Together, the same-day and mobile additions to the ACH are likely to make the network a significantly more competitive player. Same-day settlement will give

ACH a greater competitive edge in its battle against the traditional check market by moving money more quickly into corporate coffers and cutting the risks of extra float time, which include insufficient funds and a lag in detecting fraud.

In conjunction with the ACH's mobile presence, same-day clearing could also transform the business of wiring money by allowing consumers and businesses to make on-the-spot transfers.

"There are money service businesses available at one of the retailer merchants where if you need to send money to one of your friends, you can just walk into that store, pick up the money service business phone and say I want to send money," Fisher said. "Small-value payments and the transfer of person-to-person small value payments is going to be huge." Observers say it may not be long before people are commonly doing the same thing via cell phone.

The third-party difference

Perhaps the most important benefit of both e-commerce and mobile commerce to the ACH is the use of third-party authorization. One of the biggest hurdles to wider acceptance of ACH use has long been the paperwork it necessitates, which presents problems of both convenience and security. But in e-commerce environments, consumers can protect banking data and expedite payment by creating an account with their bank or another third-party provider.

According to Fisher, the opportunities of the mobile and e-commerce spheres have prompted NACHA to shift at least some of its focus from competing in its longtime comfort zone within the check world toward emerging markets.

"[NACHA] sees some real growth opportunities in web and telephone but doesn't see growth opportunities in any check-based products because check volume is declining," he said. "Mobile-, Internet-, telephone-based transactions are growing. The emphasis should be on [alternative payment channels], but also to provide alternatives to credit and debit cards.

"Clearly a same-day settlement system would be a good alternative to those two options today. ... If NACHA doesn't innovate it will not be so much competing as surviving."

Answers to security concerns

Murphy said the ACH's quick transition into mobile reflected a fear among the banking industry players, who make up much of NACHA's membership, of losing ground to alternative payment providers, particularly phone carriers that are honing in on mobile commerce by adding Internet purchases to consumer cell phone bills. She said this push into the mainstream is risky for a product that has long been primarily niche-based.

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"Something that really jumps out at me is that ACH has nothing that comes close to" the Payment Card Industry Data Security Standard, she said. "It is my feeling, and a lot of others have said this also, that it's not as secure a mechanism as the card network is." She added that people trust the card networks, and losing consumer trust "is what you have to be careful about."

Murphy said the biggest problem area with the ACH is the need to fill out banking information to initiate a transaction, though the problem is mitigated by third-party authentication. She also said the back-end ACH network lacked the protective controls and monitoring elements used in the paper check system, such as Positive Pay, the automated fraud detection tool offered by SafeChecks.

But Herd said the organization had a strong track record of limiting fraud through requirements like multifactor authentication between communicating parties and the encryption of payment information in transit.

He also said NACHA had recently implemented a stronger back-end monitoring service for the detection of fraud that allows overseers to "monitor and track any type of problem with transactions, pinpoint the source where they entered the network and go after them." He said the system had contributed to a decline in unauthorized transactions over the network.

Herd said the use of a third-party authenticator with mobile and e-commerce payments makes the ACH more secure than paper checks, adding that checks are often more trusted simply because they're a more familiar option. Indeed, while many consumers are wary of providing bank account information for payments, some of those same people will, without hesitation, pop open their checkbook and write a check that contains the same data.

"I think consumers need to know, and companies as well, that the information for an ACH payment is the same as that for a check transaction," Herd said. "Your checks have your account information on them, and you give them to someone to pay and they have it."

"One of the reasons we tell companies to use direct deposit instead of issuing paychecks is that exact reason: because their biggest vulnerability to payments fraud is giving up numbers at the bottom of their paychecks. But if you use online banking, you can set up bill payments to go through your online bank, and you don't have to give that information out."

In an email to *The Green Sheet*, published April 12, 2010, issue 10:04:01, Janet O. Estep, President and CEO of NACHA, wrote, "The effectiveness of sustained ACH Network rules, risk management and enforcement measures has created a subsequent decline in unauthorized debits. An indicator of potential fraudulent activity, unauthorized debits had a substantive 13.8 percent decline in

fourth quarter 2009 compared with fourth quarter 2008, and the overall unauthorized rate for debits was a tiny 0.036 percent.

"Unauthorized activity related to checks converted at the POS and for online bill payment is even lower, and those rates also have been dropping. Clearly, these statistics speak for themselves about the safety that is inherent to the ACH Network."

Potential for decoupled debit

Fisher, who's as gung-ho as anybody about the ACH's long-term prospects, predicts the ACH will shift farther and farther away from its origins as a check replacement option and increasingly toward new markets.

Among other things, this could help popularize decoupled debit cards, he said. Such cards already use the ACH system and thus mark the convergence of the ACH and card hemispheres.

"That's where the innovation is going to come in, where somebody can essentially walk in with the card attached to their [bank account] and swipe that card," he said. "That transaction can be processed that day and settled by the end of the day, and interchange is not paid on it. Merchants would definitely be interested." ■

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Education

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Who will benefit when the Durbin Amendment dust settles?

By Ken Musante

Eureka Payments LLC

The Debit Card Swipe Fee amendment sponsored by Sen. Dick Durbin, D-Ill., and included in the pending Dodd-Frank Wall Street Reform and Consumer Protection Act is critical to all of us. Therefore, I asked members of GS Online's MLS Forum how they expect the amendment will impact them, the industry, merchants and acquirers.

Because the amendment was not yet finalized when this discussion began in June 2010, many of the comments I received are speculative in nature.

Remember our history

STEVEN PEISNER, in what could be a speech from the floor of the Republican National Convention, weighed in first. Regarding how the amendment will affect him, he wrote, "I honestly do not think that it will affect me specifically because I will find a way to charge for my services one way or another.

But the phrase 'regulate interchange' generates many conversations these days with both industry people and merchants alike and, in my opinion, promulgates a fear among many of immediate residual loss and death to this industry.

"The impact seems catastrophic and unimaginable, but nonetheless possible if [Sen. Durbin] gets his way and the bill is passed in its current condition. Now, with that said, I personally believe that this bill will have many colors and be changed many times. What [Sen. Durbin] fails to realize is that merchant services is not a given and that banks and processors look at merchant services as lines of credit."

Education index

Nicholas Cucci	66
Nancy Drexler	68
Dale S. Laszig	72
Dawn M. Martinez	75
Carrie Hometh	78

He noted that back in the mid-1980s, merchants accepted credit cards "via a manual process whereby a merchant calls into an 800 number and receives an authorization for the transaction or via one of the first electronic authorization terminals providing an 'authorization only.'

Keep in mind that this merchant would be required to complete a batch header slip containing the last four digits of the card and the dollar amount of each transaction and take all of those slips to the bank for payment.

