



News

Industry Update.....	14
Global Payments, payments community respond to reported breach.....	24
Gift card providers pull out of N.J.....	27
Trade Association News.....	82

Features

The Mobile Buzz:

Mobile payment experts disagree on NFC dominance.....	31
--	----

Selling Prepaid:

Prepaid in brief.....	32
Demands of a standardized fee disclosure box.....	33
How consumer segmentation leads to success.....	35
Seven essential steps for creating a successful social media strategy <i>By Marc Beauchamp</i> <i>Performance Training Systems</i>	80
Research Rundown.....	84

Views

Has payment fraud become SOP? <i>By Patti Murphy, ProScribes Inc.</i>	38
ISOs and MLSs: How banking changes will affect you <i>By Brandes Elitch, CrossCheck Inc.</i>	42

Education

Street SmartsSM:

Lessons for a lifetime <i>By Jeff Fortney, Clearent LLC</i>	62
Moving mobile payments to the next level <i>By Nicholas P. Cucci</i> <i>Network Merchants Inc.</i>	66
In search of an ethical corporate culture <i>By Dale S. Laszig</i> <i>Castles Technology Co. Ltd.</i>	70
The challenge of data breach reporting <i>By Mark Brady, CSR</i>	72
What matters most in a restaurant POS system? <i>By Jerry Cibley, The POS Man</i>	74

April 23, 2012 • Issue 12:04:02

Tablets, smart phones or the cloud for mobile payments?



M using on the sizeable role Apple Inc. is playing in the evolution of mobile commerce, Meritus Payment Solutions Principal and co-founder Alan Kleinman said Apple's mobile device innovations centered on the desire by late Chief Executive Officer Steve Jobs to improve the delivery system of music to consumers. The payment functionality of the iPhone via the App Store and iTunes accounts was "just a byproduct of everything else," Kleinman said.

Some byproduct. The explosion in smart phone – and now tablet computer – usage by consumers is quickly being matched by merchants and sales professionals adopting the devices to reduce payment "friction" and increase revenues. A Retail Info Systems News survey revealed that nearly two thirds of national and large regional retailers will either test or deploy tablets in 2012. Remember, Jobs only introduced the first iPad to the U.S. market in the spring of 2010.

A main driver of this trend is that retailers are threatened by consumers armed with smart phones in-store, according to RIS News. With a few taps on smart phone touch screens, shoppers can compare prices on in-store merchandise with potentially better deals in cyberspace – and have more information at their disposal than the stores' own salespeople. "The only option is to use tablets to level the playing field," the report said.

A moveable feast

The general retail sector is only one new battleground for mobile POS supremacy. Another is food service, where tablets seem to be becoming the dominant

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NotableQuote

Can we get beyond watching the watchdogs to a place of core values, where people do the right thing because they want to and not because they're afraid of getting caught?

See story on page 70



Inside this issue: *CONTINUED*

Company Profile

Chargeback Guardian Inc.

Chargeback champions at your service 49

New Products

Mobile check deposit 86

Bundling mobile payments 86

Inspiration

Community and the payment pro 89

Departments

Forum 5

Datebook 88

Resource Guide 90

Advertiser Index 102

Miscellaneous

QSGS: Quick Summary Green Sheet 8

Bottom Lines 14

ISOMetrics 61

10 years ago in The Green Sheet 85

Water Cooler Wisdom 89



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Forum

Where can I find a gift card program?

I am a credit card processing ISO. Could you help me find a gift card reseller so I can resell \$0 (blank) gift cards to my retail merchants? These blank gift cards can, of course, be loaded for different values to give away as birthday gifts, anniversary or Christmas gifts and some such.

Andy C. Chen

Andy,

While we do not recommend specific businesses and products to our readers, we can point you toward resources to help you identify and evaluate gift and loyalty program providers that might be suitable for your business.

The Green Sheet Inc. now publishes an annual *Buyers Guide*, and our 2012 edition is hot off the press. It will soon be available online, too, at www.greensheet.com/gsgsq.php. Companies are listed according to categories they have defined, and at least two categories will be of interest to you: *Gift and Loyalty Card Programs* and *Gift Cards*. A total of 17 companies, along with their contact information, are listed under those headings.

In addition, each issue of *The Green Sheet*, contains a *Resource Guide*, which similarly to our *Buyers Guide*, lists businesses by categories. Each issue also provides an *Advertiser Index*, listing every company that placed a display ad in that issue.

Of course, these are not the only available sources of potential gift card providers, but they should help you begin your research. Also ask colleagues in the industry for referrals. And if you can get to an industry tradeshow soon, you'll have ample opportunity to gather information about potential partners. Coming up: the *Northeast Acquirers Association Summer 2012 Conference* will take place June 5 to 6 in Hamburg, N.J. The *Western States Acquirers Association's 2012 meeting* will follow from Sept. 26 to 27 in Huntington Beach, Calif.

In addition, *The Green Sheet* issue 12:04:01, published April 9, 2012, contains pertinent information on partnerships. The lead article, "Partnerships fuel portfolio growth," discusses the reasons why many ISOs and merchant level salespeople are turning to value-added service providers and how they make those relationships work. A checklist of what to look for in a potential partner is also provided in a sidebar.

Also in that issue is "Choosing a partner for life," by

Justin Milmeister, President and founder of Elite Merchant Solutions. The article shares the author's perspectives on establishing traditional and nontraditional business partnerships.

Thanks for turning to *The Green Sheet* for advice. Best of luck in finding the right gift card provider.

Editor

Speak your mind

G/S/Q

Have you noticed that our quarterly, GSQ, has a new, streamlined look? It now sports a classic report style that emphasizes the rich information our quarterlies contain and makes it easy to spot what's important – in both our editorial and advertising content.



We'd love to hear what you think about this, as well as about recent articles in *The Green Sheet*, topics that matter most to you, people making a difference in the industry, trends on the horizon and more. Drop us a line at greensheet@greensheet.com or call us at 800-747-4441.



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QSGS

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

Cover Story

1

Tablets, smart phones or the cloud for mobile payments?

The explosion in smart phone – and now tablet computer – usage by consumers is being matched by merchants and sales professionals adopting the devices to reduce payment "friction" and increase revenues. Choosing one over the other, or using cloud-based services, involves distinct variables pertaining to each business's operations. What's right for your customers?

Feature

31

Mobile payment experts disagree on NFC dominance

A divergence of opinion livened the first few hours of the recent Strategic Solutions Network's Mobile Contactless Payment Innovations Summit. The payments industry's push toward near field communication (NFC) technology was up against a rapidly accumulating and disruptive host of payment technologies that offer advantages NFC doesn't, while avoiding NFC problems.

News

24

Global Payments, payments community respond to reported breach

Global Payments Inc. was reportedly the victim of a data breach that potentially compromised an estimated 1.5 million North American accounts. The company said it had been deemed compliant with the Payment Card Industry Data Security Standard before the breach. But the major card brands stripped away that designation following the intrusion.

Feature

33

Demands of a standardized fee disclosure box

The Chicago-based Center for Financial Services Innovation is spearheading an effort to formalize a box that would be used industrywide to disclose fees on prepaid cards. The CFSI believes the prepaid card industry will not expand its user demographic unless it adopts a standardized fee disclosure box.

News

27

Gift card providers pull out of N.J.

Because of a New Jersey law allowing the state to seize funds from unused gift cards, American Express Co. removed all of its network-branded gift cards from retailers in that state. AmEx did so because it could not comply with the law's ZIP code mandate forcing retailers to collect the ZIP codes of customers who purchase AmEx-branded gift cards at the POS.

View

38

Has payment fraud become SOP?

Is payment fraud just another cost of doing business in the 21st century? Frauds include bad checks, fraudulent transactions initiated through the automated clearing house system, and unauthorized use of credit and debit cards, among others. Data hacks are a leading cause of many such frauds, and larger companies, like Global Payments Inc., are often prime targets.

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View

42

ISOs and MLSs: How banking changes will affect you

A recent Jack Henry & Associates user conference covered many themes, but one key take-away was that although ISOs and merchant level salespeople (MLSs) live in the card processing space, it is important to remember the checking account is the locus for all payment activity. For any business that is not a sole proprietorship, all payments begin and end at its checking account.

Education

66

Moving mobile payments to the next level

No doubt about it: the future of mobile payments is coming – if not already here. Cash and credit card transactions are extremely inefficient compared to mobile commerce, which is inherently organized. And digital transactions can be tracked. Yet we need a game-changing application that will take us to the next level.

Education

62

Street SmartsSM

Lessons for a lifetime

A simple childhood game of tag can provide enduring lessons that are applicable to the payments industry. For example: rules change, but the basic game remains the same; some rules aren't fair, but they are still the rules; complaining about a rule doesn't help you win the game; breaking rules will get you kicked out of the game; and rules will change again.

Education

70

In search of an ethical corporate culture

In the last decade, an unprecedented number of compliance laws have been enacted and updated – everything from health care privacy to workplace safety. Existing laws have been replaced by stricter codes. New laws have cost millions to implement and created lots of churn. But more importantly, are they working?

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Education

72

The challenge of data breach reporting

Very few companies can see a data breach coming. And when a breach occurs, a critical consideration for most is the need to file timely reports to a widening array of authorities. The reporting issue gets more complex as the data sets requiring protection increase. Not filing breach reports in a timely fashion can lead to substantial financial penalties – and possibly criminal action.

News

82

SEAA embraces Texas, reaches new audience

For many years, no acquiring association laid claim to the Great Plains states, including Texas, home to many ISOs and MLSs. But the drought was broken in March 2012 when the Southeast Acquirers Association hosted its 11th annual conference in Dallas. And despite some wicked weather, the well attended show was a resounding success.

Education

74

What matters most in a restaurant POS system?

Over 100 restaurant POS systems are being sold in the United States. So how does one choose a POS system from among the myriad choices available? Consider this: an haute cuisine restaurant wouldn't make bar-style pizza, and your neighborhood quick service restaurant wouldn't serve a Filet Oscar. Similar to the eateries they serve, POS systems also have their specialties.

Inspiration

89

Community and the payment pro

As payment professionals, we play distinct roles in business, with our families and as members of our communities. Sometimes we choose our roles; sometimes they are imposed on us. In either case, the roles we play define us. And to have a happy life it is of enormous benefit to have satisfaction in each of these areas.

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IndustryUpdate

NEWS

SCA adds certification program

The **Smart Card Alliance** touted its new smart card payment certification program as the first of its kind. The Smart Card Alliance Certified Smart Card Industry Professional/Payments (CSCIP/P) credentialed course and exam will be offered in May at the NFC Solutions Summit 2012 in San Francisco.

Randy Vanderhoof, Smart Card Alliance Executive Director, said the CSCIP/P credential will "fill a noticeable gap in education and information" around smart card technologies, such as Europay/MasterCard/Visa (EMV) and near field communication (NFC).

The CSCIP/P adds to the alliance's Certified Smart Card Industry Professional certification with information concerning EMV migration, mobile and NFC contactless payments, secure remote transactions and smart card use in transit payment systems.

The course will cover smart card fundamentals, security, application and data management, mobile and NFC, payments and financial transactions, and technology and implementation. The program is part of the Smart Card Alliance's Leadership, Education and Advancement Program. For more information go to www.smartcardalliance.org/pages/activities-leap.

Survey shows tablets appeal to retailers

AisleBuyer-sponsored analysis reveals that retailers are replacing traditional cash registers with mobile devices. The report entitled *Tablets as Point of Sale* said 22 percent of smart phone users have been to stores where retail associates use mobile devices instead of cash

registers. Additionally, 57 percent of survey respondents feel retailers who use tablets and other mobile devices are more innovative than retailers who still use cash registers.

"The cash register has a new rival," said Andrew Paradise, Chief Executive Officer at Boston-based in-store mobile commerce provider AisleBuyer. "We're seeing increased interest from retailers in supplementing and potentially replacing traditional registers with a tablet-based mobile POS or store associate solution."

The report is the third and final installment in AisleBuyer's Mobile Shopping Survey series based on information provided by 1,027 respondents. Online survey provider Zoomerang conducted the survey in February 2012.

PayPal changes business focus

PayPal Inc., the payment subsidiary of eBay Inc., said it is dropping the word "website" from its U.S. product names to better reflect the movement of the company from an exclusively online entity to one offering multi-channel payments for retailers.

Ed Eger, PayPal Americas Senior Vice President and General Manager, said, "In the same way that Apple did when it dropped 'computer' from its name in 2007 to represent its move beyond the Mac to a comprehensive consumer electronics company, this name change represents our move away from our online heritage to the future of PayPal."

The change in focus was reflected by PayPal rolling out PayPal Payments, a service that offers solutions for online, offline and multichannel businesses. Services include online, POS and mobile payments, as well as invoicing and access to PayPal debit card accounts.

BOTTOM
LINES

HEADLINES
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- The latest *Chain Restaurant Industry Review* by **GE Capital, Franchise Finance** revealed Americans spent \$406.6 billion at restaurants in 2011; full-service restaurants accounted for 48.1 percent and quick-service restaurants represented 48 percent of that total.
- According to **American Express Co.**'s *Spending & Saving Tracker, Improving or Moving*, 70 percent of homeowners plan to spend an average of \$3,500 in 2012 on remodeling, cosmetic work and landscaping, while 10 percent plan a residential move.
- A **Research and Markets** report, *Stationery & Cards: Global Industry Guide*, estimated the global market for stationery and cards could reach \$90.8 billion in 2013, a 23.8 percent increase over the \$73.4 billion spent on those items in 2008.



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Industry Update

Additionally, PayPal initiated a mobile payment pilot at Massachusetts-based convenience store chain Cumberland Farms. The pilot involves PayPal's SmartPay mobile application, which allows motorists to pay for gasoline using smart phones.

Canadian task force issues final report

The **Task Force for the Payments System Review**, an investigative body appointed by Canada's Minister of Finance in June 2010, issued its final report that advised the Canadian government how to improve its payments system. The report, entitled *Moving Canada into the Digital Age*, recommended the government:

- Implement electronic invoicing and payments for all government suppliers and benefit recipients
- Create a "mobile ecosystem" with support from partners in the private sector
- Secure payments by creating a digital identification and authentication system

The task force also called for legislation to form a new oversight board to regulate the industry and enforce rules, and encouraged the Canadian payments industry to form a self-governing organization to develop and implement strategies and standards.

Heartland suit dismissed

All consumer and financial institution lawsuits brought against **Heartland Payment Systems Inc.** for the massive data breach disclosed in January 2009 have now been resolved. In March 2012, Federal District Judge Lee Rosenthal of the Southern District of Texas, Houston Division, approved a consumer settlement brought in the wake of the compromise of 130 million debit and credit card numbers. Now the judge has dismissed all claims brought by financial institutions against Heartland.

Rosenthal threw out a breach of contract suit filed by a group of financial institutions against Heartland and its acquirers Heartland Bank and KeyBank N.A. The ruling followed the court's earlier dismissal of a class-action lawsuit brought by nine banks against Heartland. The banks subsequently re-filed an amended claim, which was dismissed on March 14, 2012.

Judge Rosenthal said the banks' claim that Keybank had a duty to monitor Heartland adequately on their behalf failed as a matter of law. The judge held that there was no proof the acquirers were part of a joint venture with the banks and had agreed to share losses with the banks.

ANNOUNCEMENTS

Braintree plugs into Magento

Payment gateway operator **Braintree Payment Solutions LLC** released a plug-in for the Magento Inc. e-Commerce Solutions platform. Braintree's plug-in offers credit card vault storage that reportedly reduces merchants' Payment Card Industry (PCI) Data Security Standard (DSS) compliance burden by 90 percent. Magento, a business unit of eBay, services more than 110,000 merchants online.

Clairmail's FI solution

Mobile banking and payment solutions company **Clairmail Inc.** released Clairmail Plus. Clairmail said the new service is designed to help mid-tier regional banks, community banks and credit unions deploy the same mobile banking and payments solution used by over one-third of the top 50 financial institutions in North America

Clearent growth recognized

Clearent LLC heralded its inaugural appearance at No. 73 on *The Nilson Report's* 2011 list of Top U.S. Merchant Acquirers. The report also highlights Clearent's position as one of the fastest growing credit card processing companies in the industry, Clearent noted. The report ranks acquirers according to their annual credit and debit card processing volume.

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Industry Update

Elan introduces eAdjust Plus

Electronic funds transfer processor **Elan Financial Services** introduced a turnkey dispute processing solution called eAdjust Plus. The service, designed to manage disputes from first complaint through resolution, features a dedicated call center, dispute investigation and reporting, and adjustment thresholds such as for dollar amounts.

GETI back-end solution for check, ACH

Global eTelecom Inc. (GETI) is now offering back-end processing services to check and automated clearing house (ACH) transaction processors. GETI, a processor of electronic checks, ACH transactions and stored-value cards, said its processing engine can handle all standard entry class codes and remote deposit capture items regulated under the Check Clearing for the 21st Century Act (Check 21).

Heartland unveils mobile app for colleges

Through its Campus Solutions division, **Heartland** launched three mobile applications that add mobile phone functionality to its Campus OneCard System. The MyPay app enables students to make on-campus purchases. The MyAccount app allows students to

manage accounts. And the OneCard Mobile Admin app provides school administrators with the ability to manage the OneCard System from mobile devices.

ISO adds check acceptance suite

With the addition of a check acceptance service, **Merchant Data Systems Inc.** now enables brick-and-mortar, MO/TO and Internet merchants to accept checks. MDS' Check-By-Phone guarantees checks for phone, mail and fax orders while Check By Net allows web-based merchants to accept checks online.

Merchant Express upgrades website

Hauppauge, N.Y., based ISO **Merchant Express** updated and expanded its website to serve as an online business-to-business resource for merchants and service providers to learn about credit card processing and merchant accounts.

miiCard produces video on digital identity trends

U.K.-based online identity verification service **miiCard** released a short video on the predicted impact of digital identity on financial services in 2012. At the 2012 FinovateEurope held in March, company representatives filmed experts in financial services discussing the role digital identity will play in 2012. The video can be accessed at www.miiCard.com/blog/201202/impact-digital-identity-financial-services-2012-finovateurope.

