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August 23, 2010 • Issue 10:08:02

Tapping into portfolio power players



Steady income from POS terminal sales and leasing now seems like the stuff of fairy tales, so many new merchant level salespeople (MLSs) strive to build residual streams rapidly by signing merchants who are easy to reach and can make quick decisions. Usually these are mom-and-pop stores or other small enterprises. Ultimately, however, diversification is necessary to create the strongest portfolio possible; this is especially important during a recession.

One way to diversify is to pursue prospects who, due to the size or complexity of their businesses, take months or years to make decisions about transaction processing. Luckily, ample opportunity exists for ISOs and MLSs who are willing to spend a portion of their time on relationships that may not be immediately gratifying but can prove lucrative in the long run.

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- » Scott Wagner—GO DIRECT Merchant Services Inc.
- » Dan D. Wolfe—Teledraft Inc.

Notable Quote

Like a blood test, PCI compliance validation represents a point in time. And it has to be repeated because of the many variables in the merchant environment that can affect a pass or fail mark.

See story on page 61



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Forum

Best not complain about innovation

In light of recent MLS Forum posts criticizing PayPal and Google Checkout, a recent article, "A New Wave for Payments?" published by David Randolph in Prairie Trails Software Inc.'s newsletter, *A Consultant's View*, bears consideration.

Randolph stated that "according to Warren Buffet, there are three I's in any business cycle: Innovators, Imitators and Idiots. One way to tell when the Idiots have taken over is when price is the only differentiator.

"When we see that, it is time to start watching for new innovation to happen in that business. The human dynamic is that the Idiots do so much harm to the customers that new Innovators see how to take those customers away."

I immediately thought of the Imitators and Idiots copying the bankcard/credit card model, unbundling pricing to make it appear cheaper when it really is more costly, but selling it on prices composed of smoke and mirrors.

The article went on to say that most innovation begins at the low end where established companies are unwilling to go and that in the payments industry the low end is small merchants who don't qualify for standard merchant accounts.

Randolph pointed out that while "the card processors have pushed NFC (and not gotten very far), PayPal had a million people download their iPhone application in [the] first three weeks after it was launched."

He also noted that merchant acceptance of PayPal is on the rise, and some traditional merchants who qualify for merchant accounts are opting to use PayPal instead.

"The challenge to the ISO community is that of relevance," Randolph added. "If the merchants can be served either by a low-cost 'commodity' provider or they can go to PayPal and not bother with a merchant service provider, why deal with an ISO?"

I propose that there are only a handful of Innovators in today's acquiring world, and some of those grouching about the service provided by alternative payment providers are my generation, baby boomers, and some immediate post-boomers.

Reflecting on one MLS Forum member's comment about

being dissatisfied when phoning PayPal and other online entities for service, I concluded:

1. Calling customer service demonstrates a generational perspective – older generation.
2. Younger generations use online technology to obtain service when they need and want it. Otherwise, for them, it's disposable.
3. Expecting service, especially quick service, is also old generation.
4. The success of Wal-Mart Stores Inc. and Internet buying demonstrates that price above all else is more important than service. Wal-Mart has also conditioned the buying public to a lack of service or to self service.

Like it or not, service no longer exists, though boomers (my generation) expect service and are willing to pay a bit more for it. But we are a dying generation.

Biff Matthews
CardWare International

Biff,

Thank you for sharing your thought-provoking perspective in response to excerpts from the GS Online MLS Forum thread "Why us over PayPal or Google Checkout," published in the Forum section of The Green Sheet, July 12, 2010, issue 10:07:01.

Those who want to read the entire thread, begun July 14, 2010, can do so online. Just register and log on at www.greensheet.com/forums/viewforum.php?f=1. To read "A New Wave for Payments?" in full, visit, www.prairietrail.com/newsletter/2010/Jul10.html.

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

Cover Story

1

Tapping into portfolio power players

A diversified portfolio is especially important during a recession. Luckily, ample opportunity exists for ISOs and merchant level salespeople (MLSs) who spend time on relationships that may not be immediately gratifying but can prove lucrative in the long run. This article explores two growing niche markets with big potential for ISOs willing to put in the time.

Feature

32

Legislative fallout for gift card providers

With the passage of The Credit Card Accountability, Responsibility and Disclosure Act of 2009 and the financial reform bill, the prepaid card industry suddenly has a lot more to think about from a regulatory perspective. For one, gift card providers will have to figure out how to get all that disclosure info on a tiny piece of plastic.

View

26

ISOs, MLSs and financial services re-regulation

If the era of financial services deregulation is over, what comes next? Well, nobody knows just yet. It is up to the Federal Reserve to write the rules that will implement the Restoring American Financial Stability Act of 2010. While debit interchange will be regulated, the so-called Dodd-Frank Act will likely not be the final word on how the Feds set card pricing.

News

42

Debit surcharges targeted by California lawmakers

A California State Senate bill that would prohibit retailers from surcharging consumers who pay with debit cards pits consumer protection advocates against retailers and their representatives. The crux of the matter is whether debit card surcharging really hurts consumer choice.

View

28

Fraud trends in 2010

In the United States alone, financial fraud accounts for \$200 billion in losses. A large part of that fraud involves cyberthieves who steal and sell consumer card data. This article details techniques fraudsters employ to pull off their schemes, from malware attacks to SQL injections.