"As an example, let's say that there was \$3,000 in credit card sales for that Monday after the weekend. If the merchant didn't have enough balance in the account to cover the \$3,000, the bank would not give the merchant full credit for the deposit, and the merchant would have to wait approximately 20 to 30 days before funds for credit card transactions were made available.

"In 1985 nearly all merchants applied for merchant account services through their bank, and at that time only about 50 to 60 percent of merchants were approved for services. One must remember that even today a merchant account is not a given; it just seems that way.

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"Because of this 'freedom' for merchants to push one card over another, it is safe to assume that they will highly encourage debit card usage and discourage credit card usage."

JTMERCH
GS Forum Member

organizations entered into agreements with member banks to solicit merchant account services on their behalf. When you think back it was a win-win for the bank. More merchants on the books, and the banks were able to shift the merchant account liability to the ISO. Even today banks aren't known for having extensive and superior sales engines."

Don't hold your breath

As for how the amendment will affect the industry and acquirers, **STEVEN PEISNER** wrote, "It will only impact the industry and acquirers if the FTC sets a 'total charge' that a merchant will pay with respect to the processing of a transaction, and if that is done, then we have a big problem.

What I don't think that [Sen. Durbin] realizes is that there is a third party that is indemnifying the member against

losses and that we the ISOs and acquirers are entitled to make a profit for the processing of poor credit and/or 'risky' accounts, retail or otherwise.

Regarding how merchants will fare, **STEVEN PEISNER** stated that the amendment "should immediately reduce a merchant's costs of accepting cards, and I am certain that merchants will pass that savings on to the consumers (ha, ha). ... I think that merchants that charge when a customer uses a credit card will ultimately notice a reduction in sales, and those that don't may see an increase in sales." **STEVE NORELL** brought up the point that the individuals implementing this law have no idea how the payments industry functions.

"Do you think that Durbin's staff even looked into what this world was like before we came along and the credit card system evolved? I doubt it," **STEVE NORELL** wrote. He stated that **STEVEN PEISNER** "nailed almost everything, but I would add that merchants are [complaining] about the rates, but as I remember it, in the old days the rates were hovering around 5 to 8 percent to take credit cards.

"Also you had to bring the slips to the bank and, as you mentioned, wait for the money for a long time. So Dick Durbin and the Merchant Coalition and all the other groups [angry] at Visa/MasterCard, how is it that rates have actually gone down and more services are provided, but no one mentions that?"

JTMERCH provided a glimpse of what we might expect as an unintended consequence. "Because of this 'freedom' for merchants to push one card over another, it is safe to assume that they will highly encourage debit card usage and discourage credit card usage," **JTMERCH** wrote.

"Could you imagine the business owner that gives you that dirty look or says, 'This is a credit card; you don't have a debit card in there do you?' I could imagine what type of discrimination or customer service issues that could result from this.

"As for making up for the loss of revenue, there will just have to be higher base per transaction fees for debit card transactions. ... [T]he vast majority of merchants will not pass savings on to customers in full. If they are paying 50 cents less on a debit transaction, they will offer the customer 20 cents less, thus keeping the extra 30 cents for themselves."

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'This is an American Express card. Sorry, but we only accept Visa, MasterCard and Discover.' If merchants only accept debit, might they lose business?'

SLICK STREETMAN
GS Forum Member

SLICK STREETMAN echoed **JTMERCH**'s observation when he stated, "Good point, but it also reminds me of the scenario at many, many merchants today where you hear the merchant say, 'This is an American Express card. Sorry, but we only accept Visa, MasterCard and Discover.' If merchants only accept debit, might they lose business?"

The way the amendment is structured, banks with less than \$10 billion in assets are exempt. I agree that this type of "on/off " determination is a poor way to determine interchange, and it makes for some interesting opportunities.

Some estimates indicate debit interchange may be reduced by between 25 and 75 percent, so there could be enormous opportunity for smaller banks to act as agent banks for larger banks. If all larger banks were to contract with a smaller bank in a "rent-a-BIN" environment, the smaller bank could collect a fraction of the interchange reduction, while still paying the larger bank 98 percent of existing interchange.

Consider the source

CLEARENT advised us to "remember the politics – not the financial pressure, but pure politics – behind the amendment.

"1. It was attached to a key bill with many other amendments, yet in reality has minimal impact on the bill's true purpose. A common ploy. ... Harry Reid has a hard re-election campaign. Durbin is truly positioning himself as his successor in the Democratic Party hierarchy. Bills like this that benefit merchants can help generate the lobbying support he will need to get that role over others.

"2. Politically – other than our industry, the major banks and the NRF – the common merchant has no idea what we are talking about. So politically, again, this buys him a 'kind to merchants needs' award for a future chit.

"I think the key to me is to really ask the question, Why Dick Durbin? Why did he decide to be the one to attach this in a nonelection year for him? We need to really ask the WII-FM question (what's in it for me) regarding why he has migrated from a pro consumer to a pro business person."

CLEARENT also pointed out that Visa Inc. and MasterCard Worldwide are exempt from the provisions. This is another

example of our legislators' inability to understand the payments industry. Banks now face very difficult circumstances, and this does not help their cause or assist them in lending to small businesses.

The card networks have hiked both assessments and their network fees in the past 18 months. Network fees went up over 300 percent to nearly 2 cents last year. Yet the Durbin Amendment leaves network fees untouched, and there is no prohibition for the networks to pay banks to bring them their debit volume.

As a result, one outcome may be that although banks have their interchange reduced, the card networks could raise their assessments and network fees for debit cards (which are direct pass through to merchants) and then pay these fees back to banks as bounties for bringing more debit volume to the card networks.

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FASTTRANSACT brought to light an additional way consumers may be affected. Sen. Durbin's bill "makes the consumer pay the processing fee rather than [the merchant]," she wrote. "So in essence it wouldn't make a difference what his rate was anymore because he wouldn't be paying it; you will when you go shopping."

She also advocated demonstrating what life could be like without payment cards by having a cash only day. "One thing we can do is support some of our causes and associations," she wrote. "That is why on Sept. 4 to 6, we are promoting a cash-only day for the Labor Day weekend. ... We need to get members to show strength."

"Members from this side of the issue, which it will impact the greatest, would be a strong support of the measure. ... You want merchants to pay attention about how our industry makes their lives better, then let them deal with having a weekend back to the way it was 50 years ago. Join the cause: <http://www.causes.com/causes/495235/about?m=86e75308>."

The final amendment also allows merchants to establish minimums and maximums for purchases made with cards. And it was revised to exempt prepaid cards so as

to not lessen the opportunity for unbanked individuals to obtain access to their prepaid cards. How this amendment will not harm the 'banked' in the same fashion is beyond me.