RedFin Network goes to the cloud

RedFin Network Inc. launched its cloud-based PocketPOS platform. The platform allows merchants to process transactions using smart phones or tablet devices. PocketPOS runs on the operating systems of Google Inc., Apple Inc., Microsoft Corp. and Research in Motion Ltd., connects mobile devices to printers and card readers, and provides lower transaction rates for merchants, RedFin stated.

Roam Data's 'agnostic' mobile reader

Roam Data Inc. said it released the payment industry's first device-agnostic card reader that combines NFC contactless technology with mag stripe swipe capability. The device, called NFC Swipe, transforms smart phones, tablets and PCs into mobile POS devices. The company plans a commercial release of NFC Swipe by the middle of 2012.

transmodus adds recurring payments

Check and ACH payment automation company **transmodus Corp.** added recurring credit card and electronic check payment options to its linked2pay payment platform. The new options enable linked2pay users to set payment terms and present them to clients via email, mobile and online payment forms. The addition of

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Aaron Slominski
Senior Vice President National Sales

recurring payments to linked2pay is targeted at businesses that accept recurring payments or donations.

TriSource Solutions boards five new ISOs

TriSource Solutions LLC converted five new ISO clients to its merchant accounting and settlement system. The company boasts that each conversion took less than 60 days to complete once it was notified of an ISO's request to move to TriSource from another processor.

TriSource said the additional business will boost its processing volume to more than 60 million transactions for over 20,000 merchants.

PARTNERSHIPS

AmEx, TNS team on new payment service

American Express Co. and data communications and interoperability solutions provider Transaction Network Services Ltd. released the American Express Payment Gateway, a single-source payment solution for e-commerce and other card-not-present transactions. The solution includes tokenization and fraud management.

Elavon, NewNet expand into Brazil

Elavon Inc. teamed with NewNet Communications Technologies LLC to enter the Brazilian payments market. Elavon is using NewNet's TraxcomSecure Total Control 1000 Dial Transaction Gateway platform as part of its payment processing network in Brazil. Elavon said the new network can handle several million transactions per year.

FrontStream collaborates with SunGard

SunGard K-12 Education, a division of SunGard Data Systems Inc., integrated its eSchoolPLUS student management system with FrontStream Payments Inc.'s fasttransact payment platform. The deal allows SunGard to expand its service capabilities to include a front-end payment interface.

In other news, FrontStream aligned with next generation media outlet Infomous Inc. to create a self-service online subscription portal for Infomous clients. The technology allows clients to select account levels and set up one-time or recurring payments.

TSYS re-ups with Veracity, First Hawaiian Bank

TSYS extended its long-term processing agreement with Atlanta-based ISO Veracity Payment Solutions Inc. Veracity reportedly serves more than 12,000



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Industry Update

businesses and facilitates the processing of approximately \$2 billion in transactions annually. Terms of the agreement were not disclosed.

TSYS also signed a long-term agreement with **First Hawaiian Bank** to renew their processing relationship. First Hawaiian Bank is Hawaii's largest and oldest bank with nearly \$16 billion in total assets, offering customers service, solutions and security for nearly 153 years, according to TSYS.

USAePay integrates with ICG Software

Los Angeles-based gateway and processor **USAePay** stated it effectively integrated its payment gateway solutions with **Hiopos**, an **ICG Software Group** product.

Hiopos, a POS solution, is available in the United States and internationally. ICG, headquartered in Spain, develops solutions for a variety of industries including hospitality, retail and distribution.

WePay chooses Layered Tech

Online payment processor **WePay** chose **Layered Technologies Inc.** to support its payment platform. Layered Tech offers cloud-based hosting and computing services. The WePay solution includes free tools

that allow people to sell items and tickets, send invoices and accept donations online.

ACQUISITIONS

MasterCard invests in mFoundry

MasterCard Worldwide signed a strategic agreement to invest in U.S. mobile banking provider **mFoundry Inc.** More than 600 banks and credit unions use mFoundry mobile banking solutions. MasterCard's PayPass tap-and-pay system is now part of mFoundry's mobile financial services platform and can be accessed by mFoundry's clients.

Yapstone acquires ParishPay

YapStone Inc., a processor of recurring property management, nonprofit and bill payments, acquired the assets of **ParishPay LLC**, a processor of electronic donations for faith-based organizations in the United States.

YapStone said nonprofits using ParishPay experience a rise of between 30 and 70 percent in average donation size. Smart Tuition, a tuition management service provider for private and parochial schools and formerly ParishPay's parent company, is not affected by the transaction.

APPOINTMENTS

PayPal names Marcus President

David Marcus, formerly Vice President of Mobile at PayPal, became President of PayPal, succeeding Scott Thompson, who left PayPal in January 2012 to become CEO at Yahoo! Inc. Marcus joined PayPal's executive management team in August 2011 when PayPal acquired mobile payment company Zong. Marcus was Zong's founder and CEO.

FIS makes executive promotions

Fidelity National Information Services Inc. (FIS) promoted **Frank Martire** from President to Chairman of the Board of the processor; Martire also retains his CEO title. Meanwhile, **Gary Norcross** added President to his title of Chief Operating Officer at FIS.

AmEx' Sample becomes SVP at Serve

AmEx named **Neal Sample** to the position of Senior Vice President of Technologies for its Serve digital commerce platform. He will be tasked with broadening and strengthening AmEx's technology development and operations. Sample was formerly the Chief Technology Officer of eBay's open development and commerce platform X.commerce. ■

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Global Payments, payments community respond to reported breach

Atanta ISO and payment processor Global Payments Inc. was reportedly the victim of a data breach that potentially compromised an estimated 1.5 million North American accounts. Trading on Global Payments stock was halted March 30, 2012, after reports of the breach surfaced. Before trading was stopped the company's stock price had fallen just over 22 percent to \$47.50.

The break-in was first reported by the blog *Krebsonsecurity.com* authored by former *Washington Post* reporter Brian Krebs. He said Global Payments was compromised between Jan. 21 and Feb. 25, 2012; this was based on alerts sent out by MasterCard Worldwide and Visa Inc. to financial institutions shortly thereafter.

Krebs said the thieves were able to acquire enough data to counterfeit new cards. He also quoted sources saying more than 10 million card numbers may have been compromised. He then went on to say PSCU Financial, a nonprofit cooperative credit union service organization, told its members 56,455 Visa and MasterCard accounts had been compromised, but fraud was found to have occurred in only 876 accounts so far.

Card company statements

Shortly after the breach came to light, MasterCard and Visa both issued statements acknowledging they had begun investigating a data breach at what Visa called a "third party entity" and MasterCard referred to as a "U.S.-based entity."

Visa's statement referred to "a potential data compromise incident" involving "all major card brands." The company emphasized Visa systems were not breached and reminded the public of its zero liability fraud protection policy.

"Every business that handles payment card information is expected to protect the security and privacy of their customers' financial information by adhering to the highest data protection standards," Visa stated, adding it is taking a proactive approach to news of the breach.

"Visa has provided payment card issuers with the affected account numbers so they can take steps to protect consumers through independent fraud monitoring and, if needed, reissuing cards."

Ongoing investigation

MasterCard said in its statement it is alerting payment card issuers of "certain MasterCard accounts that are potentially at risk" because of the data breach. "Law enforcement has been notified of this matter and the incident is currently the subject of an ongoing forensic review by an independent data security organization," MasterCard said. "It is important to note that MasterCard's own systems have not been compromised in any manner."

Discover Financial Services spokeswoman Laura Gingiss said her company is aware of the breach reports and is monitoring accounts for suspicious activity. She said the card company "will reissue plastics as appropriate" and pointed out Discover customers have no liability for incidents of fraud.

"You shouldn't have to cross your fingers and whisper a prayer when you type in a credit card number on your computer and hit 'Enter.'"

Mary Bono, R-Calif., Chair of the House Subcommittee on Commerce, Manufacturing and Trade

Security sector response

Mark Bower, Vice President of Voltage Security Inc., said payment processors such as Global Payments have been a target of attacks for years. "If there's one industry that absolutely needs to adopt a data-centric security strategy to mitigate breach risk, it's the payments industry," he said.

"And the writing is on the wall for those payment acquirers that don't. The PCI Council recognizes these risks, so it should be no surprise if an organization that relies on older perimeter security strategies is breached and lands on the front pages of newspapers."

Joe Levy, Chief Technology Officer for the security intelligence and analytics company Solera Networks, said, "It would not be surprising if the investigation slowly reveals that the breach involved techniques such as web application exploitation, maneuvering from a compromised public system into the internal systems and that the presence on the network was a longer-term than estimated.

"These tend to be common characteristics of these kinds of events. And it underscores the fact that perimeter defenses are imperfect and will almost always be breached by a sufficiently motivated adversary. It also illustrates the insufficiency of our current incident response practices."

Political perspective

Reports of the data breach also brought a quick response from Congresswoman Mary Bono, R-Calif., Chair of the House Subcommittee on Commerce, Manufacturing and Trade. Bono is co-author of the pending Secure and Fortify Electronic (SAFE) Data Act. "You shouldn't have to cross your

fingers and whisper a prayer when you type in a credit card number on your computer and hit 'Enter,'" she said.

Global in a 'Catch 22'

In an April 3, 2012, conference call, Global Payments Inc. Chairman and Chief Executive Officer Paul Garcia said Global had received a report of compliance with the Payment Card Industry (PCI) Data Security Standard (DSS) prior

to the breach. But Visa stripped away Global's PCI DSS compliant designation following the breach. "[I]t's a little like a Joseph Heller novel *Catch 22*," Garcia said. "You are compliant prior, [but] if something happens, by definition you are no longer."

Regardless, Garcia said the company is working "around the clock" to regain its record of compliance (ROC). "Visa has removed us from the PCI compliance list pending the results and resolution of our work," he said. "Upon reflection, this is not unexpected. We are focused on remediation necessary for full PCI reinstatement. It goes without saying we are providing uninterrupted service to our customers around the world as we speak."

PCI DSS revalidation required

Visa removed Global from its registry of PCI DSS-validated service providers on April 1. "Per our normal process, Visa has asked Global Payments to

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revalidate its PCI DSS compliance," the card brand said in a statement. "The PCI DSS has proven to be a highly effective foundation of minimum security standards when fully, correctly and consistently implemented across all systems handling cardholder data."

In a statement, the PCI Security Standards Council reiterated that the PCI DSS is the "best defense against incidents of this kind. An intrusion need not result in card data compromise if an organization is following the 12 guiding requirements of the PCI Data Security Standard."

Still open for business

Despite the breach and the PCI DSS compliance delisting, Global is still processing payments. "The important thing is we are open for business and processing transactions," Garcia said. When pressed if Global is still processing transactions for Visa, Garcia responded, "Absolutely, positively yes."

The CEO added that long-term relationships with clients, together with "a lot of technical relationships around it," means "today it's business as usual." He noted that the company continues to sign new merchants. "It is not a good thing not to have an ROC, but it doesn't mean we can't sign merchants or can't process," he said.

ISOs, customers OK

Garcia also emphasized the data breach suffered by his company "does not involve our merchants, sales partners or their relationships with their customers. ... Neither merchant systems nor point of sale devices were involved in any way." Garcia asserted that ISOs can be reassured that the breach had no impact on them. "This is not a merchant breach," he said. "This was not an ISO breach. This literally had nothing to do with them – end of story."

Garcia said competitors contacted Global to inform the company they would not "inappropriately" take competitive advantage of the theft – a commitment he said Global made to its competitors when their systems suffered similar incidents of massive data loss.

Garcia noted Global also received positive reports from customers who said they would not abandon the processor because of the breach. "We can't guarantee there will be no fallout," Garcia said. "We were very encouraged by the response."

Liability not yet assessed

Global will not be able to assess its liability until both its own investigation and the federal law enforcement investigations are complete. "Not being PCI compliant has financial liabilities," Garcia said, but added quantifying that liability will not be possible until the investigations are complete. "We can't reasonably estimate charges and costs yet," he added.

A FAQ link on the Global Payments website said, in part, "We are aware that individuals attempting to perpetuate fraud, via the Internet and otherwise, may be using the Global Payments' name or a Global Payments' product name, (Global Transport and logo) to deceive consumers." The company urges customers who believe they have been victimized by fraud to visit the government's Internet Crime Complaint Center at www.ic3.gov and file a complaint. ☒

Gift card providers pull out of N.J.

As a consequence of a New Jersey law that allows the state to seize funds from unused gift cards, card brand American Express Co. removed all of its network-branded gift cards from the J-hooks and displays of retailers in the Garden State. In the wake of AmEx's action, prepaid card distributors InComm and Blackhawk Network announced plans to follow suit.

AmEx said it took the unprecedented step because it could not comply with the law's ZIP code collection mandate requiring retailers to collect the ZIP codes of custom-



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ers who purchase AmEx-branded gift cards at the POS. In statements, InComm and Blackhawk echoed AmEx.

InComm said it would remove its own lines of open-loop, network-branded gift cards from over 2,500 New Jersey retail locations effective June 30, 2012. Blackhawk said it would pull its closed-loop, retailer-branded gift cards, representing more than 175 different brands, from over 1,300 stores in the state. But Blackhawk offered a caveat – that it would begin its June 2012 pullout unless the law was changed in the interim.

New Jersey is using the ZIP code collection requirement as a way to establish the basis for staking a claim to money that lies dormant on unused gift cards purchased within its borders. The requirement is part of New Jersey's unclaimed property law, which was updated in 2010 to include gift cards. Legal wrangling over the law, with a lawsuit involving AmEx, resulted in the striking down of many requirements of the law, but the ZIP code collection mandate remains.

Brooks Smith, President and Chief Executive Officer at InComm, said the law left the distributor "no option other than to cease selling InComm products in the state." Talbott Roche, President of Blackhawk Network, said the distributor and its retail partners could not comply with the law because they have no "cost-effective way to record data from gift card purchasers or their ultimate gift recipients."

Rollback underway

Legislation is working its way through the New Jersey legislature to repeal the gift card provisions of the law. In March 2012, the New Jersey Assembly passed a bill that would remove certain types of stored-value (gift) cards from the list of instruments covered under the law.

A1871, sponsored by Democratic assemblymen Patrick J. Diegnan Jr., Paul D. Moriarty and Gordon M. Johnson, would not only remove gift cards from the ranks of escheatable property, but eliminate any gift cards sold in New Jersey from having expiration dates, thus allowing cardholders access to gift card funds into perpetuity.

Diegnan said the updated law has caused "a significant amount of uncertainty for consumers and businesses alike," while Moriarty characterized the bill as restoring "sanity to the system" and protecting consumers' rights to unclaimed property.

Setting an unsettling precedent

The 3,500 member New Jersey Retail Merchants Association, in tandem with AmEx and the New Jersey Food Council, sued New Jersey over the unclaimed property law. They argued, among other things, that the reporting requirements on gift card purchases stipulated by the law would be too time consuming and costly to

implement, and would result in providers and retailers eliminating gift card programs in New Jersey.

John Holub, President of the NJRMA, said the law makes New Jersey "the most unfriendly state in the country for gift cards," and added, "It's not only anti-business, it's anti-consumer at the same time."

Holub said the New Jersey law was solely a revenue generating initiative for the state. He fears the law, if it stands, will set a precedent for other state governments to follow. "Other states are still struggling with their budgets," he said. "And we certainly don't want anyone else to think this is a good idea and one where they can potentially raise some money."

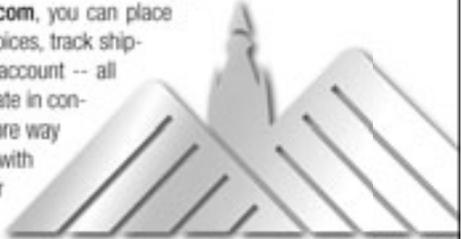
Holub is optimistic New Jersey can repeal the gift card provisions of the law. He anticipates a companion bill to the Assembly bill will be introduced in the New Jersey Senate this May, when the legislature returns from a budget break.

In the meantime, the NJRMA is in ongoing discussions with the administration of New Jersey Gov. Chris Christie to arrive at a solution. "We're hopeful this is going to be resolved sooner than May," Holub said. ☐



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The Mobile Buzz

Mobile payment experts disagree on NFC dominance

A divergence of opinion shook through the first few hours of the Strategic Solutions Network's Mobile Contactless Payment Innovations Summit in San Francisco April 4, 2012. The payments industry's push toward near field communication (NFC) technology was up against a rapidly accumulating and disruptive host of payment technologies that offer advantages NFC doesn't, while avoiding NFC problems.

NFC technology uses a radio frequency embedded in a payment tool, most often a card or a smart device such as a phone or tablet, to send a signal to a receiver in the POS device. The transmitter needs to be close to the receiver, as close as 3 centimeters, for the signal to be received. To make a payment, the sender puts the information into a phone and taps the receiver's phone or POS device to transfer the payment.

Visa's view

Keynote speaker Bill Gajda, Head of Visa Inc.'s Mobile Products division, opened the summit. He said the existence of worldwide NFC standards will allow NFC payment technology to take off because applications and phones can be developed with confidence that they will work around the world. "We don't want to develop on a dead-end technology," he said.

Gajda noted most new mobile phones either include or are going to include NFC technology. He believes this, along with the card company mandate for merchants to accept NFC-enabled cards by 2015, is driving NFC adoption at the POS. He also noted that NFC is poised to extend beyond the POS to such conveniences as peer-to-peer payments.

Argument against NFC

In the next panel, Michael Stephenson, Group Manager of Payment Innovation for TD Canada Trust, said, "Contactless payment doesn't do anything for the consumer." Panel members noted that while NFC provides a secure solution for transactions, the next step is to certify cloud-based transactions so those transactions have a security standard similar to the Payment Card Industry (PCI) Data Security Standard (DSS).

"The barrier around mobile is the accessibility of the technology and the adoption," Stephenson said.

Program master of ceremonies Richard Crone, Chief Executive Officer of Crone Consulting LLC in San Carlos, Calif., said in his presentation that solutions other than NFC will win the day at the POS.

Crone said NFC solutions require an investment by the merchant, but merchants can acquire alternative POS solutions for free that offer them more flexibility with less PCI scope (meaning less security costs) and more opportunities to engage customers.