News

43

Have NFC payments reached tipping point?

A partnership between three major international wireless telecoms for a near field communication (NFC) initiative seems to bode well for the advance of long-touted mobile contactless payments. But has NFC-enabled m-payments finally arrived, or is it yet another example of false promise for this new way to pay?

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News

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Skimmers shifting from ATMs to gas pumps

With card skimming devices recently found on gas pumps at several stations in Alachua County, Fla., authorities now recognize that fraudsters who once targeted ATMs have switched their modus operandi. It seems an increased level of security on ATMs has forced data thieves to turn to gas pumps, where data security is often lacking.

Education

54

Street SmartsSM: Variations on valuations

Residual valuations are an important topic for all ISOs and MLSs to ponder. Some agents look forward to the day when they can sell their portfolios for huge windfall profits. Others see portfolios as long-term investments and have no plans on selling. Either way, valuations determine the worth of portfolios on the open market and thus a large part of agents' net worth.

Education

58

Going global in Europe

It is a global economy we live in, and now might be the time for domestic players to take advantage of international business opportunities. Europe, for one, should be a prime target for forays into payments overseas. But complexities of the Single Euro Payments Area and the Payment Service Directive should be understood before U.S. payment providers take the plunge.

Education

60

Succeeding at PCI compliance - Part 4: Maintaining the program

Compliance with the Payment Card Industry (PCI) Data Security Standard (DSS) is not a one-and-done scenario. Yearly validation of security systems must be married to 24/7 vigilance of those same systems. Maintaining a watchdog approach to data security means the card brands' attack dogs of data security – and the subsequent fines they may levy – can be kept at bay.



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Education

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Technical details: What to share and what to spare

Sellers risk confusing or turning off merchants if they get too "technical" in their sales pitches. On the other hand, it's important to educate merchants on current technology and related issues. Sales reps must walk that fine line between too little and too much. Here are tips and suggestions on what to tell merchants about interchange, security, and POS hardware and software.

Education

68

The proper care and feeding of LinkedIn

The social networking site LinkedIn is a powerful communication and marketing tool. But your LinkedIn page must be cared for as a carpenter maintains his tools. To keep LinkedIn working for you, follow these 10 tips for a polished, active online presence that helps you differentiate yourself from the competition.

Education

64

Are your online contracts enforceable?

Getting merchant contracts signed online is fast, convenient and legal. But it's not as easy as point and click. Extra steps are required to meet the litmus test of a legally enforceable online contract. This article details those steps, from making sure the contract contains clear and concise terms of services to identity authentication.

Inspiration

79

Shuffling the deck on negative people Inspiration

Every workplace has them – people who sap the energy from the office and excel at making just the wrong comment at just the wrong time. But their ilk needn't bother you. You can easily employ strategies to diffuse the negativity of griping coworkers or even crabby merchants.



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IndustryUpdate

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NEWS

Heartland, First Data, Hypercom report earnings

Reports from payments industry companies for the second quarter ending June 30, 2010, showed mixed results. **Heartland Payment Systems Inc.** reported a 14 percent jump in revenue year over year to \$475.9 million for the quarter.

Profit jumped to \$5.7 million, or 16 cents a share, versus a loss of \$1.9 million, or 7 cents a share, for the same quarter last year. Heartland shares rose 6.7 percent to \$16.73 in the trading session following its earnings report.

First Data Corp.'s second quarter consolidated revenue of \$2.6 billion was up 18 percent compared to a year ago, primarily driven by the formation of the Bank of America Merchant Services alliance. The quarter's adjusted revenue of \$1.6 billion increased 4 percent year over year.

First Data's adjusted earnings before interest, taxes, depreciation and amortization was \$513 million, compared with \$589 million for the second quarter of 2009. First Data attributed this to incentive compensation accruals, the termination of services by Washington Mutual Inc. and a write-off of receivables. The net loss attributable to First Data for the quarter was \$171 million.

For equipment vendor **Hypercom Corp.**, second-quarter revenue rose 5.2 percent from the first quarter 2010 to \$103.9 million, but it fell 1.6 percent year over year.

Revenue held steady year over year on a constant currency basis. However, net profit slid 59.5 percent to \$2.9 million, excluding special items, from \$7.2 million for the same quarter a year ago.

Education program teaches ins and outs of PCI DSS

Trustwave now offers a two-day education program to train information technology professionals on the Payment Card Industry (PCI) Data Security Standard (DSS). The company stated that the program is based on Trustwave's Assessment Methodology and helps customers interpret the requirements and achieve compliance in a cost-efficient manner.

The program provides an overview of the regulatory environment, card processing vulnerabilities and threats, and an in-depth review of each requirement. It is designed for executives, compliance officers, and information security and information technology pros. For further information, visit www.trustwave.com.

Visa introduces online shopping tool

Visa Inc. launched an online shopping tool branded Rightcliq, a plug-in to assist consumers with product comparisons, checkout and package tracking.

The Wishspace feature lets consumers organize images of products they're considering buying. At checkout, consumers can automatically fill in payment and shipping information that they store in their Rightcliq accounts.