A significant concession our industry won is that in establishing interchange levels that are reasonable and proportional to processing costs, the Federal Reserve may look at a broad range of factors like fraud prevention costs. The Federal Reserve has nine months to set rates, which are to become effective 12 months after the bill's passage.

The Great Recession has hurt so many of us in multiple ways. The financial regulatory fallout and this amendment are a continual reminder of its ongoing side effects.

More will be written about the comparison of this amendment to the interchange caps put in place in Australia by finer minds than mine. I hope this article presented a street-level view from your contemporaries and some useful speculation of my own.

When in doubt, sell something. ☑

Ken Musante is President of Eureka Payments LLC. Contact him by phone at 707-476-0573 or by email at kenm@eurekaypayments.com. For more information, visit www.eurekaypayments.com.

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Education (continued)

The importance of PCI DSS compliance

By **Nicholas Cucci**

Network Merchants Inc.

If you're new to the payments industry, you might wonder what the fuss over the Payment Card Industry (PCI) Data Security Standard (DSS) and related security standards is all about.

The PCI DSS was developed by the five major card companies (Visa Inc., MasterCard Worldwide, American Express Co., JCB International Co. Ltd. and Discover Financial Services) to develop a set of standards and one unified approach to prevent credit card fraud and other security vulnerabilities.

All merchants who process, store or transmit card data must be compliant with the PCI DSS. Failure to comply can result in expensive fees, including fees imposed by merchant banks, as well as the loss of the ability to process bankcards. The risks of remaining noncompliant can be devastating to any business.

All merchants must comply

It is each merchant's responsibility to find service providers that are and will remain PCI DSS compliant. And service providers must offer their merchants safe, reliable PCI-compliant solutions.

Merchants classified under PCI as Level 1 (all merchants, regardless of acceptance channel, who have Visa and MasterCard transactions totaling 6 million and up per year, as well as any merchant who has experienced a data breach) must adhere to the strictest level of PCI standards. But those at Levels 2 through 4 are also under scrutiny and must adhere to the standards that apply to them.

Also merchants must realize PCI compliance is more than simply partnering with a compliant service provider. It may also require a change in the way merchants operate their businesses. Failure to fully adapt can be very costly.

Precautions can prevent theft

Some precautions merchants must have in place under the PCI DSS include:

- A data retention and disposal policy
- Anti-virus policies and procedures
- Password management rules
- Change management guidelines

The PCI DSS is crucial in protecting consumers from theft by fraudsters. It focuses on protecting cardholder data

when it is transmitted, as well as stored. Business owners who must store cardholder information have an obligation to protect that data.

Any business that stores card details must store them as encrypted and masked, so that even if fraudsters access the database, they will not be able to use the data because they will not have the means to decrypt it.

Proper management is essential

Maintaining a vulnerability management program is another important aspect of PCI. It is fairly straightforward: keeping anti-virus software up to date and running frequent scans. Encourage your merchant customers to ensure their software is always the latest version and to conduct regular vulnerability scans to maintain network security.


Control measures are one of the most important parts of maintaining a secure business. The human element is the hardest part to protect. PCI limits access to cardholder data to minimize the risk of sensitive data being stolen.

Access to sensitive data should be designated only to people who have a business case for access. Not only should a limited number of people be allowed to view sensitive information, but each authorized person must be required to input a unique ID to view the information and have a full audit trail for each user granted access.

Resources are available

I've just given the first steps in becoming PCI DSS compliant. Following are six required actions excerpted from *Milestones for Prioritizing PCI DSS Compliance Efforts* authored by the PCI Security Standards Council.

1. Remove sensitive authentication data and limit data retention.
2. Protect the perimeter, internal and wireless networks.
3. Secure payment card applications.
4. Monitor and control access to your systems.
5. Protect stored cardholder data.
6. Finalize remaining compliance efforts, and ensure all controls are in place.

The full document, as well as updated information pertaining to all of the industry's data security standards, is at www.pcisecuritystandards.org. 

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. He can be reached at ncucci@nmi.com or 800-617-4850.

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Education (continued)

Is there any such thing as loyalty?

By Nancy Drexler

SignaPay Ltd.

Now that the merchant acceptance market is saturated and payment processing is a commodity, certain merchant level salespeople (MLSS) have found a new way to generate income. Have you heard? Are you taking advantage?

It's simple. Just find a processor (and there are many) who offers two things: upfront bonuses and merchant contracts without cancellation fees.

Bring all your merchants to that processor, and collect your upfront monies. Then move them to a similar processor and do the same. Repeat as necessary, and you can live quite nicely on your bonus income.

It's happening across the industry. It joins a long list of opportunities – from free terminals to interchange pass-through to 2-cent transactions – to profit by grabbing new merchants at virtually any cost.

It makes it increasingly difficult to provide real value for service without lying, cheating or going broke. And it leaves those who don't want to build a business based on churn and burn with difficult questions and few good answers.

Why churn and burn?

Rather than find ways to undercut price slashing and merchant moving, why not focus on making our merchants impervious to efforts to move them? It's called retention. Loyalty. Reducing attrition.

For straight-shooting businesses, merchant retention has become just as necessary as selling. What good is it to bring business in the door if it just goes right back out? It's far more cost effective to keep a customer than to replace one. And we are all feeling the pinch of sales efforts that yield an increasingly narrow profit margin.

Do retention efforts matter?

But is it still possible to keep a merchant loyal? I thought I knew the answer to that. I thought I was doing a pretty good job of it, too – until I got an angry telephone call from one of our best ISOs.

"Stop getting involved with my merchants," he said. "Stop calling them. Don't send them newsletters. Cancel those birthday cards." The point, this ISO said, was to stay under the radar. "Things are good when they don't know I exist," he insisted.

"Don't you want to share good, positive things with them?" I asked. Nope. "No good deed goes unpunished," is his mantra.

I needed a reality check. I posted a question on the GS Online's MLS Forum, and sent an email to our SignaPay ISOs. "Do you care about retention?" I asked. "Are you doing anything about it? Is it working?"

It's huge, they told me. Critical. Important in every business, but invaluable when you talk about residual income. Help us, they pleaded. But opinions about who is responsible for retention varied.

"It is really the job of the agent," said Marty Wood, Managing Partner of SignaPay Tennessee. "If a merchant can get good, quick answers from his salesperson, he'll be pretty satisfied. People don't leave you unless there is a problem."

David Arias, Chief Executive Officer of the California ISO Get Bankcard, acknowledged that personal relationships are critical, but he encourages his merchants to develop those relationships with him, rather than with his agents or his processor.

"Every one of my merchants knows who I am and knows how to reach me and knows they can call me at any time," he said. "At the very least, my merchants let me know when someone comes knocking at their door."