"Mobile payment is not just about payment," Crone said. "It's about engaging and enrolling customers." Payment software such as that offered by PayPal Inc. and Google Inc. allows merchants to collect and analyze data on customers; contact customers with coupons, offers and rewards; and do back-end calculations.

"NFC is a solution in search of a problem," Crone said. "Commerce renders NFC obsolete." He believes the increasing use of smart-device cameras in conjunction with bar codes and QR [quick response] codes points toward the future of payments. ■



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SellingPrepaid



Prepaid in brief

NEWS

Reward programs lift profits over threefold

An **Incentive Research Foundation** study shows the effectiveness of noncash reward and recognition programs in substantially increasing businesses' bottom lines.

According to *Sales Performance Management 2012: How Best In Class Optimize the Front Line and Grow the Bottom Line*, companies that implement reward programs, such as those tied to prepaid cards, can realize an average revenue increase of 9.6 percent, while companies that don't have reward programs see only 3 percent growth.

Report: Fees dropping on prepaid cards

Competition in the prepaid card industry is forcing down fees on prepaid cards, according to **Consumer Reports**. The analysis of 16 different general purpose reloadable (GPR) prepaid cards showed that seven of the card programs did not charge activation fees, including cards managed by NetSpend Holdings Inc. and the Western Union Co. However, the report faulted businesses for not always offering fee disclosures upfront.

Prepaid electricity metering trends upward

According to clean technology market consultancy **Pike Research**, the adoption of smart meter technology will accelerate the growth of the market for prepaid electricity metering in the United States and globally. "Hardware, software and service vendors are seeing increasing opportunities, as utilities worldwide are preparing to launch new prepaid programs or expand their existing prepaid services to a larger customer base," the consultancy said.

ANNOUNCEMENTS

APPPA opens for business

The **American PrePaid Phonecall Association** opened an office in Washington and launched a website at www.apppa.us. The APPPA is a newly formed association dedicated to the promotion of quality prepaid calling card products.

Google Wallet claims two Paybefore awards

Google Inc.'s mobile wallet venture **Google Wallet** captured two 2012 Paybefore Awards: one for the Best Virtual, Digital or Mobile Prepaid Application and the other for Most Innovative Prepaid Program.

NetSpend debuts BET affinity card

NetSpend unveiled the Control Prepaid MasterCard aimed at Black Entertainment Television viewers. NetSpend cited a Federal Deposit Insurance Corp. survey that said nearly 22 percent of African-American households are unbanked.

Obopay broadens with disbursements

Mobile money transfer specialist **Obopay Inc.** launched Obopay Disbursements, which enables companies to disburse funds from corporate accounts directly into payee bank accounts, onto electronic checks, or via open-loop, network-branded prepaid cards.

CashStar's Stone honored in Maine

The media outlet *MaineBiz* named **David D. Stone**, Chief Executive Officer and co-founder of Portland, Maine.-based digital gifting company CashStar Inc., as a 2012 Leader of the Year.

TMG expands prepaid card program usage

Des Moines, Iowa-based payment solution aggregator **The Members Group** signed four credit unions, two from Texas and two from Iowa. The credit unions will have access to TMG's suite of ATIRA products.

PARTNERSHIPS

Central National Bank issues Carver card

Enid, Okla.-based **Central National Bank**, in collaboration with program manager **Catalina Card Services Inc.**, issued the Carver Cash Access Prepaid Visa card for Carver Federal Savings Bank customers in New York City.

CU advocates launch teen GPR card

The **Credit Union Association of New Mexico** and the national Public Service Credit Union unveiled a Visa Inc.-branded GPR teen card marketed through CUANM's Claim Your Youth program.

Prepay Nation, Globacom expand into Nigeria

Berwyn, Penn.-based mobile prepaid top-up provider **Prepay Nation** allied with Lagos, Nigeria-based mobile telecommunication company **Globacom Ltd.** to allow individuals living in the United States, Canada and Europe to transfer mobile airtime minutes to recipients in Nigeria.

ACQUISITIONS

Google gets TxVia

Google purchased prepaid card processor **TxVia Inc.** In an April 2, 2012, blog post, Osama Bedier, Vice President of Wallet and Payments at Google, said the acquisition will "complement our payments capabilities and accelerate innovation towards our full Google Wallet vision."

AlertPay purchase to enhance MH Pillars

U.K.-based prepaid card provider **MH Pillars Ltd.** said it acquired online payment processor **AlertPay Inc.** to enable MH Pillars to enter the online payments industry. AlertPay reportedly was the first processor to offer money transfers to citizens in Bangladesh.

Webteh merges with Universal Vision Group

International multicurrency prepaid card provider **Universal Vision Group Inc.** merged with Zagreb, Croatia-based online gateway operator **Webteh d.o.o.** The merger will reportedly add hundreds of international clients to UVG's portfolio.

APPOINTMENTS

Trycera Financial appoints two execs

Hector Alvarez and **Amit Patel** were named Vice President of Education and Marketing and Vice President

of Business Development, respectively, at prepaid card program manager **Trycera Financial Inc.**

Calvano joins Green Dot as SVP

Green Dot Corp. hired **Ralph Calvano** as Senior Vice President, Processing, to lead Green Dot's effort to bring prepaid card processing functionality in-house.

Brightwell grows team

Maritime payroll card provider **Brightwell Payments Inc.** expanded its business development team with the additions of **Helen Child** as European Business Development Consultant and **Michael Ross** as Senior Vice President of Business Development.

Mackenzie heads to Plastic Jungle

Margaret Mackenzie joined **Plastic Jungle** as the gift card exchange operator's Head of Acquiring Channels. She will be responsible for working with channel partners to facilitate exchanges between different forms of currency, such as gift card funds to loyalty points.

m-Via makes hire for Mexico initiative

Money transfer provider **m-Via** appointed **Alfred Pepping IV** to the position of Managing Director and General Manager, Mexico. He will be responsible for generating sales in Mexico and Central America.

SelectCore taps Taylor for board

Phone card processor **SelectCore Ltd.** appointed **Kevin Taylor** to its board of directors. Taylor is a veteran of the wireless telecommunication industry.

Wilson named to PrepaYd position

As **PrepaYd Inc.** expands its prepaid card solution set to include wireless and mobile payments, it hired **Jonathan Wilson** as its Controller, Vice President of Finance and In-House Counsel. 



Features

Demands of a standardized fee disclosure box

The Chicago-based Center for Financial Services Innovation is spearheading an effort to formalize a box that would be used industrywide to disclose fees on prepaid cards. The CFSI

Selling Prepaid

believes the prepaid card industry will not expand its user demographic unless it adopts a standardized fee disclosure box.

In a white paper entitled *Thinking Inside The Box: Improving Consumer Outcomes Through Better Fee Disclosure for Prepaid Cards*, CFSI Policy Manager David Newville wrote that prepaid cards have two major weaknesses: lack of federally mandated consumer protections and lax fee disclosures.

Without improvement in those areas, "prepaid cards are unlikely to appeal to a broader group of consumers," he said. Improving fee disclosures is especially important because of evidence indicating why low-income consumers abandon banks.

Newville cited a Pew Health Group study of low-income households in Los Angeles that showed consumers in one third of those households closed their bank accounts to escape unexpected or unclear fees the banks imposed on them. "It is likely that low-income consumers have similar experiences with prepaid cards," Newville wrote.

Five main recommendations

The CFSI offered five main recommendations for a standardized fee disclosure box.

The box should incorporate:

- Simple, clear and straightforward language
- Thoughtful design and formatting
- A careful balance of the most important/common fees
- Information that encourages positive money management choices
- Clear and consistent box placement on packaging and websites

Newville said over half of the adult population in the United States reads at or below an eighth grade level, while typical credit card disclosures are written at between 10th and 12th grade levels. Therefore, businesses should avoid industry jargon in fee box language. "Thoughtful design and formatting can make it easier for consumers to understand disclosures and more likely to read them in the first place," Newville added.

Fees, categories and the CFPB

The box model designed by the CFSI contains 14 fees organized into six categories. Newville said the number of fees was reached by determining the most common fees and limiting them to two or three per category.



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Simplicity is key as he referenced research from the University of Michigan Law School Empirical Legal Studies Center that showed people typically remember only seven pieces of information at a time.

Newville said regulators could mandate how many fees must be disclosed, but not the types, thus leaving that decision up to prepaid card providers. "This technique would force simplicity while providing each company the flexibility to charge appropriately for the services their customers use," Newville noted.

The CFSI calls for the Consumer Financial Protection Bureau to adopt the center's model fee disclosure box, or one similar, and expand the dialogue with industry stakeholders. "Taking these steps will ultimately benefit consumers and industry alike, as well as increase the potential of prepaid cards to help consumers achieve greater financial stability and prosperity," Newville wrote. 📌

How consumer segmentation leads to success

Gift card usage continues to rise and ever more data is available on the behavior of gift card buyers. The trick is how to translate that information into more productive gift card programs, according to Michael Hursta, Vice President, Prepaid Category Manager at First Data Corp.

"The gift card is such an interesting tool for merchants and creates such an emotional connection with customers," Hursta said. "But the messaging [retailers] use to talk about these products, especially within their store or on their websites, is monolithic. And it's the same story that everybody sees. It's one message."

But with processing companies like First Data capturing so much purchase and usage information about consumers, merchants can tailor messages to resonate with a variety of consumer segments. "You need to have different messages for different consumer groups," Hursta said.

"And the beauty of some of the new technologies that are out there is that you can micromanage the channels and the way that your message is getting out there, so the right groups are hearing the right message."

Defining segments

First Data's inaugural *2011 U.S. Prepaid Consumer Insights Study*, conducted in collaboration with Market Strategies International, reported that the market for closed-loop, retailer-specific gift cards continues to grow. The average

amount spent per gift card in 2011 jumped 23 percent from 2010.

The average annual amount consumers spent on gift cards in 2011 was \$211, up from \$161 the previous year. Behind those numbers is segmentation data that First Data used to formulate five gift card buyer profiles.

At the top of the list are Budget Tamers – consumers who purchase over \$500 in gift cards per year to budget discretionary spending at places like discount stores and coffee shops. Next are Card Enthusiasts who buy gift cards for special occasions, such as holidays and birthdays, and like to receive gift cards as well.

Helpful Husbands and Convenience Shoppers follow, with the former not particularly excited about gift card buying and receiving, but buy the cards as Christmas gifts, while the latter substitute gift cards when they can't find their primary gifts. The final category is Last Resort – consumers who buy gift cards at the last minute, but otherwise find them too impersonal to give or receive.

From data to displays

Segmentation data is only useful when the information is appropriately applied. "For the Budget Tamers, these are individuals that are very interested in making sure that they know how their money is being spent," Hursta said. "And they find that prepaid cards are a very effective way of categorizing their money into entertainment, food and fuel."

So First Data recommends that merchants hoping to attract Budget Tamers provide gift card registration and reload programs where budget conscious consumers can safely and securely register and reload gift cards.

The same thinking goes for Convenience Shoppers. If they cannot find the gifts they are looking for and gift card displays are not nearby, the merchant has likely just lost a customer for good, Hursta said.

"If it's not convenient for them, and they felt like they went to that store and wasted their time, then you've changed their mindset," he noted. "Now they're not going to use that store as a place to shop."

So First Data advises merchants focused on this consumer segment to recognize their purchase preferences. If popular items are out of stock, and merchants know Convenience Shoppers will be looking for them, merchants should place gift card displays where the sought-after products would normally be found.

Hursta believes when their favorite items are unavailable, Convenience Shoppers will turn to gift cards, and be happy about it, thus reinforcing what merchants should strive for: convenient shopping experiences that spur repeat business. 📌



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Insiders report on payments**Has payment fraud become SOP?**

By Patti Murphy

ProScribes Inc.

Recent news reports have got me thinking – is payments fraud just another cost of doing business in our 21st century economy? Payment fraud is a many-armed bandit. Specific frauds include, but are not limited to, writing bad checks, initiating fraudulent transactions through the automated clearing house (ACH) system, and unauthorized use of credit and debit cards.

Data hacks are one of the leading causes of many of these frauds, especially credit and debit card fraud.

According to the Association for Financial Professionals' *2012 Payments Fraud and Control Survey*, sponsored by JPMorgan Chase & Co., two-thirds of the largest U.S. companies were targets of payment fraud in 2011, yet 74 percent of those companies lost no money as a result.

The AFP, a Bethesda, Md., group that supports corporate treasury professionals, polls a cross-section of U.S. companies each year. It said most companies emerged unscathed from their brushes with fraud because they had adopted good fraud mitigation policies, including the Payment Card Industry (PCI) Data Security Standard (DSS). In fact, the AFP found the typical corporation spends \$18,500 per year on PCI compliance.

"Although attempted attacks still occurred in 2011, financial loss was typically avoided because companies have taken steps to eliminate vulnerabilities," said Jim Kaitz, President and Chief Executive Officer at the AFP. Or, as Ben Franklin so astutely observed, "An ounce of prevention is worth a pound of cure."

Standard operating procedure blues

Don't fool yourselves into thinking fraudsters are looking for new lines of work, however. Instead, they're looking for the next big score, and merchant acquirers and processors, with their massive databases of card and cardholder information, fit the bill. Think companies like Heartland Payment Systems Inc. or, more recently, Global Payments Inc.

"The owners of critical information systems need to invest in more than prevention – they also need to invest in preparation for these sorts of inevitabilities," said Joe Levy, Chief Technology Officer at security company Solera Networks Inc.

In 2009, Heartland became the first top 10 merchant acquirer to reveal its systems had been hacked. At the time, word on the street was the Princeton, N.J.-based acquirer was a goner. There was no mass exodus of clients at Heartland, however. In fact, the company leveraged the event to its advantage by developing inexpensive card readers that rely on industrial strength encryption to secure data.

Global Payments discovered hackers had breached its networks in late March 2012, stealing data on 1.5 million Visa Inc. and MasterCard Worldwide accounts. As a consequence, the leading acquirer lost its spot on the Visa/MasterCard lists of PCI DSS compliant processors.

Other than that, the fallout was modest. In a week that saw the New York Stock Exchange's composite average share price drop by 20 percent or more, Global's stock took a relatively modest hit of 10 percent.

The remediation two-step

So what happens when a company gets blacklisted for being out of step with PCI? It doesn't seem like much, outside of spending a lot of time and money on remediation and fines, if the Heartland and Global experiences are the norm.

Paul Garcia, Global's CEO, said in a conference call with investors in early April that the data compromise was confined to Track 2 card data. That means personal information, like Social Security numbers, names and addresses weren't compromised, as far as Global can tell.

"It goes without saying that we are providing uninterrupted service 24 hours per day to our customers around the world as we speak," Garcia said.

Pretty much the same thing happened at Heartland, which spent months and millions of dollars on remediation before getting placed back on the card brands' lists of approved processors. Sales and processing continued pretty much uninterrupted.

I don't get it. If an acquirer is found to be out of compliance with PCI, aren't its customers out of compliance if they continue to process card payments through the non-compliant processor?

Mark Bower, Vice President, Product Management at data security firm Voltage Security Inc., said situations like these illustrate the need for strong security protocols. "Alarm bells have been ringing loudly on these risks for years – payment processors are a top target for attackers," he said. "If there is one industry that absolutely needs to adopt a data-centric security strategy to mitigate breach risk, it's the payments industry.

"And the writing is on the wall for those payment acquirers that don't."

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Checks are risky business

This becomes ever more important as more companies migrate payables from checks to electronic payments. There is a downside to this trend "Now fraudsters have shifted their focus to higher-value payoffs, including attempting to hack into corporate accounts," the AFP's Kaitz said.

Stephen Markwell, Executive Director of J.P. Morgan Treasury Services, said, "With the proliferation of payment options, fraudsters are constantly exploring new and bolder ways to perpetrate fraud." Yet, Markwell insisted technology advances make it easier to stay ahead of the bad guys.

"Sophisticated new fraud protection technologies are making it possible to combat fraud more effectively and efficiently, reducing the potential for losses and protecting critical assets," he said.

Not surprisingly, the AFP survey suggests larger companies are more vulnerable to payment fraud than are smaller firms. Also, retailers and other consumer-facing industries experience payment fraud rates that are 15 percent to 20 percent higher than other industries.

Other interesting insights came out of AFP's survey. In 2011:

- 66 percent of companies surveyed said they experienced actual or attempted payment fraud, down from 71 percent in 2010.
- 12 percent of companies reported that fraud attacks involved compromised user identification/passwords or other access credentials.
- 74 percent of companies that were victims of actual or attempted payment fraud reported no financial losses from it.
- \$19,200 was the typical monetary loss from companies victimized by payment fraud.
- 62 percent of companies reported being hit by check fraud, making checks the payment method most vulnerable to fraud; in 85 percent of those cases, the company's checks were counterfeited.
- 14 percent of companies experienced ACH fraud.
- 20 percent of companies reported purchasing cards accounted for fraud they experienced.
- 5 percent of companies reported being victims of fraud via payroll and other benefit-related corporate cards. 📄

Patti Murphy is Senior Editor of The Green Sheet and President of ProScribes Inc. She is also the founder of InsideMicrofinance.com. Email her at patti@greensheet.com.



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ISOs and MLSs: How banking changes will affect you

By Brandes Elitch

CrossCheck Inc.

Sometimes we need to hear from industry experts – just to get a proper attitude adjustment. Recently, I got the current take on the world of banking at the annual Jack Henry & Associates' user conference. JHA is a billion dollar public company that provides core processing for financial institutions. Its ProfitStars subsidiary focuses on the payment processing business.

While speakers covered many themes, my key take-away was this: Although ISOs and merchant level salespeople (MLSs) live in the card processing space, we should not forget that the checking account is the locus for all payment activity.

Firms like PayPal Inc. and Green Dot Corp. may perform many banking functions. But at any business that is not a sole proprietorship, all payments begin and end at its checking account. That is not going to change during your career.

Big fish getting bigger

Consolidation is moving with a vengeance in both banking and the card industry. Visa Inc. acquired CyberSource, PlaySpan and Fundamo. Since 2009, the number of Visa cards jumped by about 200 million to 1.9 billion, and total volume increased to \$5.9 trillion, from \$4.3 trillion. During those two years, Visa's operating revenues increased 33 percent, to \$9.19 billion in 2011, and net income grew 67 percent, to \$3.53 billion.