As part of Rightcliq, Visa guarantees zero liability for fraudulent transactions on users' stored Visa accounts.

BOTTOM
LINES

HEADLINES
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- **MasterCard Worldwide's** monthly *SpendingPulse* report revealed that after slipping into single digits in June 2010, e-commerce spending grew 10.9 percent year over year in July, while overall retail spending for the month remained flat.
- According to data released by **Automotive News**, U.S. automobile sales in July 2010 rose by a margin of 5 percent over July 2009. At 11.55 million units, the seasonally adjusted selling rate was the third highest for the year.
- An **Intellaprice LLC** 2010 breakfast study reported that quick-service restaurant prices were up 1.3 percent over last year; with an average breakfast cost of \$2.84. The survey included nearly 2,300 store locations that serve breakfast items and coffee beverages.

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IndustryUpdate

Rightcliq's promotional line, "Power to the Shopper," is part of an integrated marketing campaign. For more information, visit <http://rightcliq.visa.com>.

ANNOUNCEMENTS

PNC, foreign banks receive ACI awards

Electronic payment product vendor **ACI Worldwide Inc.** issued a series of excellence awards to certain customers for their innovation in using ACI products. Awards were given to: **PNC Financial Services Group Inc.** in the United States, **Fortis Bank AS** in Turkey, **JSCB Ak Bars Bank** in Russia, **HDFC Bank Ltd.** in India and **AmBank Group** in Malaysia.

DCS gets instant-issue patent

The U.S. Patent and Trademark Office issued a patent to **Dynamic Card Solutions LLC** for its proprietary instant-issuance printing technology for unembossed payment cards. The patented process produces cards from blank card stock, including printing unembossed cards using reverse retransfer film with inhibitor panels.

Leadership forum sets sail

An all-star CEO roundtable panel at the **Electronic**

Transactions Association's Strategic Leadership Forum will take the helm with a discussion entitled "Sail on to Better Waters." Kurt Strawhecker of The Strawhecker Group will moderate.

The panel includes Tom Bell, CEO, Bank of America Merchant Services; Mark Pyke, President of TSYS Acquiring Solutions; Debra Rossi, Executive Vice President at Wells Fargo Merchant Payment Solutions; Jeffrey Sloan, President of Global Payments Inc.; and Ed Labry, President of First Data Retail and Alliance Services.

The forum will be held Oct. 26 to 28 in Palm Beach, Fla. For more details, visit www.electran.org.

Element, Global ranked top channel products

Hosted Payments from **Element Payment Services Inc.** was chosen by *Business Solutions* magazine as one of 2010's Best Channel Products.

The award was based on an annual survey of value-added resellers (VARs) and independent software vendors, which ranked Hosted Payments as a top hosted processor for its reliability and ease of service by independent software vendors.

Business Solutions also named Global Transport, the proprietary payment gateway of **Global Payments Inc.**, a Best Channel Product. Merchants, software developers, VARs and original equipment manufacturers use the Global Transport platform to integrate their POS applications with payment devices.

Juniper gives mobile awards to mBlox, eBay

Juniper Research Ltd. awarded its Future Mobile Award in the payments category to **mBlox Inc.** for its short message service transaction platform, which provides mobile payments capability for businesses selling digital products such as music.

The award in the coupons category went to **Mobiqa Ltd.**, while **eBay Mobile** won in the retail category for its transition to a mobile platform.

MRC opens office in Spain

The **Merchant Risk Council** opened a European office in Madrid, Spain. The office is led by Nicolas Vedrenne, MRC's Managing Director for Europe. It connects merchants, risk-management software vendors, law enforcement and financial institutions.

NACHA issues fraudulent-email alert

NACHA – The Electronic Payments Association issued an alert that a fraudulent email purportedly sent by

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

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Industry Update

the organization is circulating. The email contains a link that NACHA suspects plants an executable virus with malware on recipient computers when the link is clicked. The subject line of the email is "Unauthorized ACH Transaction." The organization advises recipients not to click on the link. NACHA does not send communications about individual automated clearing house transactions.

PARTNERSHIPS

Kroger contracts with Cardtronics

Cardtronics USA Inc. will manage ATMs for The Kroger Co. at its 800 locations. Services will include installation, cash management, maintenance and transaction processing.

EMS teams with CRE Secure

CRE Secure Payments LLC integrated its PCI-compliant payment acceptance service into Electronic Merchant Systems' products for e-commerce clients. Online merchant clients of EMS are redirected to CRE Secure's hosted payment platform through a window that mirrors merchants' websites.

FTSI to service ATMs for Washington credit union

Financial Technology Solutions International Inc. will service ATMs for Vancouver, Wash.-based iQ Credit Union. With 28 ATMs, iQCU marks FTSI's first client outside California.

Home Trust Co. looks to Gemalto for EMV

Gemalto NV is managing Canadian Visa issuer Home Trust Co.'s migration to Europay/MasterCard/Visa smart payment cards. Gemalto, which sells security software and devices, is providing consulting services on the project.

JHA adopts Inetco software

Jack Henry & Associates Inc. deployed software from Inetco Systems Ltd. to improve customer service and reduce the risk of downtime. Inetco Insight displays real-time data about applications, switch components, network links and third-party service providers, isolating issues that could slow transactions.