Arias is proud of these relationships and considers them critical to his high merchant retention levels. He mentioned a recent phone call he received from one of his larger merchants, who said, "This salesman called and told me you are ripping me off and he's coming to see me on Tuesday at 3 p.m. Can you be here?" Arias was there, and he saved the account.

"Name recognition and reliability is the key," Clearent's Jeff Fortney added. "They need to know you exist, what you do and why you do it. They need to know you can help their friends and neighbors as well."

How does education affect loyalty?

Are these "touches" enough to keep merchants sticky? Not according to some ISOs. Wood, for instance, encourages agents to upsell, cross sell, resell and sell again. "The more of your products or services the merchant uses, the harder it will be for him to leave," he said.

Others believe it's all about value. Capital Bankcard's Doug Small, for instance, recommends newsletters because of the variety of ways they can be used to add value. Small suggests using newsletters to educate merchants on things like chargebacks, PIN versus signature debit, and new product offerings.

Educating merchants is essential to both sales and retention programs. Merchants are empowering themselves by learning more, fighting for better rates and programs, and complaining loudly to anyone who will listen - using everything from social networking to Better Business Bureau websites.

Small noted that a newsletter is also "a good place to talk about competition and some half-truths that your merchants may be hearing, and remind them to contact you before thinking about switching to another provider."

Educating merchants is essential to both sales and retention programs. Merchants are empowering themselves by learning more, fighting for better rates and programs, and complaining loudly to anyone who will listen - using everything from social networking to Better Business Bureau websites.

In today's customer-centric marketing environment, a commitment to education can help a payment business establish itself as a thought leader, boost word-of-mouth sales, and build the kind of trust and respect that, in turn, boosts retention.

Education, however, is part of a process that typically falls in the marketing realm. Some sales agents favor simple, effective touches that focus on the value that they, as individuals, add, not on the value that their company adds.

"You don't want them to feel that you are always trying to sell them something, but are there to help them when they need it," FrontStream Payments' Bruce Dubbert said.

Steve Norell, CEO of US Merchant Services, added, "[M]ake them feel that you are not just taking money from them but also putting money in their pocket as well. If you sell a lot of restaurants, then eat in one of them every week."

Taking a similar approach, Small advised, "Know when their busiest months are and contact them a few weeks beforehand to see if they need supplies or any training for new staff ... merchants will really appreciate that you know their business and are not just another salesman" who will make a sale and then vanish.

Do loyalty programs have to be ongoing?

Richard Cesario, President of Green Key Fuels LLC believes that "merchants feel abandoned once they are enrolled and their account is active." Cesario recalled the days when he sold merchant processing services.

He sent all new merchants a thank-you card within one week of approval. The card included a certificate that offered a "free six month rate evaluation" to assure that

rates were kept competitive, plus a promise of \$100 for any written quote he couldn't beat.

Cesario understood that earning loyalty takes time. It starts from the initial sales or marketing contact, and extends even beyond the contract dates. By offering a six-month rate review, Cesario was, in effect, scheduling a retention meeting with each merchant.

With a single communication, he boosted loyalty twice: when the merchant was newly activated and again after six months.

What's more, this single effort communicated a number of loyalty-inducing messages:

1. It said thank you for your business, which immediately told merchants that they matter.
2. It acknowledged the major merchant concern: rates. It told them their newly chosen service provider was fluid and flexible, committed to keeping rates low, and confident in its ability to do so.
3. The promise of a rate review let merchants know Cesario intended to be around six months down the road, an important confidence booster for any business relationship.

Many retention programs are time-triggered: the ISO schedules regular calls or visits every so many days, or sends written communications or hosts webinars according to another preset time schedule, be it monthly, quarterly, bi-annually, etc.

Some retention programs are triggered by events, like birthdays. Other events might include when a merchant receives his or her first statement.

Under the guise of helping a merchant understand the statement, the contact helps to relieve fallout from the first reminder of the reality that transaction processing costs money.

Some ISOs even use processing volume as a trigger and touch base with merchants whenever their monthly numbers are unusually weak or strong.

Are rates and fees killing loyalty?

There is no greater trigger than a rate increase or new fee.

Education

This is the moment when anger takes hold, and all the newsletters, birthday cards and free terminals merchants have received are forgotten.

While potentially lethal to loyalty, rate changes and fee hikes don't come out of the blue. We all know that at some point during our relationship with every merchant, we are likely to raise their rates or assess a new fee.

Preparing merchants for these changes and preparing yourself for their reaction are integral to the ongoing process of fostering loyalty and retention.

It begins with honesty and transparency. Merchants who leave you as a direct result of a new or boosted rate are leaving out of anger. Some of this acrimony springs from a feeling of being deceived.

Reps who close deals based on rate promises are often making promises they cannot keep. Even if rate assurances are only implied, merchants always perceive them as written in stone.

In the payments industry, we often have to make decisions based on elements outside of our control. It is important that customers understand this from the beginning.

Promising to be honest, fair and transparent is a commitment you can honor; promising to control rates usually is not. While false assurances may help you close a deal, you may be bringing in business you can't afford to have and are not likely to keep.

Preparing customers for rate increases should involve as much advance notice as possible. Often, fee hikes are best introduced in stages. Newsletters, for instance, can report on card company decisions such as annual category reviews or new Payment Card Industry Data Security Standard compliance programs.

You've set the stage for a coming rate adjustment by placing responsibility for it squarely on someone else's shoulders.

Once you are prepared to communicate the specifics of a rate adjustment, do it as clearly, simply and logically as you can.

Your messaging should let customers know: this is what you can expect; this is why it is happening; we recognize your sentiment and feel your pain. This will give you time to gauge the fallout and defray some of it.

The beauty of communicating via an ongoing process rather than with one shot is that you have time to perfect your messaging and responses, and alter misconceptions. Before any communication gets sent, your entire team should be fully briefed and armed with unified responses to questions and issues.

Responses should be based on a clearly understood and accepted answer to the following: at what point are you prepared to reduce or waive a fee in order to retain a merchant?

Clarifying parameters in advance will keep conversations honest and ensure that you don't lose merchants before you've realized how easy and lucrative it would have been to keep them in your portfolio.

Just like a rewarding relationship, loyalty should be based on respect and trust. Fostering loyalty should be mandated, valued and possibly even incented at every level of your business.

Everyone who represents your brand should be responsible for making customers feel recognized and acknowledged. And that means taking responsibility and accepting pain when we make mistakes or fail to act as reasonable partners.

We're all going to lose merchants. Sometimes that can't be avoided. But sometimes it can. 📧

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

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Education (continued)

Need intelligence? Tap the feet on the street

By Dale S. Laszig

Castles Technology Co. Ltd.