Analysts project that by 2020, half of all online payments will originate on mobile devices. Beyond its main competitors MasterCard Worldwide and American Express Co., Visa does not have much serious competition. As big as Visa is, it is still a growth stock that will command the biggest market share in this space.

Consolidation in the payments industry has been spurred by the commoditization of the processing business, according to the recent Capgemini white paper, *Global Trends in the Payment Card Industry: Processors*. The report

finds that merger activity and joint ventures with banks have driven large processors to consolidate their platforms and processing centers. The report identifies three drivers for this:

- Large banks have either outsourced or disposed of their noncore acquiring business to processors.
- Large issuers' and acquirers' increased focus on cost has compressed margins for processors.
- Processors want to improve profit by building scale and lowering operational costs.

Interestingly, even some large players don't have much economy of scale because they have multiple, nonintegrated legacy platforms for different product lines and regions. For example, First Data Corp. has a dozen data centers. When consolidation occurs, this affects you, as an ISO or MLS, by forcing changes to systems already installed at merchant locations.

Proceed with caution

At the conference, Lee Wetherington, ProfitStars Director of Strategic Insight, advised the industry to tread carefully when placing bets on new technology while big players take different, incompatible paths. Pitfalls abound.

Since 2009, the number of Visa cards jumped by about 200 million to 1.9 billion, and total volume increased to \$5.9 trillion, from \$4.3 trillion

For example, Google Wallet was developed by the leader in search technology, but it is now contending with security flaws. PayPal, an eBay Inc. company, is not on board with near field communication. PayPal will use no device; people can just enter their mobile numbers. The payment company has claimed to be a third-party network, and it is exempt from the cap imposed on large banks by the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Visa, MasterCard, Discover Financial Services and AmEx have Isis, a creation of JVL Ventures LLC. But working exclusively with Isis is not the best strategy. And finally, Wal-Mart Stores Inc. and Target Corp. are at work on their own mobile ventures, which will have no interchange, period.

Wetherington sees several opportunities for a diversity of banks. They may:

- Capture the checking account market from big banks that are constrained by Durbin Amendment caps
- Look for co-branding partnerships on general-purpose reloadable prepaid cards



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View

- Serve the growing population of the unbanked, underbanked and generation Y
- Generate new fee revenue with merchant-funded rewards, offered inside online statements and in real time via mobile texts, the latter of which employ geolocation technology.

Wetherington pointed out that small banks have a secret weapon. "Google owns Android and online advertising, and they have all this data to track you," he said. "But the one thing that they do not have is the holy grail: transaction data in the checking account. The banks have this."

He sees the consumer shopping experience changing, too, as merchants deliver push notifications to consumers offering, say, an immediate 10 percent discount. Consumers' GPS-enabled phones will take them to the store where they will click on the bar code, and it's done. See BillShrink (www.truaxis.com/merchants) to see how rewards can be listed on debit card statements. You can leverage merchant-funded rewards to incentivize or even compel migration of offline consumers to online self-service.

Opportunity for ISOs and MLSs

In another presentation, Deborah Matthews spoke about

a key service that ISOs and MLSs can sell: remote deposit capture (RDC). Her point: half of all small businesses would change banks for the right technology package.

Celent LLC estimates the 7,100 financial institutions (FIs) in the United States have helped deploy some 754,000 scanners across the country, or about 100 per institution. Adoption at large FIs is expected to rise to 25 percent, from 13 percent. And at midsize banks (\$1 billion to \$10 billion in assets), adoption will rise over the next few years to 21 percent, from 9 percent now.

It costs a bank \$4 to process a branch deposit. Subtracting overhead, the cost is \$1.66. Processing an RDC transaction costs about 8 cents. ISOs and MLSs can sell this service for the banks, which have proven somewhat inept at doing it themselves.

Searching for stability

JHA Chief Financial Officer Kevin Williams noted that a small business needs a stable banking relationship with minimal uncertainty. Tools like RDC, online bill pay, Internet banking, treasury services, and a small business account (providing account reconciliation, payroll, card processing, and collection of accounts receivable) will make the relationships sticky for both parties.

Williams sees a shift to consolidation, as long-term customers who used to do in-house data processing are now outsourcing. This is due to the complexity and exposure of compliance and regulatory requirements, human resource issues, disaster recovery, security, hardware upgrades, and availability of offerings. Corporate clients see a good core processor as a way to solve risk exposure.

And to bring perspective to the recent financial meltdown, Williams reminded his audience that from 1989 to 1995 the Resolution Trust Corp. closed 747 thrifts with total assets of \$394 billion. He cited a 48 percent consolidation of FIs in the last 20 years and predicted it will continue at a pace of 2 to 4 percent a year.

It is an exciting time to be in the payments and financial services industries. You are a part of it, and as Wetherington reminds us, it is important to place your technology bets wisely. Shut out the noise and the hype. When evaluating your options, be deliberate, thoughtful and focused. ■

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

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Chargeback champions at your service

For many merchants and the ISOs that serve them, chargebacks are a perpetual and elusive source of distress. Trying to discern between legitimate transactions and fraud – and between valid claims to chargebacks and unfounded ones – can require levels of time and scrutiny that most ISOs simply don't have.

According to Chargeback Guardian President Mark Standfield, Chargeback Guardian provides a gateway-neutral service that monitors a merchant's chargebacks, analyzes patterns to pinpoint causes, reports its findings to the ISO and merchant, and implements highly customized measures to reduce chargeback levels and maximize sales volume. "A lot of times, ISOs see a problem with fraud but don't understand why it's occurring," Standfield said.

In addition to its investigation-based fraud prevention service, Chargeback Guardian's product suite includes services for fighting chargeback disputes, dealing with the thorny logistics of monetary recovery and preventing big losses through a special kind of fraud insurance, according to Standfield.

He added that Chargeback Guardian is available to ISOs both as a value-added product sold to merchants, as well as one employed for protection by the ISOs themselves (since they, too, can bear the burden for fraud, chargebacks and other monetary issues that arise with their merchant customers).

"Sometimes when there's a problem, ISOs don't find out about it until it's full-blown," Standfield said. "Our compliancy and monitoring service is designed not just to prevent chargebacks to merchants, but also as an alert system for ISOs so they can see if something is out of whack and take the proper action."

Preventing fraud

Chargeback Guardian's fraud-prevention strategy comprises two fundamental parts. Part one involves a close monitoring of merchant transactions, using both algorithmic software and human analysis to size up the sources of fraud and the holes in a merchant's payment acceptance system. Part two is then recommending to the merchant or the merchant's ISO a customized approach to targeting the problem, based on the findings of the analysis.

"We watch transactions flowing through the gateway, so we can then ... identify the problem and take that knowledge to the front-end, so [the fraud issues] don't occur," said Frank Weinrauch, Vice President of Business Development for Chargeback Guardian.

Standfield added, "A lot of [fraud-detection] systems are either all on or all off. It's either, 'We're going to block this and you can review it,' or, 'We'll let it through and not follow up.' Our system is set up to monitor based on what goes through, and then to go upstream and use that information as a basis for optimizing our filtration."

Chargeback Guardian's layered approach of computer-based algorithmic detection reinforced by human analysis is particularly handy when anomalies crop

Company Profile

In addition to conducting data analyses, Chargeback Guardian representatives may also conduct first-hand investigations into both existing chargebacks and, more generally, into issues that could give rise to chargebacks.

up that defy historic patterns, according to Standfield. Fraud indicators and how fraud is perpetrated can vary greatly even between merchants who operate within the same vertical, he added. Chargeback Guardian is not simply designed to block or let through transactions based on broad patterns within merchant verticals, but rather based on the specific information culled from a particular merchant's living records, he noted.

"We do have some information across industries that says, 'Typically this is what you see,' but just because somebody gets chargebacks over here doesn't mean those same chargebacks will apply to another merchant," Standfield said. "Typically, fraudsters are smarter than that. He added that trends within merchant verticals are an indicator, but not the only indicator.

"The causes and types of fraud vary greatly between merchants," Weinrauch said. "Those things also change as a merchant adapts and changes their model, so we make sure to adapt with them. We'll use a constantly fine-tuned system to let through the most profitable transactions or least risky ones in this business's world. Our job is to give merchants a heads up of where their business is."

With most clients, Chargeback Guardian begins its work without implementing any new fraud controls (unless otherwise directed by a client), but rather by allowing transactions to flow through a merchant's gateway as they normally would – only observing those transactions with a careful eye.

The company will then put its findings into a report prepared for the ISO, the merchant or both that provides details about chargebacks, and, more broadly, about the detection of patterns that indicate possible vulnerabilities or shortcomings around chargeback prevention.

Investigating chargebacks

Not all chargebacks are rooted in fraud, of course. Part of Chargeback Guardian's service is also identifying issues that prompt legitimate customers to seek refunds, such as customers who grow exasperated by a product or service that falls short of their purchase expectations. For example, whether frustrated customers either keep or return a new tech gadget that they're struggling to understand may hinge on the quality of the tech support that assists them in figuring it out.

"Chargebacks can happen for a variety of reasons other

than it being something that's flat illegal," Weinrauch said. "The cause can be poor customer service, long hold times; it could be the company's on the East Coast and hasn't adjusted their service times to the West Coast – any number of experiences."

As an example Weinrauch mentioned a merchant who rarely experiences chargebacks. "Then a new product is launched and, suddenly, chargebacks are through the roof," he said. "We look at before and after. In this case, maybe they were initially providing an instant gratification [product], and now they're doing custom work that takes three weeks. That's a lot of time for things to happen; customers can change their mind for one reason or another."

In addition to conducting data analyses, Chargeback Guardian representatives may also conduct first-hand investigations into both existing chargebacks and, more generally, into issues that could give rise to chargebacks, according to Standfield.

For example, they may pull phone logs and other data to determine if customer complaints around wait times are valid, or (posing as a customer) call a merchant's customer service line to test the quality of that service first-hand.

Disputing chargebacks

Preventing chargebacks is not Chargeback Guardian's sole focus. It also offers a program to help merchants and ISOs fight existing chargebacks and, as they occur, new ones. "We'll pick the chargebacks [to dispute], and in doing so we're gathering data so we can prevent chargebacks from happening going forward," Standfield said.

Standfield noted that disputing chargebacks becomes easier as the relationship between Chargeback Guardian and a client matures, because the more data that's tracked, the easier it becomes to prevent chargebacks and, where they do occur, to assess whether a chargeback claim is legitimate.

According to Standfield, a big part of the chargeback dispute process is not only identifying chargebacks that merit rejection or reversal, but also following through with the necessary footwork. Chargeback Guardian takes care of that step as well, which can be a major relief for merchants who face high chargeback levels and the complicated issues that surround them, he said.

"We'll pick the chargebacks [to dispute], and once the mer-

chant is notified, we'll reply to the bank on behalf of the merchant based on the data we've gathered," Standfield said. "We are taking the hassle away from merchants, and also gathering data so that we can prevent chargebacks from happening going forward." For ISOs and merchants, no upfront payment is required for Chargeback Guardian's chargeback dispute service; rather, the company is paid a percentage of the money it recovers.

According to Standfield, it's a no-lose proposition because the client is always getting back significantly more money from the reversal of disputed chargebacks than it is paying to Chargeback Guardian to fight those chargebacks. "If a merchant has a lot of chargebacks that they can't pay and the ISO isn't holding enough in reserves ... the ISO becomes liable, and they know it," Standfield said.

Providing insurance

To further protect ISOs from potentially devastating losses brought about by merchant bankruptcies and the peril of excessive chargebacks, Chargeback Guardian rolled out its newest offering: an insurance policy that covers an ISO in the event of such losses. The policy is unique in a couple ways, according to Standfield. One, it isn't a portfolio product, meaning ISOs aren't required to use it with all their merchants, but rather can pick and choose which merchants to use it with.

Second, if a merchant goes bankrupt or otherwise collapses, the ISO's merchant reserves can be used the way they normally would be, rather than being taken out against the policy – as similar insurance policies commonly require, Weinrauch said.

Thus, while the policy is specifically meant to cover the financial burden of huge chargeback levels, it does not fine the ISO for related but technically different charges such as fines levied by the card brands and other entities. Instead, ISOs can use their reserves for any expenses they want, and then use Chargeback Guardian's insurance policy to cover the entirety of their costs relating to a merchant's bankruptcy, according to Weinrauch.

"This is going to become a hotter and hotter issue," Weinrauch said, adding that the Federal Deposit Insurance Corp. is informing ISOs they are responsible for their merchants and telling banks that ISOs are responsible for merchants, as well.

That's just one of the areas Chargeback Guardian aims to make a difference. Weinrauch believes the company's comprehensive offerings can provide ISOs and their merchant customers strong protection to help them not only deal with the many challenges chargebacks pose in today's world, but also to thrive in the process. 



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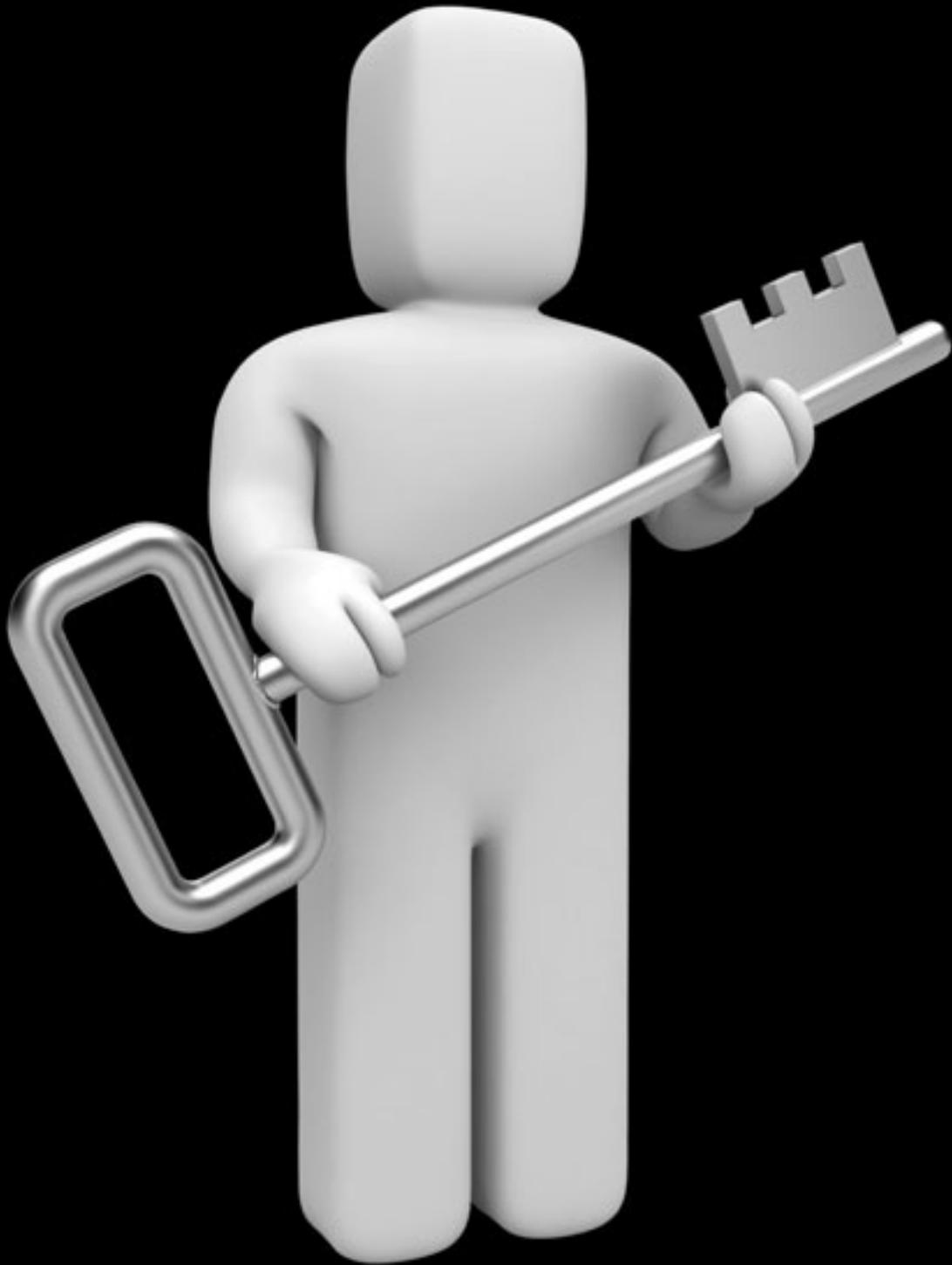
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Mobile payments from page 1

device. One service provider gaining traction in this market is E la Carte. The Silicon Valley-based startup offers the Presto, a tablet that allows patrons to select and purchase from restaurant menus at the table.

Abtin Hamidi, Director of Sales at E la Carte, said the Presto was born a few years ago when the company founders, students at Massachusetts Institute of Technology, were sitting in a Boston restaurant and eager to get the check and hurry off to class. But the server wasn't around. Hamidi said, "That's where the thought came from: 'Why do we have to wait for the server? Why can't we just order when I'm ready and why can't I pay when I'm ready?'"

After two years of development time, the Presto was rolled out in 2011; the company now has locations live in California, Illinois, Massachusetts, New York and Florida. While the Presto is not a POS terminal in itself, it connects wirelessly to restaurant POS systems, Hamidi noted. As an extension of the POS, the Presto is offering restaurants impressive value.

Hamidi said the Presto is boosting check size by 10 percent, as tablets have proven to spur impulse buying, especially before meals, when people are hungry. "You're probably more prone to ordering desserts then, than when you're stuffed after your meal," Hamidi said.

The Presto has also speeded up table turn by several minutes, resulting in restaurants being able to serve more patrons. "And that's just the credit card processing time if you think about it," Hamidi said. "By the time I give you my credit card and you come back and I sign it, it takes about seven minutes."