Elavon certifies NMI

Network Merchants Inc. was certified on Elavon Inc.'s processing platform. NMI completed its certification with support for retail, MO/TO, e-commerce and Level 3 processing.

Paymetric deploys ACH from United Tranz*Actions

Clients of Paymetric Inc. have access to ACH and electronic check processing through a partnership with United Tranz*Actions LLC. The agreement also covers remote deposit capture (RDC) and check guarantee.

TransNet certified on Logivision

The TransNet payment engine application from Precidia Technologies Inc. was certified with the L-POS system from Logivision. Housed on the POSLynx220 payment router from Precidia, TransNet is validated as meeting the Payment Application DSS.

SSFCU joins CO-OP Network

Texas-based Security Service Federal Credit Union joined CO-OP Network, giving its 760,000 members surcharge-free access to CO-OP's 28,000 ATMs nationwide. CO-OP Network is operated by CO-OP Financial Services.

EZCheck to use Skyline's DirectFED for RDC

RDC specialist Skyline's DirectFED Payment Solutions Corp. partnered with EZCheck, a payment services company. EZCheck now uses Skyline's DirectFED as a Check 21 option for its clients. The partnership gives EZCheck the ability to do RDC with guarantees.

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Industry Update

TrustCash integrates BlackBerrys into gateway

Online payment processor **TrustCash Holdings Inc.** integrated all BlackBerry device models from **Research in Motion Ltd.** into its mobile payment gateway. The move gives all TrustCash clients the ability to process credit cards and deposit cash for purchases directly through any BlackBerry device using the TrustCash gateway.

UBC partners with Trustwave

Trustwave will implement a Level 4 program at **United Bank Card Inc.** to help merchants achieve compliance with the PCI DSS. UBC stated that it processes accounts for over 110,000 merchant locations.

Visa Europe launches mobile payments over microSD smart phones

Visa Europe launched a microSD-based mobile payment system in Turkey with **DeviceFidelity** and **Akbank**. The system enables handsets equipped with microSD card slots to make mobile payments through all mobile operators and a majority of smart phones. The system deploys Visa's contactless and DeviceFidelity's In2Pay technology to deliver mobile payments to Akbank customers.

ViVOTech licenses Semtek encryption

ViVOTech Inc. chose Cipher Hidden Encryption software from **Semtek Innovative Solutions Corp.** for use in its customer-facing POS devices. The technology enables ViVOTech to offer its clients end-to-end encryption on a global scale, according to ViVOTech.

VocaLink teams with eWise

Payments processor **VocaLink** and online financial management product vendor **eWise** partnered to market a secure online payment system for the U.K. The system uses VocaLink's Immediate Payments platform with the eWise Online Banking ePayments network, marketed to financial institutions as a service providing customer authentication and payments to merchants.

ACQUISITIONS

AmeriMerchant picks up Canadian cash-advance firm

Cash advance provider **AmeriMerchant LLC** bought **CanaFunding Corp.**, a move that allows AmeriMerchant's U.S.-based ISOs and agents to sell in Canada. Founded in 2007, CanaFunding now operates under AmeriMerchant management but retains its brand name in Canada.

NAB buys CDI

North American Bancard LLC acquired **CDI Technology** from investment firm Quantum Ventures of Michigan LLC. CDI, a Micros Systems Inc. dealer, is a regional supplier of POS systems to the restaurant and hospitality industry in Southeast Michigan and Western Ohio.

APPOINTMENTS

Cawthorne named President at Wausau

Wausau Financial Systems Inc., a provider of receivables processing systems, appointed **Gary Cawthorne** President, succeeding **Joe Delgadillo**. A member of Wausau's board of directors since April 2009, Cawthorne was previously a Managing Partner at Electronic Knowledge Interchange and President of Getronics Americas.

Kilat named Executive VP of Finance

CrossCheck Inc. promoted **Dave Kilat** to Executive Vice President of Finance. He joined the company in 2008 as Senior Vice President.

MasterCard appoints three

MasterCard Worldwide named **Ed McLaughlin** Chief Emerging Payments Officer and appointed **Eileen Simon**

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Chief Franchise Development Officer. McLaughlin, who was Group Executive for MasterCard's Franchise Development Group, replaces Josh Peirez, who has left the company. The mobile payment solutions joint venture, person-to-person, PayPass/Transit, chip technology and bill payment are among the emerging payment products and services that McLaughlin manages.

Simon was previously MasterCard's Group Executive and Senior Associate General Counsel. She will implement a global franchise strategy.

In addition, MasterCard named **Tara Nathan** CEO of its joint venture with Smart Hub Inc. Headquartered in Singapore, Nathan is responsible for developing the MasterCard Mobile Payments Gateway. She worked most recently for Citigroup.

Passilla appointed CEO at Elavon

Elavon Inc., a subsidiary of U.S. Bancorp, promoted **Mike Passilla** to President and CEO, effective Aug. 16, 2010. As Executive Vice President, Passilla had been responsible for global business development. He replaces Stuart C. Harvey Jr., who joined Ceridian Corp. as CEO.

BillingTree hires and promotes

In a company expansion, BillingTree Inc. made several staff promotions and additions. **Randy Phelps** was named Chief Operating Officer.