Want to know what's happening in payments right here, right now? Ask a merchant level salesperson. MLSs know the players: merchants, acquirers, manufacturers, distributors and value-added resellers. They know what's hot and what's not. If you want to craft strategy, invite a few MLSs to your next focus group meeting. Insights on buyer behavior from the feet on the street will bring any situational analysis or marketing campaign into sharper focus.

MLS feedback can save you time and money, whether your strategy is functional, operational, competitive or market-specific. When you share your concept with people who are directly in touch with end users, you'll find out if your idea has any "street cred."

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What exactly is a change agent?

A change agent is someone who helps bring about change, according to Urban Dictionary (www.urbandictionary.com).

"A change agent lives in the future, not the present," Dennis Stevenson, Director, Software as a Service for MediServe, wrote in a blog entry posted at <http://it.toolbox.com/blogs/original-thinking/what-is-a-change-agent-23764>.

From initial concept through implementation, MLSs can help business owners create and execute strategic initiatives. Let's look at how business owners can leverage the knowledge and real-world experience of MLSs to create relevant, sustainable business practices and strategies.

What's our current situation?

Effective strategy begins with a situational analysis of the payments industry and market. Periodicals, blogs and newsletters provide a dimensional snapshot of current trends, compliance issues and competitive information. Reporting is compiled from a variety of sources, checked for accuracy and designed to be read on the run by busy payment professionals.

Breaking news from MLSs will validate and clarify other media sources while bringing the added benefit of direct feedback from merchants. This feedback is especially valuable in the payments industry, where six degrees of separation distance the many players in the POS value chain – from manufacturers and distributors to the end users of products.

Many large resellers have a policy of no direct selling or communicating with merchants. They rely on second-hand reports from sales channel partners and help-desk professionals to learn how products are being received. Instead of trying to back into this intelligence with percentages of product failure and return, communicate with MLSs to learn merchant likes and dislikes. What are they hearing from merchants on their daily rounds? What product features and benefits would help them sell more?

Where do we go from here?

Once the situational analysis of your industry and company is complete, it's time to get tactical. How will you define your company's strategic vision? How will you identify the steps to get you there? Executives have many things to consider at this critical juncture, including creating the right kind of infrastructure to support growth and encourage innovation.

The ability to react quickly and effectively manage change is a must in today's fast-moving payments industry.



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Education

Because of their competitive nature and closeness to merchants, MLSs are frequently the first people to learn about new industry and technology trends. Having one or two MLSs on your advisory board is a good way to keep your finger on the payments industry's pulse. Having worked with so many different kinds of businesses in various stages of development, including their own, MLSs offer a seasoned perspective on the marketplace and their own observations on winning strategies.

How will we get there?

MLSs will candidly rate strategic initiatives, ad campaigns, and products and services, and let you know if tweaks are needed. It would be a mistake to overlook the influence these sales professionals have on product adoption. MLSs help merchants make informed decisions based on their confidence in product performance.

MLSs have also taken risk to a whole new level. Many boldly experiment with new technology instead of waiting for their ISOs or processors to bring tested and certified solutions to market. Some of their experiments have been wildly successful; others have failed. All have taught them important business lessons. Their experience is valuable because it blends general best business practices with specific payments industry know-how. That blend makes them perfect allies during brainstorming sessions.

What's our competitive advantage?

Which products and services will differentiate your company from the competition and help you build brand awareness? MLSs are adept at incorpo-

rating value-added programs – such as electronic gift and loyalty, check guarantee and verification, dynamic currency conversion, and bill payment applications – into traditional credit card processing. These programs earn customer loyalty as well as increased residual income streams.

Benefit from their experience and work directly with professional MLSs to create the right blend of payment and nonpayment solutions for the merchant community. Ask for their input, and put new ideas on the drawing board. Try to break out by coming up with a unique product or service that will capture the imagination of merchants. Become the pioneering company that others emulate.

How do we continue to grow?

After you have achieved recognition for your winning strategies, you may find it challenging to hold on to – and build on – your success. Companies in the payments sphere need to constantly reinvent themselves to keep up with shifting priorities and practices. This includes anticipating change, reacting promptly to it and being out in front with innovative products and services.

If being on the "bleeding edge" is not a part of your current business model, you can get ideas by watching the primary "change agents," the companies that seize the offensive, set the pace for our industry and spur the rest of us to follow.

I guarantee these leaders have done their due diligence by observing the merchant-level playing field from multiple points of view, including the wise and knowledgeable perspectives of our MLS colleagues. Corporate strategists would do well to follow in the footprints of our feet on the street. Through their tireless efforts and sheer ingenuity, MLSs continue to define the best path forward. ■

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)

Succeeding at PCI compliance - Part 3: Implementing the rollout

By Dawn M. Martinez

First Data Corp.

In previous articles in this series about developing a successful Payment Card Industry (PCI) Data Security Standard (DSS) compliance program for your merchant portfolio, I have discussed the importance of understanding your merchants, outlined the selection criteria used at First Data Corp. in choosing a PCI compliance vendor and presented guidelines for running a pilot program.

Now let's turn to implementing your rollout plan. Here you'll appreciate how the right vendor makes the implementation go smoothly.

Project plan

The first step to a successful implementation is to work closely with your PCI compliance vendor to develop a rollout plan that makes communication clear with all parties and ensures that all participants understand their roles.

Flexibility should be built in to react to unexpected events or the unique characteristics of your portfolio. You might get a quicker response from your merchants than you expected, for example, or you may encounter unforeseen communication challenges.

When your plan is in place and you are ready to implement, allow yourself plenty of ramp-up time. Easing into the process will help you manage it. Take time to test your processes and systems with your vendor and a small group of merchants. Make sure the test goes smoothly before rolling it out to your entire portfolio.

Introducing the vendor

When your merchants receive communications from your PCI compliance vendor, it is important for them to understand who the third party is and the vendor's role in the process. Lay the groundwork with a letter of introduction and explanation. Even then, expect questions.

In our case, many merchants didn't read the initial communications and called us for clarification after receiving letters from the vendor. Be prepared to answer basic questions over the phone, and instruct your staff where to transfer merchant phone calls regarding your PCI compliance program.

Our interactive voice response system includes a prompt that refers this type of call directly to our vendor phone

center. This is why our criteria for choosing a PCI compliance vendor included a friendly, responsive call center. If our merchants are confused, they can simply call our vendor to resolve the issue and learn the next steps.

Acquirer-vendor communication

Effective communication with your vendor is also crucial. You will need to decide which methods work best for you. My personal preference is email, but I can also reach my primary vendor contact by phone for an issue of immediate concern.

I have also established a contingency plan if my primary contact is unavailable. I know a team of individuals is prepared to consult with me whenever I need them.

Equally important are our regularly scheduled phone calls. I have found that these conversations help ensure that things go as planned. The call doesn't have to be lengthy, but connecting on a set schedule keeps us on track.