Hamidi rattled off more benefits of the Presto. It increases loyalty program enrollment over ninefold. It offers detailed reporting of user behavior, which helps restaurateurs target customers, refine menus and personalize offerings. It splits checks and boosts tips, as well, which must come as a great joy to servers. The default tip setting on the Presto is 20 percent, which almost 90 percent of patrons choose, Hamidi said.

Hamidi stressed the Presto is not a replacement for servers, but a way to free them up from the tedium of order taking and bill processing. On busy nights, when servers are reduced to "survival mode," customer engagement suffers, Hamidi said. Not so with the Presto, he added, which allows servers time to engage customers in more meaningful ways and provide more personalized service.

Device diversity

Tablets are not ideal for every restaurant environment, however. Heather Mark, Senior Vice President of Market Strategy at ProPay Inc., sees high-end restaurants as a venue where smart phones could succeed. In such establishments, patrons expect a level of personal service a self-

service setup could not deliver, but where a less obtrusive smart phone would make a better fit. That distinction just points out what excites Mark about the mobile POS space.

"There are so many different applications for each different incarnation," she said. "I'm less inclined to think that either the tablet or the smart phone will win out. I'm more inclined to think that they both will find their place in areas where it really makes sense to have a smart phone or a tablet."

The Orem, Utah-based ISO has been at the forefront of the mobile merchant sector. In 2008 it rolled out the MicroSecure Card Reader, now marketed as the ProPay Flash – a simple, pocket-sized, payment-only device designed for door-to-door salespeople and other independent sales forces.

Then, as smart phone adoption exploded, it launched the ProPay JAK – a dongle that plugs into the audio jack of smart phones. The devices fit different user profiles but offer the same main benefits – mobility and flexibility.

ProPay Vice President of Marketing Scott Nelson, said, "If you're in a convention hall with your smart phone and you can't get good cell coverage, you can operate both these devices in a suspended mode, swipe the card, capture the data, encrypt it, and then process [the transactions] when you do have access, either through your data plan, or you can connect the device to a PC and connect to the Internet."

Variety in-store

The choice of tablet or smart phone as the preferred mobile payment acceptance device rests on many factors. Small, independent contractors might prefer smart phones because of their lightweight portability and durability. Alternatively, large corporations might choose to outfit sales staffs with tablets for integrated enterprise resource planning (ERP) initiatives.

Meritus' Kleinman said ERP strategies employ tablets as more than just mobile POS terminals, using them as portable, mini offices that tie in lead generation, enterprise-wide communication and sales, as well. "As it becomes more integrated, it creates so much more value to that company," he said.

Choosing one over the other may be a product of the number of variables of a particular business's products or services. A pool cleaner with relatively fixed prices is a prime candidate for a smart phone, according to Kleinman. On the other hand, if you're a clothing retailer, the tablet seems the way to go.

"When you're launching your clothing line for the season, you might have 50 different SKUs [stock keeping units], multiple different colors, multiple different sizes," Kleinman said. "And you're able to show it to [potential

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customers] immediately, as well as the rich images and the ability to create those visual effects. Before the tablet, they were never able to do that."

Another variable is processing volume. Kleinman puts the arbitrary cutoff point at \$1,000 per month. A vendor processing under that number would likely not have the need for a tablet. "But if you're selling significant volume, that's where you're going to invest in the tablet and make sure that that application you provide enables you to really leverage technology to grow your business," Kleinman said.

Keep-in-touch connectivity

For some merchants, however, the difference between mobile POS solutions is negligible. That blurring of the benefits of one device over another is likely to increase over time, as the very idea of the retail POS environment changes into one that facilitates more fluid and dynamic communication between consumers and retailers.

In such a scenario, the mobile device itself is not as important as how it connects service providers with clients, according to Richard Crone of Crone Consulting LLC. Crone said that connection establishes five mobile trigger points – locating, check-in, in-store self-service, payment and post-confirmation promotion – with each trigger point corresponding to a different step in the sales process.

Crone laid out the five steps. The mobile device locates a customer who may be investigating a product on a smart phone. That customer then checks into a store by scanning a quick response (QR) code, for example, which offers

an opportunity for the sales rep to interact with the customer mobilely or face-to-face.

The customer may then self-checkout and pay for a product with a mobile device, which leads to the final point, where the retailer follows up with the purchaser to reinforce the consumer experience and offer incentives for repeat business.

"At that point the sales cycle starts all over again," Crone said. "It's now circular rather than linear. It's now dynamic and continuous, rather than sequential, with a defined stop and start. It's now an infinite loop rather than a timed, perishable sequence."

Mobile on up

Crone believes the brick-and-mortar Apple Stores typify this new retail POS environment, where sales reps roam showrooms with either tablets or smart phones, and sometimes both. The mobility Apple reps display reflects the two things Apple Stores eliminate: checkout counters and the lines of customers that accompany them.

Thus, mobile POS devices "drive the effectiveness of the sales and merchandising process at the aisle level, not at the checkout level," Crone said.

Such environments eliminate one more thing: the need for customers to flash payment cards to make purchases. Crone noted that payments in Apple Stores are made simply by customers accessing their iTunes accounts by inputting user names and passwords.

ProPay offers a similar cloud service, called ProPay Link, through which consumers and retailers connect via ProPay's virtual network. Consumers download the ProPay Link app to mobile devices, which allows them access to a wireless communication channel with merchants setup with ProPay accounts.

Via the app, diners can reserve tables and pay for meals at their favorite eateries without having to take out plastic at the end of the meal, or they can accel-

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erate the purchase of a particular shirt in a specific size at a local department store without having to schlep to the store, Mark said. And merchants can take advantage of ProPay Link's real-time communications and marketing capabilities to enrich and deepen connections with consumers.

"We really looked at building a business enablement tool for the merchant, more than just another payment acceptance channel," Mark said.

Mobilize now

Cloud services like ProPay Link could effectively eliminate the need for POS devices, whether they be stand-alone or mobile terminals. It is therefore safe to say that mobile POS acceptance devices could represent a transition to cloud accounts where mobile wallets, let alone physical ones, are unnecessary.

If that scenario represents the future, the time to investigate it is now, before merchants realize their standard card readers are obsolete and jump to mobile POS vendors. Kleinman puts it down to evolve or die. "If you haven't evolved, then you have diminishing assets," he said. "And what I mean by that is your merchant portfolio. You've got to continue to invest and change."

Crone offered a homework assignment for ISOs and merchant level salespeople (MLSs): visit your local Apple Stores – and while you're at it, get a latte at your local Starbucks as well, he said, as both "best-in-class" retailers have grasped how to leverage and implement mobile technology.

Crone said sales reps should then take what they observed and turn to merchants in their own portfolios. "They should go back at every business they have and talk about a virtual point of sale inside their store, either using their own mobile phone when their reps go outside the store or using a tablet when they're in-store," he advised. "This is an opportunity for a new sale to their existing customers which, by the way, is the easiest sale to make."

Even mom-and-pop operations with one register apiece should not be overlooked. "You can power that store owner with the ability to process a transaction on a smart phone, give that same capability to do it on his tablet," Crone said. "And so as sales go through the roof that day, they can empower the sales representative on the floor to take sales, as well as a manager can take sales. ... If every MLS knew that they could sell one to two of these [mobile] units right now, they could double their sales, at least – what's that worth to them?" 

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Durbin's impact on major banks

Since the October 2011 implementation of debit fee interchange regulation under the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, experts have kept an eye on its fiscal impact on banks, merchants and consumers. The regulation limits debit interchange fees charged by banks with assets of \$10 billion or more to an average 24 cents per transaction, down from the prior average of 44 cents.

SNL Financial LC monitors the 20 largest U.S. public bank holding companies based on quarterly regulatory filings. "As predicted, the Durbin limits had a noticeable impact on some banks, while other large financial institutions like American Express Co. and Citigroup Inc. were left relatively unscathed because they either do not issue debit cards, or debit interchange revenue is not a meaningful source of income for the companies," SNL stated in a recent report.

Bank & credit card interchange fees (\$M)

Company (ticker)	Q4 2010	Q3 2011	Q4 2011
American Express Co. (AXP)	3,862.6	4,218.0	4,336.0
JPMorgan Chase & Co. (JPM)	1,149.0	1,383.0	1,120.0
Bank of America Corp. (BAC)	1,539.7	1,494.0	1,053.2
Citigroup Inc. (C)	580.0	683.0	685.0
Wells Fargo & Co. (WFC)	888.0	948.0	611.0
Capital One Financial Corp. (COF)	349.7	320.7	346.1
Discover Financial Services (DFS)	311.7	269.8	281.0
U.S. Bancorp (USB)	293.0	289.0	231.0
PNC Financial Services Group Inc. (PNC)	135.3	151.3	92.0
BB&T Corp. (BBT)	39.0	208.4	63.2
Fifth Third Bancorp (FITB)	76.9	68.6	53.8
Regions Financial Corp. (RF)	96.8	102.4	51.6
SunTrust Banks Inc. (STI)	88.2	93.6	49.7
M&T Bank Corp. (MTB)	41.6	46.3	37.1
Commerce Bancshares Inc. (CBSH)	41.0	42.1	36.2
KeyCorp (KEY)	30.1	32.2	16.6
Huntington Bancshares Inc. (HBAN)	25.6	28.8	14.5
TCF Financial Corp. (TCB)	27.6	27.7	13.6
BOK Financial Corp. (BOKF)	16.5	18.4	12.2
Zions Bancorp (ZION)	18.0	19.9	11.8

View the full report, *Durbin's Wrath*, by Sankit Shah and David Hayes, at www.snl.com/InteractiveX/Article.aspx?cdid=A-14485459-12327.

Education

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Lessons for a lifetime

By Jeff Fortney

Clearent LLC

The summer of 1964 became known as The Great Game of Tag in my neighborhood. It began right after school had ended. Several of us were already complaining there was nothing to do. Then one of us reached over to the guy next to him and yelled "Tag! You're it!" Thus, a summer-long game was born.

Initially, five of us were playing the game, but after several hours the whole neighborhood was involved. You see, my neighborhood had 12 kids ranging in age from seven to nine – of both genders and all shapes and sizes – within a three-block radius.

During that first day, some were called home by their mothers; others quit, declaring the game wasn't fair. It seems the same people were tagged repeatedly, mainly because they were slower. Others objected because they would tag someone and be re-tagged before they could get away. At that point, the game could have ended. Instead, someone yelled out, "New rule: no tag-backs." The game went on until dark.

The game continues

The next day, several of us talked about the fun we'd had and wanted to resume playing tag. However, one friend said, "I am the slowest, and I don't want to be it all the time." We decided he could create a rule to add to the no-tag-back rule. His rule identified a base where, if you were on it, you couldn't be tagged. And the game was on – for the entire summer.

As the game evolved, we would change some rules and add new ones. We formed teams and incorporated a bit of

Education index

Nicholas P. Cucci	66
Dale S. Laszig	70
Mark Brady	72
Jerry Cibley	74

"capture the flag" into the game. Each winning team was then able to change or add a rule to the next game.

No matter what new rule was added, the basics remained the same, "Tag! You're it!" The rule changes didn't affect that, but they did impact how and whom you tagged. Yes, it could get confusing, and arguments would ensue when someone would violate a rule. Some would whine about any new rule, claiming it wasn't fair. They would threaten to quit, but few ever did. At times, people ignored the rules, and we didn't let them play the next time.

The lessons still apply

The summer came and went, school started, and some people moved away – including me. Our game was over, yet the memories remained. That summer taught me much about fairness and rules, although I didn't know it at the time.

- Rules change, but the basic game remains the same.
- Some rules aren't fair, but they are still the rules.
- Complaining about a rule doesn't help you win the game.
- Breaking the rules will get you kicked out of the game.
- Rules will change again.

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It is often said about baseball that once you strip away the rules it's still a game of throwing, catching and hitting. A similar concept applies to payment processing. We offer a merchant the ability to accept alternative forms of payments.

These principles apply to everything in life, including payment processing. We primarily sell a service, and the rules of that service change. We deal with data that, if mis-managed, can result in significant loss to consumers. Our income is dependent upon others, namely merchants, following the rules and adapting to changes when they occur.

Change is part of payments

Our industry has experienced ongoing changes since its inception. Consider the following 20th century developments:

- In the 1980s, payment processing became electronic. Terminals improved, and the data requirements for processing required larger capacities. Throughout the 1990s and early 2000s it seemed that every six months to a year merchants needed to upgrade their terminals.
- In the 1990s, changes to our underlying wholesale pricing structure brought on changes in how we operate. Transaction fees were added to interchange, as were a number of new categories requiring additional data to qualify for lower rates.

The 21st century also brought a slew of changes:

- The Wal-Mart Stores Inc. class action suit impacted how check card rates were set and changed the requirement that merchants had to accept all cards.
- Data security became critical, with the implementation of rules from the PCI Security Standards Council.
- The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 changed how debit card costs, through both interchange and network fees, could be charged.
- Today, we have new fee structures, like Visa Inc.'s Fixed Acquirer Network Fee, and new data requirements for processing.

Adaptation can be positive

Not all of these changes have been negative. Indeed, one could argue that most changes created positive results when handled correctly. Yet these rule changes required us to adapt our business practices. I believe the five les-

sons learned from The Great Game of Tag answer the question, What do you do when they change the rules?

1. Rules change, but the basic game remains the same

Michael Levine said the three things that children ought to know are "who is in charge, what are the rules and who is going to enforce them."

It is often said about baseball that once you strip away the rules it's still a game of throwing, catching and hitting. A similar concept applies to payment processing. We offer a merchant the ability to accept alternative forms of payments. We facilitate the movement of the money from the card companies, debit networks or check services companies to merchants' accounts. Sure, there are other moving parts, but the basics remain the same.

2. Some rules aren't fair, but they are still the rules

Life is not supposed to be fair. Jonathan Huie said it well: "Demanding that life meet our expectations is a surefire recipe for a miserable existence." Change isn't comfortable. It can be downright painful, uncomfortable and even seem unfair. But we must remember that change is inevitable. And rules are not personal. They affect everyone in our profession; we accept them or leave the game.

GS Online MLS Forum member **JMATHIS** spoke specifically to this need to adapt. "Personally, I think that you have to see the change happening on the horizon and prepare the best you can and respond very quickly," **JMATHIS** wrote. "If you are boarding accounts with a Super ISO, sometimes this is more difficult to obtain. The reason being that they are like a cruise ship traveling the seas and cannot make a 90-degree turn for miles, when we can make one as if we are on a speedboat.

"My point being, change will always happen and you have to adapt quickly to make it work for you. For ourselves, we always look at these changes as opportunities to gain more business. We believe that being a very transparent ISO to our merchants that we are always in a win-win situation."

3. Complaining about a rule doesn't help you win the game

Leo Durocher once said, "I made a game effort to

argue, but two things were against me: the umpires and the rules." When the Durbin Amendment was passed, and enforcement was forthcoming, many in our industry screamed about the regulations. Some felt this one change would make it impossible to make a profit in this business.

The actual effect was not nearly as terrible as naysayers feared. In fact, many saw a significant increase in revenue, while others found the effects to be, at worst, revenue neutral. Members of the MLS Forum spoke to this issue.

"We are not worried about attrition from this announcement any more than when PCI, Walmart, debit, Durbin and many, many other things were announced," **JMATHIS** said. "We look at it from the other approach, What can we do to educate our merchants and board more accounts?"

Some change the way they sell for various reasons; others change their pricing models. **AMSPROCESSING** posted the following: "On new merchants, I am trying to roll the fees into my pricing. Instead of billing 30 BPS over cost and statement fees, PCI fees and IRS fees, I am billing 40 BPS with no monthly fees. It gives the appearance of a cleaner statement."

CCGUY said, "With all the changes in pricing, the only way to price a merchant is cost-plus, IMHO. We adapted this way of pricing over seven years ago and it has been a success, and I have won a few bets with merchants who can't understand why something so complex costs them less money. The fees go up, or another one is added on. We just explain to merchants that these fees come directly from the card companies."

Instead of complaining, these members of the MLS Forum moved forward.

4. Breaking the rules will get you kicked out of the game

Dianne Feinstein said, "You have to learn the rules of the game. And then you have to play it better than anyone else."

History includes many examples of those who chose to ignore the rules and suffered the ultimate penalty. There are also many examples of rule breaking that have cost people money and even caused businesses to fail.

One example of this is Payment Card Industry (PCI) Data Security Standard (DSS) compliance. Many merchant level salespeople (MLSs) still struggle with PCI, its importance and their role in the compliance process.

A sales rep may see the Self-Assessment Questionnaire as a mere piece of paper standing in the way of getting a merchant's application approved.

To "help" the merchant understand and complete it, some MLSs even fill in the answers themselves. They figure their ISOs charge PCI fees, and maybe even offer "breach insurance," so they aren't at risk, right?

The challenge arises if the merchant has a breach. In today's litigious society, a lawsuit may follow, affecting everyone involved namely the person who "helped" the breached merchant fill out the questionnaire.

It's tempting to avoid rules. It's also common to walk the line between compliance and violation. However, in so doing, the risk of missteps is great, and those missteps can be very expensive.

5. Rules will change again

Rahm Emanuel said, "You never want a serious crisis to go to waste. And what I mean by that is an opportunity to do things you think you could not do before." History shows the only thing constant is change. We are already hearing rumblings of further changes to the industry's rules.

As **CCGUY** so aptly stated, "Just roll with the changes!" Things are going to happen, and they may affect how we sell in the future. They may also affect what we sell in the future, but we can't allow worry or fear of future changes affect our success today.

Accept that today's rules may not be the rules tomorrow. Find a mentor who stays abreast of the rules, so that he or she can help you foresee critical changes and advise you on how to abide by the rules while profiting from them at the same time.

The value remains

Throughout the years, I've often thought about my friends from 1964. Even though I lost touch with them after I moved away, they each became a part of who I am today. I look back at The Great Game of Tag and remember that summer as a highlight of my childhood. We didn't see it then, but I bet we all learned something from the experience. 📷

Jeff Fortney is Vice President, ISO Channel Management with Clearent LLC. He has more than 17 years' experience in the payments industry. Contact him at jeff@clearent.com or 972-618-7340. To learn about how Clearent can help you grow faster and go further, visit www.clearent.com.

Moving mobile payments to the next level

By Nicholas P. Cucci

Network Merchants Inc.