He had been Senior Vice President of Operations. And BillingTree hired **Holly Merrill** to the newly created position of Director of New Product Development.

Other promotions include **Chad Probst** to Director of Sales and **Jason Rabago** to Strategic Alliance Manager. **Dave Yohe** was hired to lead corporate marketing, and **Jose Garcia** joined the company as Customer Support Manager.

Tepoorten to lead CDI Tech

Following the acquisition of CDI Technology, NAB appointed **David L. Tepoorten** General Manager of CDI. **Thomas C. Merten** was named Merchant Services Manager. **Peter C. Violassi** and **Cary Nickerson** continue as Sales Manager and Director of Operations, respectively.

SignaPay appoints Wood to lead sales

Texas-based ISO SignaPay Ltd. and its subsidiary SenorPay hired **Marty Wood** as Director of Sales. Wood previously held sales and management positions at NAB and Century Payments Inc. and was President at Fast Transact Inc.

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Insider's report on payments**ISOs, MLSs and financial services re-regulation****By Patti Murphy***The Takoma Group*

The era of financial services deregulation in America has come to an inglorious end. And with it has passed any chance the acquiring sector had of escaping the long reach of federal regulation.

Let's face it: ISOs, merchant level salespeople and other nonbank payment firms have existed in the shadows of the federal financial regulatory framework – with the exception of a handful of nefarious characters whose blatant consumer frauds forced the Federal Trade Commission to issue multi-million-dollar fines and cease-and-desist orders.

The most obvious change ushered in by this summer's omnibus financial reform legislation is that the Federal Reserve now has a say in setting debit interchange.

The Fed is in an unenviable position following passage of the Restoring American Financial Stability Act of 2010 (dubbed the Dodd-Frank Act). And one that looks eerily similar to the position it was in following passage of the Depository Institutions Deregulation and Monetary Control Act of 1980. That law got the deregulation ball rolling by eliminating the caps on interest rates banks and savings and loans could pay for deposits; it also expanded the Fed's role in the payment system.

(Ironically, the new law completes the interest rate deregulation process begun with that 1980 law by eliminating long-standing prohibitions against paying interest on business checking accounts.)

In addition to its roles in monetary policy and bank regulation, the Fed serves as gatekeeper to the nation's payment systems, which entails both clearing and settlement routines, including setting deadlines and fees.

Under pressure from bankers who felt the Fed was competing unfairly on their turf, lawmakers, in passing the 1980 law, instructed the Fed to start pricing payment services (automated clearing house, check and wire transfer clearing, and settlement) as though the 12 Federal Reserve Banks were a profit-making venture providing like product offerings.

That law also required the Fed to provide payment services to any federally regulated financial institution that asked, regardless of location or the expense of getting there. It took nearly two decades before the Fed was

able to turn in the kind of balance sheet lawmakers had intended back in 1980.

I'm betting the Fed is going to have an equally difficult time managing its latest assignment.

Dodd-Frank Act

The Dodd-Frank Act, signed into law July 21, directs that "The amount of any interchange transaction fee that an issuer may receive or charge with respect to an electronic debit transaction shall be reasonable and proportional to the cost incurred by the issuer with respect to the transaction." It gives the Fed until April 2011 to adopt final regulations implementing these instructions.

But like most special interest legislation, there are exceptions. For example, the law directs that the Fed's new regulatory role apply only to banks with assets over \$10 billion. And it exempts prepaid (reloadable) debit cards issued through electronic benefits programs (federal, state and local agency programs).

In establishing regulations on debit interchange, Congress told the Fed to "consider the functional similarity between" debit card payments and checks. Many opponents of interchange point to the 20th century law creating the Fed, which in part required banks to accept and pay checks drawn on other banks at par (or face value). Before that, banks would assess fees for cashing and collecting so-called foreign checks.

Since debit card payments, like checks, authorize deductions from customer checking accounts, retailers and their advocates contend the payments should be treated like checks and cleared at par, rather than like credit cards, which assess interchange.

Matt Shay, Chief Executive Officer at the National Retail Federation, which led the charge against interchange, said he was heartened. "Congress realizes that debit cards are simply plastic checks and has said the Federal Reserve should look at them with paper checks in mind," Shay said. "The result shouldn't be swipe fees being cut by a quarter or even a half. The result should be plastic checks that get paid essentially at face value."

Shay, who took the helm at the NFR this summer, may be too optimistic, however, as the law instructs the Fed to allow for adjustments to debit interchange deemed "reasonably necessary" to cover costs tied to fraud prevention and card data security.

Mixed bag for merchants, networks

The Dodd-Frank Act also includes several other pro-merchant provisions. One permits merchants to offer enticements for preferred methods of payment (for example, discounts for cash, something the card brands already allow).

Other provisions overturn certain contentious card company rules. Among those that will be nixed are restrictions against merchants setting minimum transaction values, provided those amounts do not exceed \$10. And the Fed has a year to come up with regulations that prohibit issuers and the card brands from dictating which payment networks merchants use to process card payments.


You can bet the Dodd-Frank Act won't be the last word on card pricing. Debates have sprung up already over new price control measures.

Sen. Richard Durbin, D-Ill., who pushed for inclusion of interchange regulation in the new law, hasn't given up on campaigning for additional changes. As a result of his efforts, an appropriations bill now pending in the Senate includes provisions for a federal study of whether government agencies should be given cut-rate interchange.