Multiple merchant communication channels

A successful PCI program rollout relies heavily on a solid merchant communication plan. It should include multiple forms of communication and technology. Email is great but should be supplemented with fax, website information or even physical letter drops. Webinars may be another source for up-to-date training and information distribution.

Don't be discouraged if you have sent multiple messages to merchants without response. Once is usually not enough. Also, whenever a communication is sent from your PCI compliance vendor, be sure that your company name is clearly referenced along with your website, logo or other identifying mark. Otherwise, the message may be dismissed as a solicitation from an unknown company.

Finally, while we believe that referring merchants to a website alone is not enough, there is a lot to be said for offering web content as one component in the communication chain.

Our PCI compliance vendor, for example, offers online video and audio segments for specific instruction that makes it easier for our merchants to get help. The 24/7 access is useful as well.

Existing vendor relationships

I encourage merchants to research and seek information on PCI compliance from other resources. The more

Education

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information they have, the better prepared they will be when you introduce your program.

When you begin your rollout, if some of your merchants have already started their own programs using different vendors than the one you chose, let them know they can use theirs or yours. But also explain the expected benefits they will realize with your selection.

Overcoming resistance

Inevitably, some merchants will balk at your PCI initiative. Their objections may range from cost to discomfort with technology, or they may simply not understand the risks of ignoring PCI requirements. You should factor this into your implementation plan.

For some, the answer is simply education. You will need to spend time explaining how you have simplified the compliance process, giving basic instructions such as, "Call this number."

Most important, emphasize the value of PCI compliance in thwarting a potential security breach that could ruin the merchant's business. I stress the risk of card data theft to all of my merchants – not just the ones I might consider high risk – along with the ability of PCI compliance to reduce the threat.

For merchants with cost concerns and sensitivity to additional fees, you will need to provide the same information in the context of what they get for their money.

Some of your merchants will understand the cost and benefit of your program and enroll right away. Others will need an incentive or a potential penalty to achieve PCI compliance by a certain date.

One approach is to give your merchants time to become compliant, and then levy a fee if they fail to meet the deadline. Start first with positive encouragement and support; then ensure there are consequences for ignoring your request.

It can be a tricky balance between leading and pushing your merchants to embrace your PCI program. But if you have put all the pieces in place as described in this series, you have the ingredients for a successful rollout and rapid PCI compliance for your merchant portfolio.

Look for my next installment, "Succeeding at PCI compliance – Part 4: Maintaining the program," in *The Green Sheet*, Aug. 23, 2010, issue 10:08:02.

Dawn M. Martinez is Director of Data Security for First Data Corp. In this role, she oversees PCI compliance and data security initiatives for thousands of bank partners, ISO clients and merchants. Contact her at dawn.martinez@firstdata.com.

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Education (continued)

Global acquiring and fraud Q&A

By Carrie Hometh

Payvision

At the 2010 Electronic Transactions Association Annual Meeting & Expo held in April, Payvision hosted a seminar entitled "Global Acquiring and Fraud." It was well attended, and during the question-and-answer period, seasoned sales professionals raised questions of interest to any business looking to expand internationally. The questions also stimulated lively discussion. The following summary highlights what was covered.

How do I market to merchants who may want to globalize their online operations and payments?

One way to effectively market to merchants is through building a website with strong search engine optimization (SEO) on keyword phrases such as 'multicurrency conversion' and 'international payments.' Eighty-seven percent of businesses do research before globalizing. Merchants need to know that you have the solutions they are seeking, and if you implement effective SEO, they'll find you.

Another critical marketing tool is to have collateral that speaks to your global solutions so that when you make presentations or conduct conference calls, you have marketing materials that back up your offerings. Prospects will inevitably ask for a brochure, media kit or product descriptions; it's essential to give them something tangible they can refer to.

What are the basic types of questions I should ask my merchants?

The three most important questions to ask your merchants are:

1. What currencies do your customers want to shop and purchase in?
2. What currencies do you need to settle in?
3. Will your transactions be online or offline?

Once you have their responses, you can determine which solutions will fit their needs. For example, knowing what currencies they have to settle in will help you address their treasury requirements. Knowing whether they are online or offline will let you know if they need a virtual POS and batch processing.

What types of merchants are best suited to globalizing their business?

The merchants best suited for globalization are those in

the e-tail, digital, direct response and worldwide gaming spheres.

How can I review my portfolio of merchants to see which are best suited to sell in multiple currencies?

The first step in reviewing your portfolio is to conduct a BIN (bank identification number) analysis. This can be facilitated through your processor to determine which of your transactions are foreign.

What are the trends influencing so many merchants to globalize?

The recession has served as a catalyst in motivating merchants to look beyond their traditional borders for customers. Another trend is advancements in technology that are creating an entirely new way of communicating and selling, such as apps for iPads and iPhones.

Will my merchants need to register as corporations outside the United States?

For your merchants to be recognized as multinational corporations and receive lower costs of interchange, they need to register outside their region which, in most cases, is the United States. They can do this through online organizations that specialize in this service and perform it quickly and easily, usually within one day.

Are the settlement times the same in the United States as in Europe and elsewhere?

In a word, no. It can take up to three days in Europe and even longer in other places around the world.

Are higher risks associated with acquiring merchants outside the United States?

Absolutely. The risks include differences in language, culture and business practices. That is why it is imperative to partner with a global solutions provider with extensive knowledge and experience. Do your due diligence.

Staying competitive

Your competitors are very curious about going global, and for good reason. According to a recent survey conducted by the IMR World Commerce Dashboard, 25.6 percent of the world's population is connected to the Internet, and consumers spent \$489 billion via e-commerce last year. For a free DVD or PowerPoint presentation of the entire seminar, please email me at c.hometh@payvision.com.

Carrie Hometh is an industry professional with more than two decades of global experience. She currently serves as Senior Vice President of Sales and Marketing for Payvision, an international payment solutions provider that offers a comprehensive suite of products and services, including global acquiring, multicurrency processing and alternative payment solutions. She can be contacted at c.hometh@payvision.com.



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- United Bank Card CEO Jared Isaacman has personally written a rate and service guarantee stating that rates and fees will not be raised in order to fund this contest and that UBC's high level of service will not be compromised due to this influx of merchant accounts.
- An outside law firm, The Lustigman Firm, has been enlisted to help ensure that the promotion has been structured in a legally compliant manner.
- The contest drawing will be observed by Weiser LLP, an independent accounting firm.

No Purchase Necessary. UBC Million Dollar Giveaway starts on September 1, 2009 and ends on the date in which there are 27,000 entries or August 31, 2010 at 11:59PM ET, whichever is sooner. Promotion is open only to Sales Associates (as defined in the Official Rules) of United Bank Card, Inc. that are located in the fifty (50) U.S. states (and D.C.) 18 years of age or older. For official rules write to United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809. Void where prohibited. Sponsor: United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809.