No doubt about it: the future of mobile payments is coming – if not already here. Cash and credit card transactions are extremely inefficient compared to mobile commerce, which is organized. And digital transactions can be tracked. Yet we need a game-changing application that will take us to the next level.

Rationale for going mobile

Mobile processing is a strong solution going forward for a number of good reasons.

- 1. Increased sales:** Customers don't always carry cash on them, and offering another method of payment will only increase sales, especially when the other method offered is more convenient.
- 2. Portability:** Merchants can accept credit cards anywhere they do business. They no longer need to transport hardware or spend thousands on mobile hardware. They simply buy apps or download free apps and install them on smart phones.
- 3. Secure transactions:** Mobile data is transmitted securely. Mobile processing even cuts back on fraud. Checks accepted on the road can get lost or bounce when cashed. And sensitive transaction information used

to be handled by multiple people within offices, leaving that data more susceptible to fraud.

- 4. Fast processing:** Setting up and maintaining accounts can be extremely fast. Funds are transferred to accounts instantly, or within a few days.
- 5. Low cost:** Some mobile card-processing services do not have contracts, termination fees or monthly minimums. Some iPhone apps may be free, but charge a monthly fee because the swipe used is hardware encrypted. Overall, the cost of mobile processing is significantly less in every way.

The killer app

We are patiently waiting for that one game-changing solution to make mobile payments a reality. It must be safe, secure and sensible enough to make people throw away their three-dimensional wallets. Sure, solutions like Square Inc.'s dongle and Intuit Inc.'s GoPayment have been released, but we still don't see people jumping in with both feet. What is the game changer?

In March 2012, Apple Inc. received U.S. patents for a technology dubbed iWallet, a digital platform that will give users complete control over their financial accounts directly on their mobile devices. The devices will also deploy near field communication technology. Other new Apple patents cover security measures to keep financial information safe or technology to house all of these new features. (See www.patentlyapple.com/patently-apple/2012/03/part-2-apples-iwallet-the-one-that-will-rule-the-world.html.)

What could iWallet provide for mobile payments?

- **Credit card profiles:** The Apple platform could enable users to attach credit cards to their profiles, within which they could view their monthly statements, read alerts from their banks and adjust preferences.
- **Parental controls:** For children who carry smart phones, parents



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Education

would be able to digitize credit card information so their offspring could use the phones for payments. Parents could set spending limits, either per transaction or overall, and even restrict which merchants a child can buy from. If a child exceeds his or her monetary limit, the transaction would request an authorization from the parent's phone, allowing the parent to accept or decline the authorization.

- **Authorization requests:** If parents receive many authorization requests, they may have several filtering options, including automatic authorizations below set dollar amounts or at specific merchants.
- **Flagging fraudulent purchases:** When cardholders find fraudulent activity on their accounts, they are instructed to immediately inform their credit card companies. Unfortunately, that is not what happens in most cases. Account holders do not find out until they receive their monthly billing statements. With a solution like iWallet, users will have the ability to flag questionable transactions, just as we do with suspicious emails. Once a transaction is flagged, the bank is automatically notified and will get in touch with the account holder. While this does not completely eliminate fraud, this preventive measure aims to cut off fraud as it occurs.

All of this seems like a lot to take in. Are the mobile devices in use now capable of handling these types of tasks? Are they even fast enough? I did a little testing of my own. My new Apple iPad reached 4G speeds of 11.19 megabits per second download and 5.59 megabits per second (Mbps) upload, with a latency of 78 milliseconds. These speeds are plenty fast to run tasks like iWallet and more. But the average broadband speed for the United States was 3.0 Mbps for downloads and 595 kilobytes per second for uploads. (See SpeedMatters.org.)

Moreover, significant stretches of the country where advanced mobile networks have not been built out cannot access even 3G coverage, according to a February release by the Federal Communications Commission. Yet there's hope. New FCC initiatives are expected to expand high-speed Internet service to millions of consumers throughout the country by the end of the decade. ■

Nicholas Cucci is the Director of Marketing for Network Merchants Inc., a graduate of Benedictine University and a licensed Certified Fraud Examiner. Cucci is also a member of the Advisory Board and Anti-Fraud Technology Committee for the Association of Certified Fraud Examiners. NMI builds e-commerce payment gateways for companies that want to process transactions online in real time anywhere in the world. Contact him at ncucci@nmi.com.

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In search of an ethical corporate culture

By Dale S. Laszig

Castles Technology Co. Ltd.

In the last decade, an unprecedented number of compliance laws have been enacted and updated – everything from health care privacy to workplace safety. Existing laws have been replaced by stricter codes. New laws have cost millions to implement and created lots of churn. But more importantly, are they working?

Are we better off today than we were before the Sarbanes-Oxley Act (SOX), Payment Card Industry (PCI) Data Security Standard (DSS), Health Insurance Portability and Accountability Act and Occupational Health and Safety Administration, just to name a few? Can we get beyond watching the watchdogs to a place of core values, where people do the right thing because they want to and not because they're afraid of getting caught?

Regulatory agencies recognize that laws can go only so far in advancing ethical behavior. Most human resources professionals agree that the best ethics policies are based on a solid foundation of self-regulation and individual understanding of right and wrong. These core values can then be reinforced with clearly stated guidelines, a good training program and enlightened professional oversight.

Start with clear guidelines

Clear, up-to-date ethical guidelines are crucial to all employees, not just new hires. Some such manuals are written by attorneys for attorneys, so when creating yours, make sure the writing style is accessible and on point.

Does the handbook convey your company's guiding principles and core values in a down-to-earth style that will resonate across all departments, regions and business units? And is the material presented in a reader-friendly format?

In *Explicit Business Writing*, R. Craig Hogan advocates clear and simple language and liberal use of white space in corporate communications. "Readers should be able to see a clear organizational pattern immediately when they look at an email, memo, letter or report," Hogan wrote. "Explicit business writing uses visual elements to create an information blueprint that guides readers through the information, making it easier to follow and understand. Avoid having only dense paragraphs of text in business writing."

Conduct effective training

Putting out a book of rules is a good start, but how do you make it engaging for readers? "Humans have an enormous capacity for learning, a capacity genetically coded into us.

This learning capability permits us to change as we receive information from the environment," wrote Harold D. Stolovitch and Erica J. Keeps in *Telling Ain't Training*. According to the authors, the objective of any training program is not only to impart knowledge, but also to motivate each trainee to change in response to the new information.

Since each individual has a unique way of learning, effective training programs use more than one approach to reach a diverse audience. Printed handouts, videos and interactive exercises are good ways to present material.

These introductions can be reinforced with interactive training by human resources professionals. Role playing, reviewing different scenarios and testing knowledge with self-guided quizzes will keep things lively and relevant, despite how much employees may roll their eyes.

Learn what oversight requires

Most companies have formalized processes to monitor activities and prevent deceptions such as tax evasion, tax fraud, abuse of privileged information and misdirection of funds. Such issues are typically reviewed internally by a company board and externally by independent, unbiased auditing agencies.

External review boards render impartial opinions pertaining to corporate codes of ethics, develop case studies on ethics in their professions and introduce preventive measures that further inhibit recurrence.

For example, the National Society of Professional Engineers meets twice a year to decide cases. Its annual Milton F. Lunch Ethics Contest tests members' knowledge of ethical practices.

Another example of an independent review board is the Public Accounting Oversight Board established by SOX to enforce ethical guidelines. SOX was enacted in 2002 in response to ethics breaches by public corporations, including Enron, WorldCom and Tyco, which had falsely manipulated stock prices by misstating financials and creating special purpose entities to hide losses and disguise insider trading.

After these fraudulent activities were discovered, several high-ranking officers were prosecuted, fined and imprisoned. Billions in losses resulted, affecting employees, investors and financial markets.

The post-SOX culture among public companies facilitates full disclosure of financial information to stakeholders and the investment community. Individual managers are held accountable for timely, accurate reporting of financial data. Post-SOX transparency, while not perfect, has helped to restore investor confidence and create better tools for managers and auditors through a procedural framework for dealing with discrepancies.

Follow PCI guidance

The PCI DSS was affirmed in 2006 by five major card brands, which subsequently recognized and implemented these standards into each of their respective security policies. They share equally in the governance of the PCI Security Standards Council, an open global forum that oversees the PCI DSS, Payment Application DSS and PIN Transaction Security requirements.

"Today's consumers need to trust that the personal information they are providing to the merchant is secure," said Joan Herbig, Chief Executive Officer of Atlanta-based ControlScan Inc., a provider of PCI compliance and security services that meet the unique needs of Level 4 merchants. "When merchants meet industry compliance standards, they are helping to secure consumers' data as well as protecting themselves from falling victim to a potentially business-ending data breach."

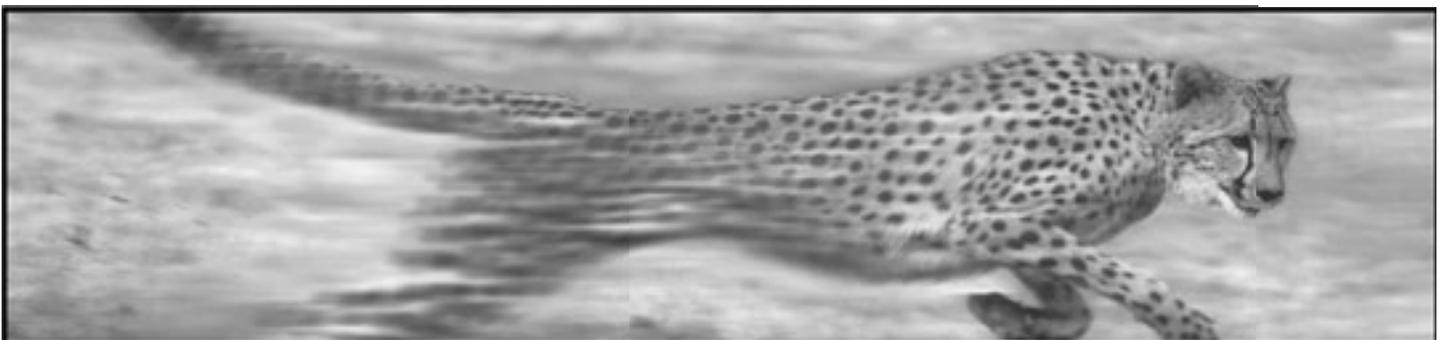
According to Herbig, we are all better off – ISOs and acquirers, merchants, and consumers alike – when compliance boxes are thoughtfully checked and information is secure. "We've found that merchants who are PCI compliant are much more conscious of data security overall and less likely to experience a breach," she said.

Do the right thing

Most of us want to behave ethically, but we're only human. Sometimes we may succumb to economic pressures or try to rationalize questionable behavior. If we sign a new account without disclosing related fees, accept cash to avoid paying taxes, or encourage a new merchant to adopt a noncompliant PCI application or product, we don't always consider the impact these small misdeeds have on our company, our community and our personal integrity.

A working knowledge of company guidelines, combined with a healthy dose of common sense, will help us reason things out and make the right choices. ■

Dale S. Laszig is Senior 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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The challenge of data breach reporting

By Mark Brady

CSR

Very few companies can see a data breach coming. And when a breach occurs, a critical consideration for most is the requirement to file timely reports to a widening variety of authorities. The reporting issue gets more complex as the data sets that must be protected increase. Not filing breach reports in a timely fashion can lead to substantial financial penalties and possibly criminal action.

You might be familiar with the requirement to report loss (or suspicion of loss) of credit card information to the card companies within 72 hours.

But there are many other types of sensitive data that must be protected and that are often stored with credit card data, including Social Security numbers, driver's license numbers, birth dates and bank account information.

Additionally, reporting requirements vary. Loss of patient medical information, for instance, must be reported to the U.S. Department of Health and Human Services (HSS) immediately. Massachusetts requires reporting to the Bureau of Consumer Affairs, New Jersey to the State Police.

Some states require reporting to their respective attorneys general if 1,000 or more citizens will be notified of a breach. Several states require reporting to credit bureaus. New York and North Carolina have specific reporting forms to be used in the event of a breach.

Recently, a satchel fell off the motorcycle of a merchant en route to the bank to make a deposit. Not only did it contain credit card receipts (with nontruncated account numbers), but it also held medical liability release forms with dates of birth, Social Security numbers and health histories, along with customer names, addresses and checks.

Without complete and timely reporting to the proper authorities, this incident could have resulted in costs of over \$50,000 to the merchant.

The definition of PII is expanding

Also, the definition of personally identifiable information (PII) continues to expand. According to the National Institute for Standards and Technology, PII is "any information about an individual including (1) any information that can be used to distinguish or trace an individual's

identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial and employment information."

In 2011, the California Supreme Court ruled that ZIP codes requested at the POS are PII, except for fuel transactions. In addition, Massachusetts now requires all vendors of companies storing data of Massachusetts residents to be contractually required to protect PII.

This law exemplifies the growing complexity and difficulty in filing reports to the appropriate authorities. I predict the Massachusetts regulation will likely drive similar laws in other states, as well as new federal data breach laws.

Reporting requirements abound

In this day of global interaction, organizations need to plan for the inevitable breach of sensitive information. Business planning means preparedness that spans the scope of data handling and breach reporting in order to stay current with state and federal regulations. The list of regulatory bodies requiring reporting is long and growing. Each has its own specific data breach reporting requirements.

The Payment Card Industry Data Security Standard is well known to the payments community for providing rules about the handling of credit card information. In addition, the FBI, Secret Service, HSS, state attorneys general, and the Federal Trade Commission are several of the agencies and law enforcement organizations to be considered when data is lost.

Add to that each of 46 states with breach notification laws on the books. (Alabama, Kentucky, New Mexico and South Dakota have no breach notification laws to date.)

Federal legislation that covers children, seniors, patients and consumers all weigh in with additional reporting stipulations, including the:

- Gramm-Leach-Bliley Act
- Fair Credit Reporting Act
- Drivers Privacy Protection Act
- Health Insurance Portability and Accountability Act
- Health Information Technology for Economic Clinical Health Act

More legislation is in the pipeline

In addition, three bills have passed through the Senate Judiciary Committee. Here is a brief summary of the bills:

- The Personal Data Privacy and Security Act,

sponsored by Sen. Patrick Leahy, D-Vt., was passed after being significantly amended. The Judiciary Committee adopted a substitute amendment that struck a controversial provision with special rules for the data broker industry. In addition, the committee also adopted civil liability limitation language and other modifications requested by Sen. Charles Grassley, R-Iowa.

The committee adopted language drafted by Sen. Al Franken, D-Minn., that would allow companies to keep personal data "only as reasonably needed" for business purposes or to comply with any legal obligation.

The committee's 10 Democrats voted in favor of the bill; its eight Republicans voted against it. If enacted, S. 1151 would require breach notice to affected individuals unless a risk assessment shows there is "no significant risk that a security breach has resulted in, or will result in, identity theft, economic loss or harm, or physical harm to the individuals whose sensitive personally identifiable information was subject to the security breach."

The bill would also impose criminal penalties for intentional and willful concealment of a breach and increase penalties for damaging computers that manage the nation's critical infrastructure (that is, defense, transportation).

- **The Personal Data Protection and Breach Accountability Act**, sponsored by Sen. Richard Blumenthal, D-Conn., is a wide-ranging data security and breach notification proposal. The bill features a provision that would give individuals the ability to file lawsuits (up to \$20 million) against businesses responsible for a breach.

The bill would also require businesses and federal entities to provide notice to individuals without "any unreasonable delay" if the breach presents a "significant risk of harm or fraud to any individual."

If the breach involves more than 5,000 individuals, businesses and federal entities would have to notify major media outlets as well. Covered entities would be required to notify the Secret Service and FBI if a breach: (1) affected more than 5,000 people; (2) affected a database owned by the federal government; or (3) impacted national security.

Additionally, covered entities would be obligated to provide free credit monitoring services for two years to individuals notified of the breach. The bill provides specific storage guidelines for businesses that store online data for more than 10,000 people.

The bill contains numerous carve-outs and exceptions, such as carve-outs for financial institutions subject to the Gramm-Leach-Bliley Act, HIPAA entities and public records. The bill would also impose criminal penalties for intentional or willful concealment of a data breach.

- **The Data Breach Notification Act of 2011 (S. 1408)**, sponsored by Sen. Dianne Feinstein, D-Calif., is the narrowest of the three bills. Under S. 1408, a covered entity would not be required to provide breach notice if "a risk assessment concludes that there is no significant risk that a security breach has resulted in, or will result in, harm to the individual whose sensitive personally identifiable information was subject to the security breach."

A covered entity that decides not to notify individuals after a risk assessment would be required to certify its decision and submit it within 45 days after discovery of the breach to the U.S. Secret Service for approval. Covered entities could be fined \$1,000 per individual whose personal data was breached, up to a maximum of \$1 million for a single breach incident.

Passage of any of these bills in the House is unlikely prior to the November election, given the fractious environment on Capitol Hill.

It pays to stay informed

In updating our databases on the most current data breach law, we depend on a wide variety of resources like the International Association of Privacy Professionals for the latest in regulations, as well as notices of new state offices and departments that require reporting.

The average merchant doesn't have the time to research reporting requirements when a breach occurs.

As you've heard before, it's not a matter of if, but when, a company will lose sensitive data. Determining whom to report to, what information requires reporting and in what time frame can be overwhelming. Fulfilling these reporting requirements when a company needs to focus on investigation and remediation of the data breach is not the top priority after a compromise.

Make the conscious business decision to educate yourself and choose a partner you trust who stays current with the latest data breach reporting legislation. Be prepared; keep your merchants prepared as well. ■

Mark Brady, Director of Compliance at CSR, holds professional certifications from the International Association of Privacy Professionals and the Project Management Institute. He can be reached at mbrady@csrcorporate.com.

What matters most in a restaurant POS system?

By Jerry Cibley

The POS Man

Editor's note: This is the first in a series of articles on POS systems. Further articles will explore such topics as the needs of quick service restaurants (QSRs), online ordering, table-side ordering with tablet devices, pay-at-the-table solutions, retail environments and cloud-based POS alternatives.