Meanwhile, in a small victory for card acquirers and their allies, a bill (SB 933) awaiting the signature of California Governor Arnold Schwarzenegger would ban retailers from surcharging debit card payments.

State Sen. Jenny Oropesa, D-Long Beach, the bill's author, said she was spurred to action by the rising share of POS payments that are now made using debit cards, including electronic benefits transfer (EBT) cards. She added that surcharges unfairly discriminate against EBT recipients. Oropesa had broad support for SB 933, including the AARP, Consumers Union and Visa Inc.

In a fact sheet posted to her website, Oropesa suggests SB 933 would compel merchants to make good on promises made during congressional deliberations on interchange. "Retailers sought this measure promising it would result in lower costs for consumers," the fact sheet stated.

Surcharging credit card transactions was nixed by Congress in 1985. At the time, debit cards were used almost exclusively at ATMs. Had debit and prepaid cards been as popular then as now, "those forms of payment would have been included in the statute," Oropesa said. 

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



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

excellence |ekselens| *noun*
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integrity |in tegritē| *noun*
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Fraud trends in 2010

By Nicholas Cucci

Network Merchants Inc.

Financial fraud is a large business domestically and internationally. It accounts for more than \$200 billion in losses each year in the United States alone, according to Symantec Corp., a provider of information security software and services.

The number of fraudsters has grown exponentially within the last five years, and they have become more sophisticated in how they steal and sell credit card information.

The buying and selling of credit card information has become so widespread that the British Broadcasting Corp. reported that U.K. credit card information is now for sale in India.

According to the BBC, a man named Saurabh Sachar told two undercover BBC reporters in Delhi that he could supply them with hundreds of credit and debit cards each week at \$10 USD per card.

He claimed to have obtained the card data from call centers handling mobile phone sales and payments for phone bills and hotels. After receiving sample credit card numbers, the BBC reporters found they were valid.

Understanding fraud techniques

A powerful way for the payments industry to fight back is to understand how fraudsters work. One technique described by First Data Corp. is the use of fraud forums. These are highly popular web-based forums dedicated to individuals and groups that perpetrate fraud and provide a convenient way for them to exchange stolen information.

People looking for stolen data or interested in stealing and selling data themselves need only create a username and password on these websites to gain access to the goods. The sites provide how-to guides and even specialized venues for specific countries or regions. I was able to find within minutes people willing to sell malware to obtain information illegally for \$35 to \$500 USD.

No fraudulent act is complete until a "cash-out" on the stolen data occurs. This is when the "cashiers" and "money mules" come into play. They are available for hire to act as intermediaries in converting information into true currency. There's even another business inside of this business; the fraudsters basically have their own fraud-support teams.

Intermediaries will transfer funds from stolen accounts into legitimate currency for a commission on the amount transferred and, for a nominal fee, will even help validate cardholder verification value code numbers against their

People looking for stolen data or interested in stealing and selling data themselves need only create a username and password on these websites to gain access to the goods.

corresponding credit card numbers and expiration dates. You can even request a cashier's check for a specific location, nationality or gender to match the identity of the victim to minimize suspicion when withdrawing funds. The sophistication with which fraudsters conduct their business is unbelievable.

With technology advancing daily, it simply cannot be stressed enough that today's criminals are more adept and organized than ever. We need to continuously evolve our methods to keep ahead of the fraudsters.

People from all walks of the payments industry need to understand that fraud is still a two-step process for the perpetrators. The first step is stealing the data; the second is converting the data into money through various means. Following are the current top five fraud trends, based on information I gathered from Symantec, the Internet Crime Complaint Center and First Data Corp.

Malware attacks

Malware is short for "malicious software" that is designed to gain access to, and potentially damage, the victim's computer without the victim's knowledge. In 2009 the number of attacks was 10 times greater than in 2008. Most malware attacks today are intended for financial gain.

Malware escapes detection while collecting and transmitting sensitive data such as users' bank account information, passwords and card details.

Criminal hackers create new malware Trojans daily, exploiting new vulnerabilities before they can be detected and fixed. Keeping your anti-virus software up to date gives you the upper hand. Vulnerabilities are usually found in out-of-date virus detection systems.

Advanced phishing, SMSishing and whaling

Pretending to be a trustworthy entity such as a bank or credit card company, phishers send out emails and instant messages that prompt users to send sensitive information to confirm they are the actual owners of the accounts. Phishers even send out text messages now, too – a practice called SMSishing.

Whaling in the fraud world occurs when high-worth

accounts are targeted. Usually this is through social networking sites such as LinkedIn and even Facebook. Whalers target profiles with certain descriptors, such as vice president, chief executive officer, chief financial officer and so forth.

Google was recently hacked via a PDF file sent to its executives that, when opened, caused a vulnerability on each user's computer so hackers in China were able to grab information. Google believes the hack stemmed from, or was at least approved by, the Chinese government, but the company cannot prove with 100 percent certainty the Chinese government's involvement.

Phishing can happen to anyone; according to Gizmodo.com, the key is to always stay on top of everything and delete, without opening, any file that you do not completely recognize.