For more information, contact:

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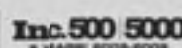
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NewProducts

RDC on the fly

Product: QwikDeposit To Go

Company: Bluepoint Solutions

Remote deposit capture (RDC) has proven a strong remedy for the hassles that sometimes accompany the back-end process behind check acceptance. A product from Bluepoint Solutions is designed to also bring some convenience to the front-end.

QwikDeposit To Go is an RDC solution for mobile phones. Wherever they may be, merchants using QwikDeposit can accept a check payment and send it off to the bank for processing on the spot.

The solution is slated to be available with the iPhone, Blackberry and Android, and is scheduled for roll out within the next couple months, according to Andrew Tilbury, Director of Marketing and Communications for Bluepoint.

"Let's say you're an independent contractor travelling on business ... you might not have the time or flexibility to make it to a branch or ATM of your financial institution to make a deposit," Tilbury said. "You get a bunch of checks in and don't want to wait for the snail mail to go through; you can just use your [smart phone]."

Users of QwikDeposit download the program onto camera-equipped smart phones. Users then register the software with their banks, after which they can access one or more accounts using a username and password – without having to re-enter their bank account information.

For check acceptance, the merchant logs into the program, snaps photographs of the front and back of a check, punches in the dollar amount and clicks a button to send it off for processing. A message of confirmation or rejection appears within seconds of finalizing the payment.

Image sharpener

Tilbury said the software contains an image enhancement piece that smoothes out the picture of a check, both sharpening the image and eliminating blemishes like ink blotches or wrinkles.

"The deposit process is you check in, it pulls the account information and displays it on your phone," Tilbury said. "So if you have multiple accounts you can determine which account you want to deposit in.

"You enter the check amount, then photograph the front and back, and then the software does all the image quality verification and perfection, so exposure, coloring,

Features of **QwikDeposit** include:

- Remote deposit capture of checks with a mobile phone
- Third-party account registration through user bank
- Option of integrating application with mobile banking
- Proprietary and monthly fee lease options
- Image enhancement software that sharpens check image quality, removes blemishes

wrinkles, ripped edges – all that cropping happens before you begin item processing.

"The device guarantees a high level of quality to the image, and you have to start with a good image to detect fraud," Tilbury added.


There are two payment options for QwikDeposit. Users who want a proprietary solution can buy the license to run the program in-house; otherwise, clients can pay a monthly fee to essentially lease the software, which is then operated from BluePoint's server. The second option is primarily targeted to small to mid-sized businesses that wish to pay a lower upfront cost, Tilbury said.

Integrated and stand-alone options

There are also two versions of the software itself. One is a stand-alone check acceptance program; the other integrates with a business's mobile banking channel, allowing the user to move seamlessly between accepting checks and transferring money or viewing payment acceptance history, according to Tilbury.

He added that integration can be particularly useful in the mobile market, where online banking isn't always accessible through an Internet browser.

"The integrated version works the same way as [the stand-alone software], but in the same area where you accept check payments you can transfer funds, make payments, check balances and make deposits.

"The point at which it's attractive to have an integrated solution is you don't need an additional application for online banking. You can add this functionality to the existing application and see your deposits right there." 

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NewProducts

Multipayment and multimedia at the POS

Product: iSC350

Company: Ingenico

The iSC350 terminal from Ingenico is designed to provide merchants a dynamic platform for accepting an array of electronic payments and conducting multimedia marketing campaigns.

The terminal features full motion video and stereo sound through which merchants feed promotions for loyalty programs, gift cards, product orders or credit applications. To dovetail with video advertising, merchants can also customize the terminal's faceplate with a unique color and logo.

"This terminal is a powerful, cost-effective, interactive customer touch point that opens up a whole new world of payments and promotions," said Christopher Justice, President of Ingenico, North America.

"We are confident that our customers will be ... drawn to

Features of iSC350 include:

- Full motion video and stereo sound
- Side-mounted USB port for obtaining video and audio content from local, Web sources
- Acceptance of a broad range of payment types
- Self-branding option with unique colors and logo
- Fast transaction processing with 400 MHz processor
- PCI PED 2.1 compliant, including card reader with encryption feature

the potential of a true multimedia platform for promoting their brands, delivering important messages to their customers and improving the customer experience through a fast and fun checkout," Justice added. "The iSC350 really can help turn the point of sale into a point of affinity. It arms merchants with power beyond payment."

The product accepts a broad range of payment types, including signature capture with a stylus and "tap and go"



partnership |pärtnêr sh ip| *noun*
close cooperation, association, collaboration, alliance, relationship, connection, working together.

excellence |ekselens| *noun*
distinction, outstanding, extremely good, superior quality, greatness, accomplishment.

integrity |in tegritê| *noun*
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payments using near field communication technology. The terminal is Payment Card Industry PIN Entry Device 2.1 compliant, with a card reader that features Ingenico's On-Guard Card Swipe encryption technology. Card information is encrypted at the point of swipe.

For its video player, the iSC350 can obtain content or upgrade existing software from local or Internet-based sources that plug into a side-embedded universal serial

bus port. Ingenico also offers optional managed services that facilitate access to secure services on the web and simplify delivery of multimedia imports. According to Ingenico, the terminal downloads software 10 percent faster than other leading brands and uses a 400 megahertz processor for extremely quick transaction speed.

The upper half of this sleek and ergonomic device contains the video screen, while the lower half is embedded with a recessed keypad. Between the upper and lower halves of the faceplate is the slot for card swipes. For merchants downloading a high volume of content, the terminal can be upgraded to hold 32 gigabytes of memory.

"Retailers are looking for nontraditional and innovative ways to reach and engage customers," said Lisa Shipley, Senior Vice President of Sales, North America for Ingenico. "The iSC350 is the ultimate terminal that truly meets the ever evolving needs of retailers, addressing the increasing pressures and expectations they face to guarantee secure transactions for their customers." ■

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- Mark Twain



Nothing fancy needed

Fads will date you. No? Then why didn't you wear that suede jacket with the fringe to work today? Succumbing to fads can also alienate potential customers. Consider tattoos. Let's say you're inked with green snakes from wrist to elbow and you wear a short-sleeved shirt when out prospecting for business. You call on a merchant who recently emigrated from, say, Jordan. Will that merchant be receptive to you and your offerings?

The same idea applies to language. Slang will date you. What would you think if you asked a colleague how she was doing and she replied, "All is groovy"? Slang can also cause confusion. Suppose the aforementioned Jordanian merchant asked how your day was going and you replied, "I'm stoked." It is likely the merchant would have no idea what you meant.