Well over 100 restaurant POS systems are being offered for sale in the United States. So how does one choose a POS system from among the myriad choices available? Consider this: similar to the eateries they serve, POS systems also have their specialties. You wouldn't expect a white glove, haute cuisine restaurant to make the best bar-style pizza, and your neighborhood QSR would not serve a Filet Oscar prepared with a 10-ounce filet, asparagus, lump crab meat and béarnaise sauce.

Restaurant style

Restaurant POS systems can be broken down into the following major categories based upon restaurant style:

- Fine dine table service
- Casual table service (sports bars)
- Bar and nightclub (limited food or no food)
- QSR/fast food (drive through option included)
- Pizza, with takeout and delivery

Today, all restaurant POS systems have certain commonalities: they place orders for food and drink at POS terminals and print orders in the kitchen. Beyond that, there are significant differences. Let's begin with the heart, or core, of the system – the database.

Database considerations

There is almost universal agreement among POS professionals that the preferred type of database for POS systems should be structured query language (SQL). Most POS systems have migrated to the SQL standard, but many legacy systems are still not using an SQL database engine.

SQL is very stable and has an open architecture, making report customization a breeze utilizing an SQL report writer or through SQL query generation. It takes a bit of expertise, but that expertise is readily available among database programmers.

A major advantage of SQL is its robustness, so it experiences minimal data corruption. Stable data is paramount

and, in my opinion, expected stability is a good enough criterion to use when selecting a POS system. No more re-indexing or dealing with such commands as deleting index files and performing sophisticated surgery from time to time on a corrupt database.

It may surprise you that three or four of the most common and popular POS systems are still using legacy and proprietary databases. If your POS system requires a re-start after adding or changing a menu item, odds are it is based upon a legacy database. A few databases are known as "self-healing," and although not SQL, they never fail or corrupt, and all terminals update changes in seconds without rebooting or manual update commands.

Printing issues

How does the POS handle the remote printing functionality? If a POS does not have a dedicated print server to manage the printing tasks and instead relies on the built-in Microsoft Windows printing capabilities, one can expect a great deal of printing issues to surface.

A dedicated print server insures that if a printer in the kitchen is offline or out of paper, the print job is immediately routed to a secondary, or backup, printer in approximately 30 seconds. When evaluating POS systems, it's essential to ask how long the POS waits before it re-routes an order to the alternate printer. I know of a system that has an eight minute delay before re-directing a failed print job.

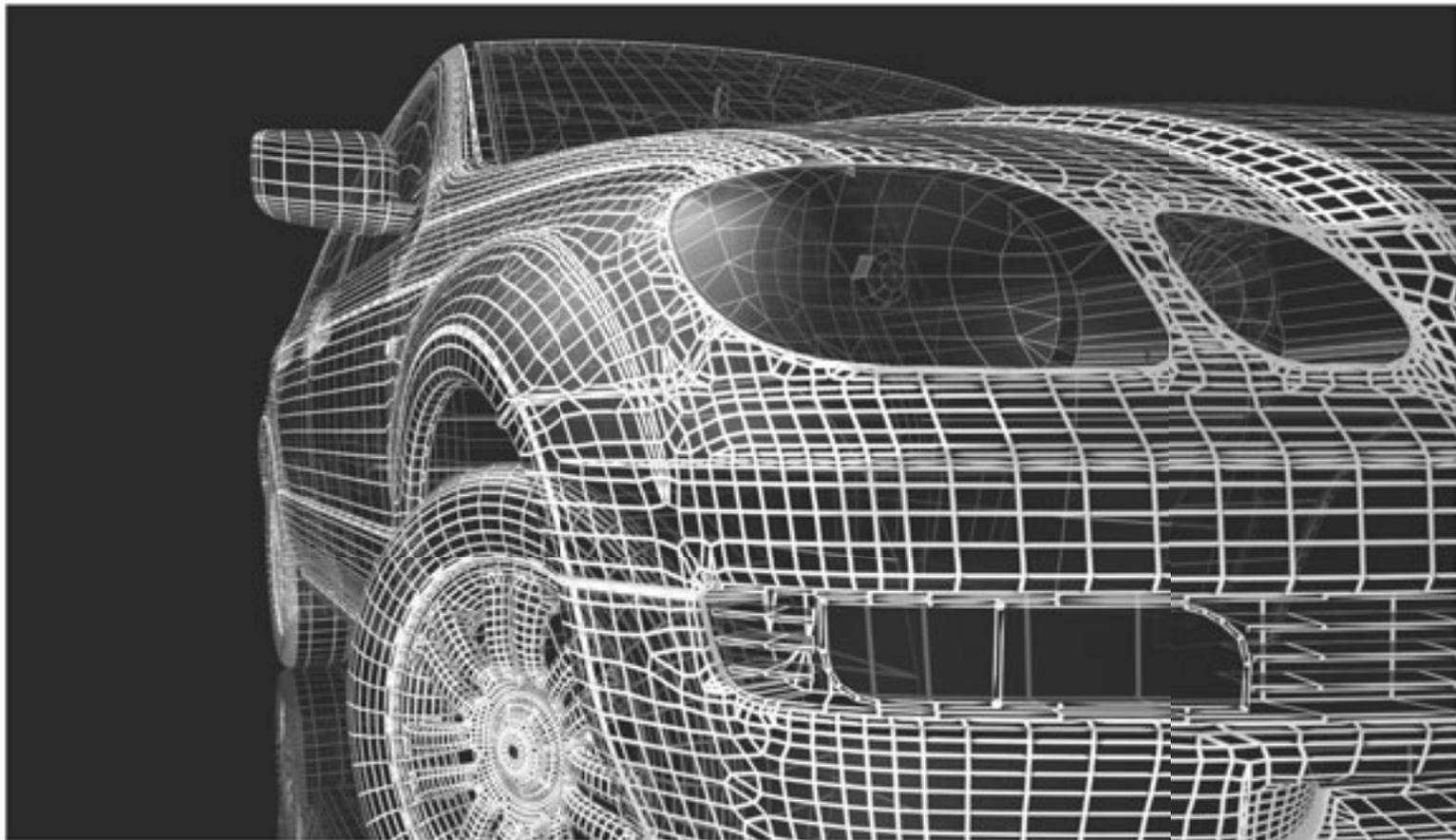
In the restaurant world, 30 seconds is an eternity, but you need to allow a minimum of 30 seconds in case a chef is changing the paper mid-shift. However, an eight minute wait is just as bad as not having any type of printer redundancy.

System restoration

It is also important to consider how a system deals with a catastrophic failure. Did you know that many systems no longer require a dedicated "server" or main computer? Instead, one of the stations will function in a dual capacity as server and station.

Ask your salesperson what happens if the server unit fails in the middle of a busy Saturday night. Are open checks constantly backed up to a mirrored drive or will the tech support restore you to yesterday's back-up, which contains yesterday's or last week's menu and no open checks?

Some restaurants may have \$20,000 or more in open checks during a busy weekend. Imagine the restaurateur's horror if "restored" data does not include the open check file. The answer to this question is so critical it should be put in writing. There is no excuse for a system not having



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HT1209_03092012

Seven essential steps for creating a successful social media strategy

By Marc Beauchamp

Performance Training Systems

Editor's note: This article was first published in the March 30, 2012, issue of Merchant Service Times. Reprinted with permission. All rights reserved; © Marc Beauchamp.

According to a recent Social Media Marketing Report, an estimated 67 percent of marketers have actively increased and strengthened their social media channels.

As more and more companies work on integrating social media into their corporate marketing and communication plans, there is a growing emphasis on creating a winning social media strategy. Without any semblance of a plan or strategy, your presence might as well be nonexistent or muted.

But how do you exactly develop a strategy to best cater to the unique behavior and characteristics of your niche? Here is a seven-step guide to make sure you hit the ground running on your social media campaign:

First, an important prerequisite

If you are working for a big company or organization, before you start formulating your social media strategy, it is absolutely critical for the stakeholders of the business to believe in the potential of social media and that the primary goal is not just to simply sell products and services.

Your company should not launch a social media campaign to join the bandwagon and in response to the fact that everyone else is doing it. Social media is not a temporary marketing gimmick or project with an expiration date, but rather a long-term commitment with invaluable benefits. It is important for organizations to recognize that constant testing and experimentation are required every so often to study the effectiveness.

Next, the actions

Now that we have that covered, here are the seven critically important steps to guide you through developing your very own social media strategy:

1. Define your goals and objectives: Determine your specific social media objectives and goals and how they complement and support the overall goals of the company.

2. Research, research and more research: Don't make the mistake of simply jumping in with a sea of competition and discerning consumers without having any clue. Research is very important as the basis for execution. This will include the action plan for the five major social media platforms. Take time to check out what's out there, scope the competition and understand your target audience.

3. Prepare a database of contacts and content: If you go about your social media campaign correctly, social relationships will start to develop naturally. Start establishing connections by following conversations relevant to your branding. Make a list that will identify the key influencers and power users that play important roles in your industry.

4. Join conversations to start developing and forging relationships: Start answering questions relevant to your industry, give your opinion and join a community. This will not only help you start your network, it will also help you build your reputation as an industry expert and a thought leader.

5. Strengthen your social media relationships: Don't just hide behind an avatar or brand, make your presence known by attending events that encourage face-to-face interactions. This includes offline events that are relevant to your industry.

6. Take time to measure results: You have already established your goals and objectives, right? It is equally important to measure your success. Among the most common goals include:

- Enhance brand presence across social media platforms
- Increase traffic to company website
- Increase positive consumer sentiment and perception towards brand
- Develop relationships for potential partnership opportunities in the future

7. Analyze, adjust and improve: Once you have measured your success and progress toward your goal, you need to analyze and identify key areas that need improvement, adapt to changing trends, and improve your overall social media campaign. Remember, it is not always a straight road ahead, so you need to constantly evaluate and adjust. ■

Marc Beauchamp is a consultant and trainer for the financial services industry. He is author of How to Survive and Thrive in the Merchant Services Industry, founder of the Bankcard Boot Camp, and offers a free monthly newsletter at his site, www.surviveandthrive.biz. He can be reached by email at marcb@surviveandthrive.biz.

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Trade Association News



SEAA embraces Texas, reaches new audience

For many years, no acquiring association laid claim to the Great Plains states, including Texas, home to many ISOs and merchant level salespeople (MLSs). But the drought was broken when the Southeast Acquirers Association hosted its 11th annual conference in Dallas from March 19 to 21, 2012.

On Mon., March 19, severe weather moved into the region. Flights into the Dallas-Fort Worth area were delayed or canceled. Despite this, the SEAA's show was a complete success. More than 600 attendees managed to make their way through the weather and join in the festivities.

A warm welcome

Monday afternoon, the Field Guide Seminars continued its tradition of successful educational sessions, offering MLSs, both old and new, invaluable advice on the industry in general and their own businesses in particular. These sessions precede most regional acquirers shows and present guidance on the latest industry developments and trends.

As always, an evening reception kicked off the conference. Sponsored by National Processing Co., a Vantiv company, the reception allowed attendees to meet the exhibitors and network with each other in a welcoming atmosphere. There were a number of new exhibitors this year. And because Dallas is new to the payments industry tradeshow circuit, a new group of MLSs visited booths of exhibitors looking for new relationships to further their businesses.

Tuesday morning began with a continental breakfast (sponsored by First American Payment Systems) and time on the exhibition floor. Next, Pamela Joseph, Vice Chairman, Payment Services for US Bancorp, delivered

opening remarks. She offered a view through the eyes of banks on the changes occurring in the industry.

Expert presentations

Following a delicious lunch sponsored by American Express Co., numerous presentations were offered. The Electronic Transactions Association provided facts about the new Certified Payments Professional program (the first tests were administered in November 2011) and AmEx discussed the success of Small Business Saturday (Nov. 24, 2011).

A panel discussion on the future of mobile payments followed. Representatives from USA ePay, VeriFone Inc., Discover Financial Services and Isis (a creation of JVL Ventures LLC, which was formed by AT&T Mobility LLC, Verizon Wireless and T-Mobile USA Inc.) offered their take on the evolving mobile payments industry. While it seems mobile payments are rapidly gaining ground in the industry, it looks like a consensus needs to be reached among the major players regarding platforms.

Also offered were sessions on Europay/MasterCard/Visa technology and Discover. Industry consultant Paul Martaus ended the day with a lively presentation. He discussed the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act and regaled attendees with his views on the future of the industry.

The event was closed with a reception in the exhibit hall sponsored by Merchants' Choice Payment Solutions. All were invited to a Tuesday night party hosted by SignaPay. Held at the nearby Trophy Room, everyone enjoyed the camaraderie of their peers. Some brave souls even rode the mechanical bull. Next year's SEAA meeting will be held in Orlando, Fla. Watch future issues of *The Green Sheet* for more information. See you all there! 🍷

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Research Rundown

A global perspective on data breach trends

Trustwave released key findings and recommendations in its annual report on global data breach and security trends. Report analysis included investigations, research and client engagements based on 300 data breach investigations and 2,000 penetration tests conducted by the Trustwave SpiderLabs advanced security team during 2011.

"In 2011, we performed 42 percent more data breach investigations and assembled a thorough study on business password practices," said Nicholas J. Percoco, Senior Vice President and head of SpiderLabs. "The information we have gathered highlights security trends and risks that businesses should address in 2012."

Key report findings include:

- Customer records accounted for 89 percent of breached data investigated.
- The Asia-Pacific region comprised a larger share of data breach investigations in 2011.
- Only 16 percent of victimized organizations detected breaches internally.
- 84 percent of victimized organizations relied on an external entity for breach detection.
- Attackers had an average 173.5 days' access to data before external entities detected it.

For a second consecutive year, the report identified the food and beverage industry as the top target for cyber-criminal activity, accounting for nearly 44 percent of data breach investigations. Franchise businesses, which accounted for more than a third of SpiderLabs' 2011 breach investigations, is expected to be the business model most at risk for breaches in 2012, researchers noted.

"Any organization can be a target, but as detailed in our report findings, those most susceptible are businesses that maintain customer records or that consumers frequent most, including restaurants, retail stores and hotels," Percoco said.

For a list of security recommendations and to download a complimentary copy of the *Trustwave 2012 Global Security Report*, visit :
www.trustwave.com/gsr.

E-commerce trend spotting

A Forrester Research report, *U.S. Online Retail Forecast, 2011 to 2016*, provides an analysis of trends expected to drive consumers online to spend \$327 billion annually by 2016, up from \$200 billion in 2011. Underlying trends identified include higher percentage of sales from existing online shoppers, dominance of the fourth quarter cyber-season, growth of online loyalty programs and flash sales sites, and tablet devices as the preferred choice among mobile shoppers.

Data breach surge in 2011

The *2012 Data Breach Investigations Report* by Verizon Wireless offers a global analysis of data breach investigations, which escalated in 2011 to 885 incidents compromising 174 million records, the second highest on record since the company began tracking data in 2004. The report covers threats to businesses, including hacking, which comprised 81 percent of breaches investigated.

Mobile as an enterprise strategy

An Aberdeen Group report, *Elevating Mobile Commerce as an Enterprise-Wide Strategy*, the sixth in a series on mobile and tablet commerce trends, explores mobile commerce from within and outside the physical store. In order to reach "critical mass" usage, the study suggests retail localization and augmentation of mobile usage across departments. It also addresses challenges to mobile alignment initiatives and strategies for overcoming roadblocks.

Emerging payments face hurdles

American Express Co. research indicates adoption of emerging payments will be determined primarily by millennials (consumers 18 to 24 years old) and reliable security. Of the millennials surveyed, 52 percent said they are likely to try new payment technologies, more than any other age group studied.

Consumer feedback

View security as the most important concern.....	83%
View fees as the second most important concern.....	62%
Not confident social media companies will protect personal data.....	77%
Confident financial services companies will protect personal data.....	75%
Prefer that financial institutions take the lead on payment methods.....	62%

10 years ago in The Green Sheet

The payments industry has evolved significantly in the last decade, but some things remain the same. The Federal Trade Commission is still keeping a watchful eye on ISOs, the Electronic Transactions Association continues to adapt to changing industry needs and experts remain willing to share their knowledge with others to better the industry overall.

ETA serving a wider audience

At the ETA's 2002 Annual Meeting in Orlando, Fla., it became increasingly apparent the organization had evolved from the ISO-centric Bankcard Services Association into a group that serves all parties in the payments sphere, including ISOs, card companies, payment processors and equipment vendors.

Lessons learned from CMS receivership

In the wake of an FTC crackdown on alleged misleading practices, which led to ISO Certified Merchant Services going into receivership, ISOs were advised to break the merchant application process into three parts: a short application divulging on the first page all fees and terms in easy to understand language; an agreement explaining in nonlegal language the obligations of all parties to the contract; and an operating guide incorporated into the agreement by reference.

Timeless wisdom on negotiating

In "Negotiating for success," contributing writer Bob Gibson detailed the steps required for a smooth negotiation process: uncover the issues, confine the issues, confirm intent and authority, evaluate the issues, solve the problem, and do a satisfaction check.



Read archived issues back to 1995 at
www.greensheet.com; click on Publications.

NewProducts

Mobile check deposit

Product: Simply Deposit Mobile

Company: RDM Corp.

RDM Corp. believes depositing checks just became easier for businesses operating with a mobile workforce. That's because the company released a new application for Simply Deposit Mobile that allows users to deposit checks via Google Inc. Android phones. The app makes it possible for mobile workers to deposit check payments from any customer location where wireless connectivity is available, RDM said.

Ontario, Canada-based RDM began offering its mobile check capture services to small businesses starting in 2009. "Our customers expressed the need to increase our support for mobile payments, and with the Android version of Simply Deposit Mobile, RDM now supports both the iPhone and Android devices," said Randy Fowlie, President and Chief Executive Officer at RDM.

The integrated system permits users to capture check images via the smart phone's camera and then submits deposits wirelessly to RDM's secure Image & Transactions Management System platform for processing. "Deposits are processed through RDM's proven and secure ITMS platform, which aggregates all check deposits and can be used for seamless accounts receivable integration," Fowlie noted.

Simply Deposit Mobile features an intuitive user interface and workflow for ease of operation. RDM also provides tutorials and test modules to help merchants get started. Once the system is operational, merchants can begin processing checks at the point of check presentment from virtually any customer location. RDM noted its integrated system's entire check deposit process generally takes less than a minute.