ATM skimming

In this type of fraud, skimmer devices are placed directly over the slot where customers swipe their cards to get cash from an ATM. The skimmer reads and stores sensitive personal information kept on the bankcard's magnetic stripe. The skimmers are so small that authorities have a hard time finding them. Skimming has been around since the early 90s.

SQL injections

SQL stands for structured query language, a language used for database programming. Hackers inject SQL into web forms containing login fields or browser addresses to access and manipulate the database being utilized by the site or system. These attacks allow criminals to access restricted data, such as credit card details and PIN data. This is becoming a more popular attack because of its versatility.

Counterfeiting in non-EMV countries

Many countries outside of the United States have adopted the Europay/MasterCard/Visa smart card standard. This allows for a more secure chip and PIN technology. This technology deployment has resulted in a higher level of security and caused the basis points on card transactions in the United Kingdom to drop from 18 in 2001 to 12 in 2008. I hope it is only a matter of time before this method is adopted in the United States. ☐

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

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Selling Prepaid



Prepaid in brief

NEWS

Maine begins transition to prepaid benefits

With the launch of the Maine Automated Payment (MAP) Card, the **Maine Department of Labor** began moving its unemployment benefits payments from a paper check system to a prepaid card program. The Visa Inc.-branded MAP Card is designed to replace unemployment checks for unemployment claimants who have not signed up for direct deposit, the labor department said.

Grameen expanding microfinance programs

Grameen Foundation reported Citicorp's Citi Foundation donated \$125,000 to the microlending nonprofit organization. Grameen said \$100,000 will allow the nonprofit to expand staffing at microfinance institutions in poor communities worldwide, while the additional \$25,000 will support Grameen's broader strategic initiatives.

PayPal launches prepaid card in Malaysia

In conjunction with online game payment service **Malaysian MOL Access Portal Berhad (MOL)**, alternative electronic payment provider **PayPal Inc.** unveiled the MOL PayPal – The Digital Card in Malaysia. It represents PayPal's first co-branded prepaid card for the region.

ANNOUNCEMENTS

Meta out front in CARD Act compliance

The **Agent Products Group** of **Meta Payment Systems** reported its Prepaid Gift Card Program became the first program to gain compliance with the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the Credit CARD Act), well ahead of the Jan. 31, 2010, deadline.

Blackhawk adds rewards for Canadian cardholders

Blackhawk Network reported that Canadians can now earn Air Miles rewards through gift cards purchased from Safeway Inc. stores in Canada. Consumers earn one reward mile for every \$20 of gift cards purchased in a single transaction, Blackhawk said.

CardSmith implements card program for conservatory

CardSmith rolled out a campus card program for the New England Conservatory. The card is called the Penguin Pass ID card and is powered by CardSmith's software-as-a-service transaction processing platform and card program management solution.

CFSI to spearhead underbanked survey

The **Center for Financial Services Innovation** said it will undertake the first annual Underbanked Industry Scan. The survey is meant to chart the underbanked marketplace to help organizations succeed in serving that market more effectively.

MoneyGram in the news

MoneyGram International Inc. reported that, in the second quarter of 2010, the company launched its 200,000th agent location and paid down \$60 million in debt. Other Q2 developments include expansions in Russia, Nigeria, France, Morocco, Kazakhstan, United Arab Emirates, Guatemala and Paraguay.

Plastic Jungle honored by AlwaysOn

Online gift card exchange provider **Plastic Jungle** was chosen by Silicon Valley media company **AlwaysOn** as an AlwaysOn Global 250 award winner. Plastic Jungle was selected by the AlwaysOn editorial team and payments industry experts based on five criteria: innovation, market potential, commercialization, stakeholder value and media buzz.

Prepaid cardholders get mobile banking

Plastyc Inc. launched a service designed to give prepaid cardholders with browser-enabled cell phones the ability to write checks, transfer money and locate nearby retail locations to reload cards using Plastyc's iBankUP and UPSide prepaid Visa services.

QuikTrip ups tempo for rewards

QuikTrip Corp. expanded its QuikTrip Rewards Debit Card program by utilizing Tempo Payments Inc.'s affinity debit card platform. The Discover Financial Services-branded QuikTrip Rewards Debit Card allows for discounts on fuel purchases of 5 cents per gallon at QuikTrip stations.

SparkBase integrates social networking

Private-label stored-value processor **SparkBase** said it developed and tested integration of its gift, loyalty and rewards network to social networking

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Selling Prepaid

sites like FaceBook, Twitter, and FourSquare. Doug Hardman, CEO at SparkBase, said integrating social networking is "key to long-term growth for our ISOs and their merchants."

Korea, India get Western Union

The Western Union Co. launched account-based money transfer (ABMT) services in Korea and India. The move comes on the heels of Western Union's agreements with Industrial Bank of Korea and the State Bank of India – both already Western Union agents, the company said.

PARTNERSHIPS

Bank Freedom, MoneyGram deal for real-time reloading

Prepaid Card Holdings Inc. subsidiary Bank Freedom entered an agreement with MoneyGram for reloading prepaid debit cards at over 40,000 MoneyGram agent locations in the United States.