Beware of jargon

Industry jargon can be equally problematic. Peppering your pitches with acronyms and abbreviations like RDC, auth, BIN, app, E2EE, SaaS and SMS won't necessarily date you, but it can repel the very prospects you're trying

to reel in if you are not thoughtful about how and when you use such shortcuts.

What is the advantage of using terms other people don't know anyway? There is one: you may look smart. That's it. And that's not even guaranteed.

What's the disadvantage? You risk being misunderstood. The people you are speaking with, the very ones you want to establish long-term business relationships with, will probably be confused and alienated. Few will interrupt you to say they've only understood every third word you've said. People don't like to be involved with things that make them feel stupid. It's as simple as that. They will wait for someone to come along who speaks their language.

Don't overdo the pizazz

It's also important to avoid terms and product names that were invented just to dazzle. When the dust settled, great innovations and inventions stood out because of what they did, not what they were called. Many companies have re-dubbed vacuum cleaners with names along

the lines of The Whirly-Wonder Miracle Tube and The Reverse Can-O-Blast, but the machine is and shall remain the vacuum cleaner, stubbornly refusing to adapt to the efforts of the clever.

Maybe what you have to offer merchants is completely different and better than what your competitors can provide. However, a labored description may undercut the value of your improved service or product rather than promote it. And if you sound glib or wax too poetic about your services, your listeners may begin to question your sincerity.

Instead, learn as much as possible about your prospects' needs before you meet with them, dress appropriately for all presentations, listen well once you are there and use words that will provide a clarity that leads to understanding.

Study your audience

Some terms are integral and unique to the payments business, of course. And if you are comfortable with the terms you are using and can easily explain them to merchants, by all means, give it a go. Just be ready to back up and simplify as needed.

If you suspect that what you are calling something is too

specific or sounds like baloney, watch the reactions of those you are speaking with. Do they interrupt for clarification, look bored or attempt to change the topic? A mere change of vocabulary could improve the situation if you pay attention.

The important thing is that you be fully aware of what you are saying, certain you have come up with the best way to convey your intended meaning, and able to change your language and mannerisms to suit each situation. This seems like such a simple idea, but it can easily get away from you once your mouth is in motion.

Be proud of your sales skills, but realize you are also a teacher. And remember, when students have fidgeted at the mention of integers during algebra class, many a wise teacher has said, "Let's not say 'integer' right now; let's call this a number; it's easier to understand." Use this type of flexibility when you're on your next sales call. Doing so could help you build the kind of rapport that will lead to a rapid close.

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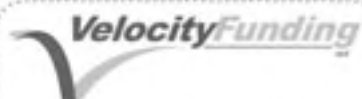
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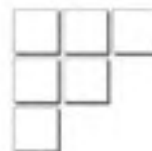
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*Merchant must qualify for merchant processing in order to be approved under the guaranteed lease program.

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Advertiser Index

Advance Restaurant Finance (ARF).....	16	Meritus Payment Solutions	21
Advanced Merchant Group (AMG).....	25	MLS Direct Network Inc.....	10
Advanced Payment Services (APS).....	67	Moneris Solutions	87
Alpha Card Services.....	27	Money Tree Merchant Services	59
American Bancard	99	National Transaction.....	18
Apriva	22	Nationwide Payment Solutions	12
ATT Services.....	38	Network Merchants Inc. (NMI).....	52, 53
Authorize.Net.....	54	Newtek Business Services Inc.....	93
Central Payment Corp.....	82	North American Bancard	2, 6, 7
Century Payments/Reliable Payment Solutions.....	95	POS Portal Inc.....	85
CoCard Marketing Group	15	Prepaid Expo LLC.....	77
Credomatic.....	76	Reliant Processing Services.....	49
CrossCheck Inc.....	73	Secure Net Payment Systems.....	64, 65
Electronic Merchant Systems.....	91	Secure Payment Systems	71
Electronic Payments	103	Stream Cash LLC	72
eProcessing Network LLC.....	61	Super G Funding LLC	46
Equity Commerce L.P.....	48	The Phoenix Group.....	43, 45, 47
EVO Merchant Services	23	TransFirst	19
First American Payment Systems.....	9	TriSource Solutions LLC	84
First Data	51	United Bank Card Inc.....	79, 80, 81
Graphite Payments	89	Up Solution	17
GBR Funding	70	USA ePay	11
GRP Funding LLC	20	Velocity Funding LLC.....	74
Hypercom Corp.....	104	Western States Acquirers Assoc. (WSAA)	62
iMax Bancard.....	30, 31		
iPayment Inc.	37		
JR's POS Depot	35		
Ladco Leasing.....	57		
MaxAdvance.....	34		
Merchant Capital Access	60		
Merchant Cash and Capital.....	97		
Merchant Implementation Services.....	56		
Merchant Processing Center Inc.....	42		
Merchant Services Inc.	63		
Merchant Warehouse	13		
Merchants' Choice Payment Solutions	101		

Inserts

Alpha Card Services
 Charge Card Systems
 North American Bancard
 Total Merchant Services

Cover Wrap

Electronic Payments

Gatefold Ad

North American Bancard

... THERE WAS AN AD THAT HAD A GUY HOLDING A TERMINAL AND HE WAS WEARING A SPORT COAT AND THE PRICE WAS LIKE \$199 OR SOMETHING AND IT WAS BACK IN THE SUMMER. WHAT WAS THE COMPANY'S PHONE NUMBER ON THAT AD?*

FREE PDF ARCHIVES OF ISSUES BACK TO OCTOBER 2001 (ISSUE 01:10:01). LOCATE PREVIOUS ADS, OR RESEARCH YOUR COMPANY'S AD HISTORY.

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Monday 8
Expand into petro market to
increase \$\$\$

- Video?
- Unique marketing materials?

Tuesday 9
Check merchant status
(set up customized
alerts?)

Wednesday 10
Learn how to set-up my
Free Website

Lunch w/ Al
(Al's Dry Cleaning)

Thursday 11
Sally's Soccer Game ^{Oil change}
-do NOT be late!!!

Friday 12
Dinner w/ Gen. Manager
Kim's Birthday!

Saturday 13
Sunday 14

Monday 15

Tuesday 16

Wednesday 17

Thursday 18

Friday 19

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Anytime I
want!!!

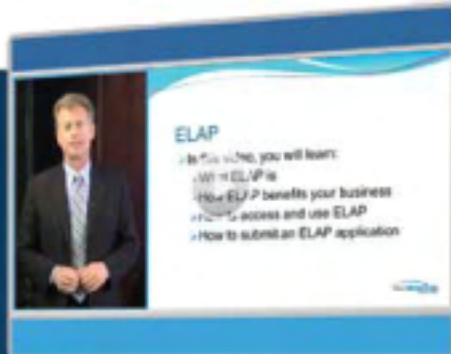


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