RDM reported that to safeguard user data, the application does not permit mobile devices to store sensitive check data. RDM also engages third-party audit and penetration testing to ensure that its network, applications and process meet stringent standards imposed by SAS 70 certification.

"The convenience of mobile deposits is gaining traction in industries such as broker/dealers, contractors and delivery services," Fowlie said. For businesses operating in the field, remote deposit capture products like Mobile Deposit offer not only convenience, but cost savings in terms of reduced trips to the bank, and it expedites deposit and funds availability, he said.

Features of Simply Deposit Mobile include:

- Enables remote deposit capture for smart phones
- Reaches to wherever wireless signals are available
- Features two-factor authentication, SSL data encryption
- Is PCI compliant, does not store data on devices
- Handles check presentment at POS in client locations

According to RDM, the ITMS platform processes over 3 million items and handles more than 18,000 deposit capture locations each week. But that number is expected to rise in tandem with growing demand for its mobile deposit platform throughout the United States and Canada. ■

RDM Corp.

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Bundling mobile payments

Product: All Inclusive Mobile Merchant (AIMM)

Companies: CardWare International, Resource Leasing Co.

As in prior years, the 2012 Electronic Transactions Association Annual Meeting & Expo presented a showcase for product innovation. One such offering was the integrated mobile payment solution All Inclusive Mobile Merchant. AIMM is the brainchild of Biff Matthews, founder and President of CardWare International, and Chip Nichols, Chief Executive Officer at Resource Leasing Co.

Matthews and Nichols recognized that bundled systems for mobile payments were not as accessible as traditional POS systems. This raised questions about device ownership and whether an ISO's existing processor could process mobile payments. Through AIMM, merchants can now pay one monthly device fee and receive the complete package, according to Matthews and Nichols.

In designing the program, two issues facing mobile merchants needed to be resolved: the potential misuse of the devices for activities unrelated to business and the risk and cost associated with loss of the devices once in operation.

To address the first issue, AIMM employs C-Cure-Loc, a proprietary system that reportedly removes nonessential applications from the mobile devices, such as games and

social media, and once removed, prevents the apps from being reloaded.

Pairing AIMM's "proprietary remote management advantage with the device's GPS" solves the second concern, Matthews said. He added that this enables merchants to pinpoint device location and to control the device remotely. For device retrieval, merchants can send a return device message to the user, lock the device to prevent further usage until returned or clear all programs from the device.

According to Matthews, remote management also permits diagnostics, hardware and software problem solving, device configurations and upgrades done remotely, by unit or ensemble. Should a replacement device be required, a preconfigured, enabled and tested device will be shipped. AIMM smart devices come equipped with calculator, calendar, global positioning system, phone function and a browser that links to a merchant-designated website.

"From experience, Chip knew that buy rate was key to incenting the true MLS [merchant level salesperson]," Matthews said. "So we based AIMM's monthly service fee on a competitive buy rate, allowing the MLS to establish the selling price that gets them the deal while making

Features of AIMM include:

- Product designed for brick-and-mortar and mobile merchants
- Merchants charged a single monthly fee per device
- Logistics, collections and support included with device
- Order form setup provided to guide sales process
- Revenue sharing offered to ISOs and MLSs

them money." He added that with AIMM, MLSs can maintain their existing processors, and because the program is based on a month-to-month plan, no long-term contracts are necessary. ☐

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Women's Network in Electronic Transactions (W.net)



LINC New York

Highlights: W.net's LINC New York event will provide an opportunity for women in the payments industry to not only network, but also catch up on fashion with tips from Marian Goodman, Bloomingdale's Vice President, Personal Shopping. She will discuss ways to update fashion basics, including adapting attire from work to business dinner settings. Bloomingdale stylists will also be on hand to offer attendees fashion tips.

W.net's LINC meetings occur periodically throughout the United States and provide a forum for female payment pros to empower and inspire each other through networking, mentoring and educational opportunities.

When: May 17, 2012, 5:30 to 8 p.m.

Where: Bloomingdale's, 59th Street and Lexington Ave., New York

Registration: <http://wnetonline.org/pagedisplay.asp?p1=8042>

Smart Card Alliance & NFC Forum



NFC Solutions Summit 2012

Highlights: This jointly hosted conference will bring together leaders from financial services, software and technology, payment processing, and retail services, as well as industry analysts for an interactive forum on issues and technologies shaping near field communication (NFC) globally. On May 21, three workshops will precede the conference: NFC Base Camp, NFC Technology and Application Developers Workshop, and CSCIP Payments Smart Card Training and Certification Exam Prep.

Opening day (May 22) keynote sessions will address global markets for NFC as well as security issues. Day two will feature panel discussions divided into two distinct paths: NFC Technology Conference Track and NFC Business Solutions Conference Track. For the final day's NFC open sessions, facilitators will work with topics selected by conference participants. The day will also offer peer-to-peer learning.

When: May 22 – 24, 2012

Where: Hyatt Regency San Francisco Airport, Burlingame, Calif.

Registration:

www.cvent.com/events/nfc-solutions-summit-2012/event-summary-428ceac64a914cfaa4b34ae53444cf08.aspx

Northeast Acquirers Association



2012 Summer Seminar & Outing

Highlights: Ideal for ISOs and MLSs who want to interact with other payment pros and keep abreast of the latest developments in payments, this event will include presentations by industry experts, tabletop product exhibits from 65 vendors, and appealing prizes and giveaways from event sponsors. For those who wish to network while enjoying the outdoors, the NEAA is also arranging a golf scramble on Tues., June 5.

The show has three levels of participation: attendee, which includes financial institutions, ISOs or individuals that primarily sell acquiring related services directly to the merchant community; vendor, including companies or individuals that sell or promote products or their company's services to acquirers (attendees) for resale to merchants; and industry expert, comprising consulting or investment experts and senior management of ISOs who are not otherwise exhibiting vendors. The show is unable to accommodate roaming vendors.

When: June 5 – 6, 2012

Where: Crystal Springs Resort, Hamburg, N.J.

Registration: <http://northeastacquirers.com/event.htm>

American Banker



6th Annual Mobile Banking & Commerce Summit

Highlights: This summit will gather industry trendsetters to explore the mobile commerce ecosystem's evolution, as well as components of best-in-class mobile banking. Keynote speaker Dickson Chu, Senior Vice President, Merchant Solutions at LivingSocial, will discuss mobile tools and solutions that can help merchants strengthen their businesses.

Other presentations and panels will cover who is fighting to be top of the digital wallet and what the repercussions could be; the merchant perspective on mobile payments and mobile incentives; the most influential people and companies in mobile financial services, including the early adopters and innovators; and innovations involving location-based offers and mobile banking and commerce on tablet devices.

When: June 10 – 12, 2012

Where: Westin St. Francis, San Francisco

Registration:

http://register.sourcemediaconferences.com/iebms/reg/reg_p4_promo.aspx?&sessionId=ejpfgnfc3thofe5th0fa3

Inspiration

WaterCoolerWisdom:

In every community, there is work to be done. In every nation, there are wounds to heal. In every heart, there is the power to do it.

- Marianne Williamson



Community and the payment pro

As payment professionals, we play distinct roles in business, with our families and as members of our communities. Sometimes we choose our roles; sometimes they are imposed on us. In either case, the roles we play define us.

Our families, businesses and communities all characterize us in certain ways. And we sometimes forget these three areas of our lives are not separate from one another; they are fully integrated. To have a happy life it is of enormous benefit to have satisfaction in each of these areas.

Socially conscious programs

Keeping this in mind, many ISOs and merchant level salespeople (MLSs) have invented new ways to integrate their lives with their work and community. Some incorporate as certified benefit (B) corporations. B corporations work for profit but also place a high priority on the social and environmental goals of their businesses. Others help their communities by partnering with local merchants to raise funds for schools and nonprofits through rewards programs.

These examples prove socially conscious programs are viable business models that not only generate new

profits but also increase merchant stickiness because such programs attract customers, strengthen merchant ties to the community, and, in short, offer benefits to merchant beyond price. So while altruism may launch these businesses, pragmatism grounds them.

Relief to those in need

Of course, not all ISOs and MLSs have the will, the opportunity or the ability to assist the nonprofits in their communities or to form B corporations. However, they still can help their communities in the daily course of business. Again and again, our industry has stepped up to assist those in need. For example, we have helped tornado victims in the Midwest, earthquake victims in Haiti, hurricane victims in Louisiana, and earthquake and tsunami victims in Japan.

Spring is a good time to remember other, less dramatic ways we can help people in need through our work. These present themselves almost daily. For example:

- Youth sports teams need sponsors.
- Hospitals need donations.
- Schools need books and technology.
- Shelters need volunteers.
- Service organizations need members.

Community involvement

This type of community-minded action offers ISOs and MLSs significant opportunities to participate in and influence their communities because they are organized and effective professionals who know the network and landscape of their communities. Thus, their businesses are well placed to help patch holes in the social fabric.

The benefits for the community when ISOs and MLSs offer to help are obvious. For payment professionals, community service can raise a business's community profile; generate good will and publicity; potentially bring sales people to the attention of new customers; and create a valuable sense of self worth that enhances the quality of life for the ISO, its employees and the community it serves.

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Paul H. Green, President and CEO

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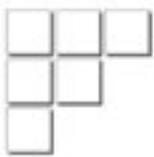


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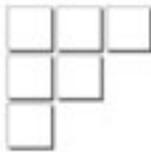
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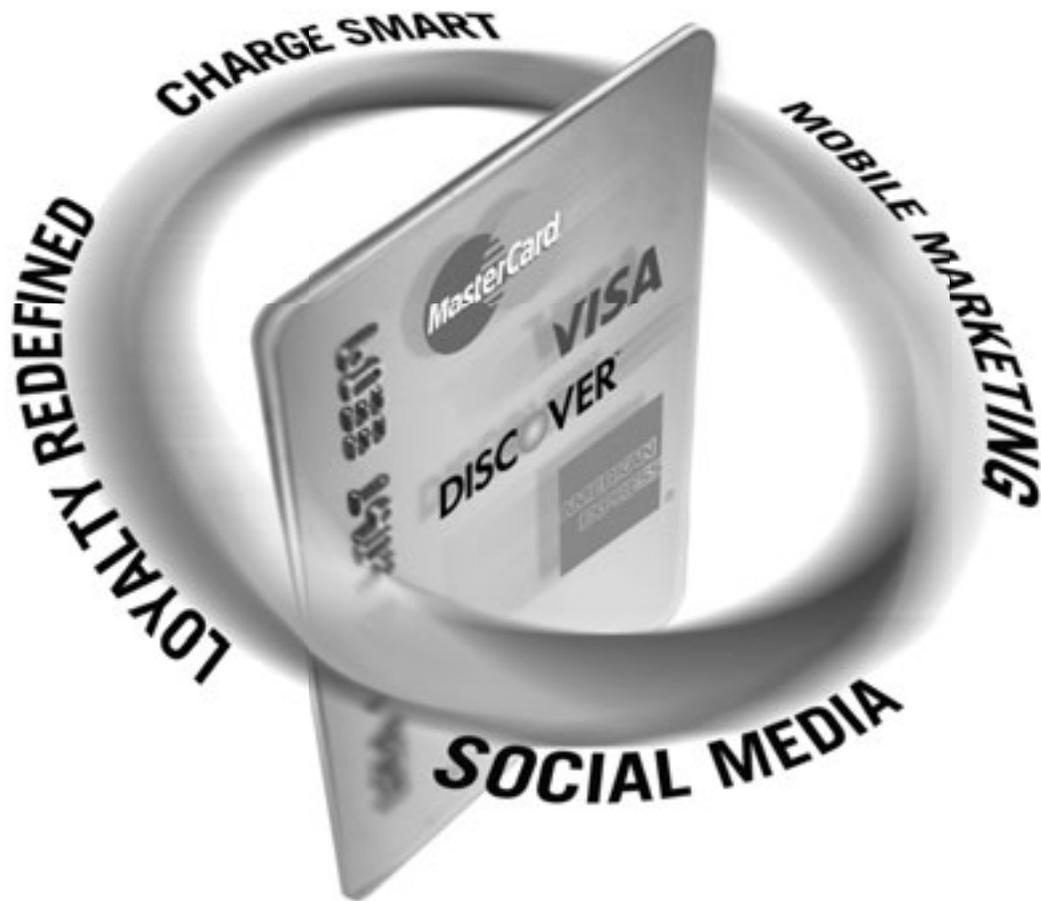
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Advertiser Index

1st Merchant Funding LLC	67	Northeast Acquirers Association (NEAA).....	97
Advance Restaurant Finance	18	PAX.us.....	43
Alpha Card Services.....	101	PCI Compliance/BidMaster	41
Apriva	76	Planet Payment.....	45
CardPayment Solutions	30	Process Pink Payments	48
CenPOS.....	28	Regal Payment Systems	23
Central Payment.....	99	Reliant Processing Services.....	83
Century Payments/Reliable Solutions	95	Residual Marketplace.com	11
CoCard	15	Secure Payment Systems	69
Credomatic.....	63	SignalPay	54
CrossCheck Inc.....	77	Signature Card Services	20
Cutter LLC.....	71	SparkBase	34
Cynergy Data.....	21, 75	Stream Cash LLC	44
Electronic Merchant Systems.....	26	Super G Funding LLC.....	25
Electronic Payments	103	The Phoenix Group.....	27, 29, 31
eProcessing Network LLC.....	16	The Prepaid Press Expo	91
Equinox Payments	104	TransFirst	19
EVO Merchant Services	39	TransGlobal Payment Systems.....	60
First American Payment Systems.....	9	Transparentpay	59
Group ISO	66	TriSource Solutions LLC.....	81
Harbortouch	78, 79	United Merchant Services	17
Humboldt Merchant Services	2	USA ePay	40
iPayment Inc.	10	Velocity Funding LLC.....	56
Jet Pay LLC.....	51		
JR's POS Depot	24		
Merchant Bancard Network Inc.	36, 37		
Merchant Cash & Capital	93		
Merchant Services Inc.	57		
Merchant Warehouse	13		
Merit Payment Solutions	87		
MLS Direct Network Inc.....	46, 47		
My PCI Network Inc.....	22		
Nationwide Payment Solutions	12		
Network Merchants Inc. (NMI).....	52, 53		
North American Bancard	6, 7		

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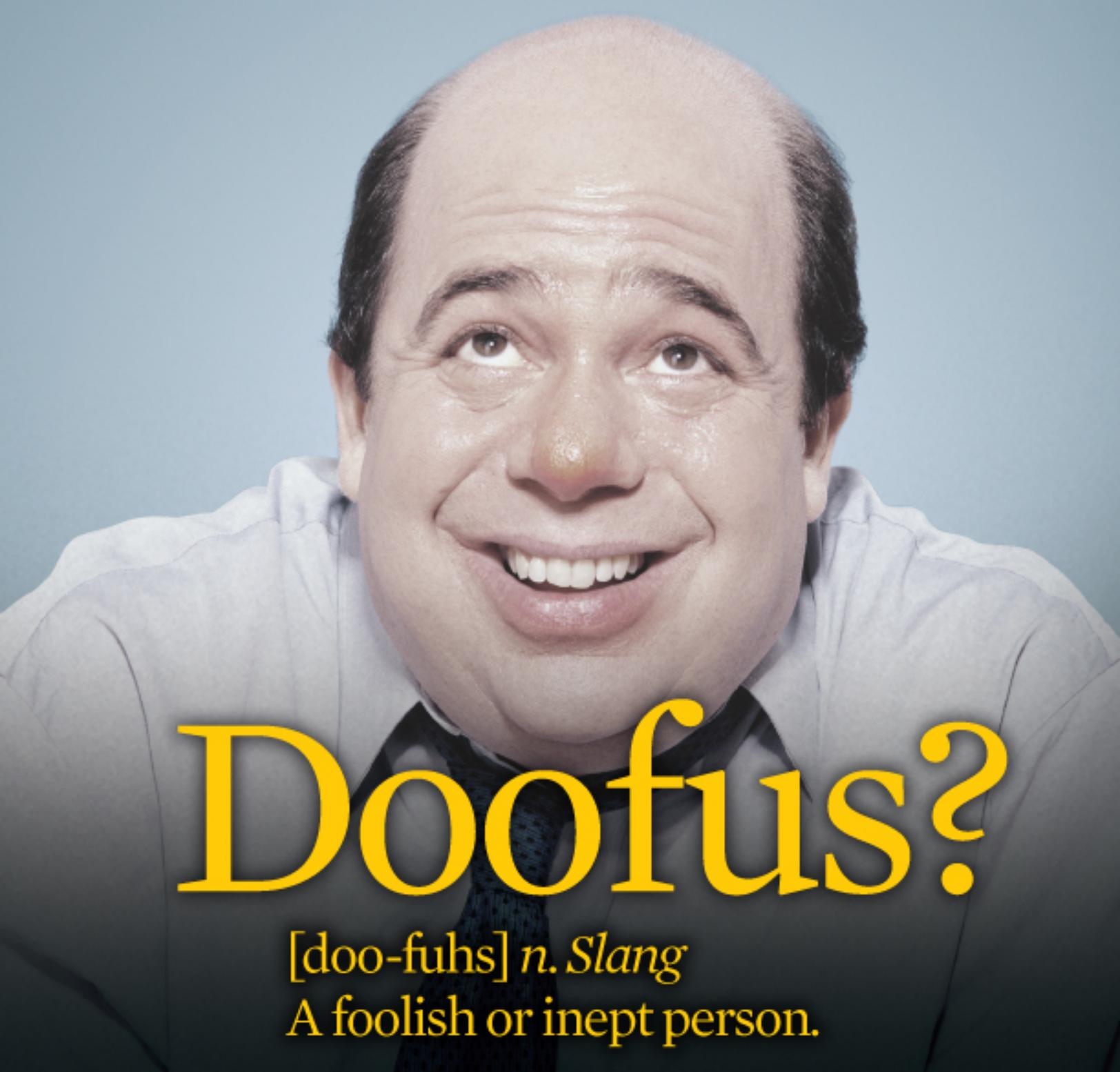
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