Rixty, Embee Mobile create coin redemption tandem

Online game publisher Rixty Inc. partnered with Embee Mobile Inc. to expand its coin redemption options. Rixty said online gamers can exchange loose change at over 20,000 locations for a prepaid Rixty card or virtual RixtyCode, which players can then use to make in-game purchases or, now, mobile top-ups using Embee Mobile's telecom network.

Serif, Parago band for consumer incentives

U.K.-based software developer Serif Ltd. tapped incentive card provider Parago Inc. to collaborate on the development and delivery of incentive solutions to drive Serif's expansion in North America. Serif expects to raise its profile by offering incentive cards powered by Parago for individuals who purchase Serif's professional and home software.

Family Dollar goes for money transfers

Western Union and Family Dollar Inc. inked a deal for Family Dollar to offer Western Union's in-lane money transfer service, goCASH, in 6,500 Family Dollar stores. While transactions take place at the POS, senders complete transactions by calling Western Union customer service representatives, Western Union said.

New collaboration for benefits distribution

WiredBenefits Inc. partnered with Trustnode Inc. to create a web-based solution for the administration of employee benefits programs. WiredBenefits is a provider of prepaid health-care and other employee benefit solutions, while Trustnode powers an online, interactive benefits education and enrollment platform.

ACQUISITIONS

Genstar Capital buys Evolution Benefits

Private equity firm Genstar Capital LLC acquired health-care benefits payments company Evolution Benefits Inc. Financial terms of the purchase were not disclosed. It was reported that Evolution Benefits' Chairman and CEO Robert E. Patricelli, and the entire senior management team, would remain with the company.

APPOINTMENTS

Chaplin named President at Ixaris

London-headquartered prepaid service provider Ixaris Systems Ltd. appointed John Chaplin as President. Chaplin has over 20 years of experience in the payments industry, including stints at First Data Corp. and Visa.

Witts takes helm at Safaricom

Karen Witts was named Director at Nairobi, Kenya-based mobile network operator Safaricom Ltd. Witts was nominated for the position by Vodafone Kenya Ltd., whose parent company Vodafone Group PLC has a 40 percent share in Safaricom. Vodafone and Safaricom launched mobile money transfer service M-PESA in 2007. ☺



Features

Legislative fallout for gift card providers

By Thom Aldredge

World Gift Card

Congress and the federal regulating agencies have established that we, as a nation, are under attack from card program providers, processors, acquirers, merchant banks, ISOs and anyone else that charges fees for providing credit, debit and prepaid card services.

After much deliberation, our elected officials, in sweeping reform aimed at eliminating the excesses of lending institutions, investment banks, brokerage houses and investment advisors have also taken a swipe (pun intended) at the payments industry. In a classic case of guilt by association, gift card providers got slapped as well.

The Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit CARD Act) and The Restoring American Financial Stability Act of 2010 (also

called the Dodd-Frank Wall Street Reform and Consumer Protection Act) will apparently protect us from unscrupulous issuers and merchant service providers. In the following section, Daveed A. Schwartz, an attorney at Bullivant Houser Bailey PC, outlines the essential aspects of the CARD Act as it relates to gift cards, the section referred to as Regulation E.

What's covered?

Closed-loop, private-label and open-loop, network-branded gift cards are covered. What's not? Prepaid phone cards; reloadable cards not marked as gift cards; loyalty cards; cards not marketed to the general public; cards issued in paper form only; and admission certificates. Who is responsible? Just about anyone and everyone involved in the gift card industry.

What are the restrictions and prohibitions?

- **Expiration dates:** Must be at least five years from the date of issuance or last load of funds, and the expiration must be clearly disclosed on the card prior to purchase. In addition, certain disclosures regarding differences in expirations must be made as well. Also, no fees can be charged to replace a gift card with a valid balance during the five-year period, but an issuer may cash out a card for a cardholder in lieu of replacing the card.
- **Dormancy/service fees:** These are prohibited unless:
 1. The card has had a minimum of one year of inactivity from its trigger date
 2. The fees are disclosed
 3. Only one fee is charged
 4. Other requirements of the Federal Reserve Board are met
- **Fee disclosure requirements:** The cards must clearly state:
 1. That a fee may be charged
 2. The amount of the fee
 3. How often the fee can be assessed
 4. That the fee can be an inactivity fee

Disclosure must be made to the purchaser prior to purchase. Additional fee disclosures must also be made at the point of purchase and must refer consumers to toll-free phone numbers or websites that provide additional information.

The mandatory compliance date for all of the requirements of Regulation E had been Aug. 22, 2010, but an amendment covering gift cards issued prior to April 1, 2010, was passed by Congress, extending the compliance date to Jan. 31, 2011. The gift card provisions of the CARD Act preempt inconsistent state laws. State laws that offer better consumer protection than the CARD Act supersede it. The federal law addresses open-loop gift cards in a manner that most state laws do not. General use prepaid cards that are reloadable and not marketed or labeled as

gift cards are excluded from coverage; these are generally considered prepaid cards for the unbanked, payroll cards, government benefits cards, etc.

The act of financial overhaul

Dodd-Frank focused more on the limitation of the fees charged on prepaid cards from an interchange/discount perspective. The Federal Reserve will provide the regulations governing the "reasonable and proportional to the cost" provision at a future date. Prepaid card programs were mainly exempted from the legislation. However, the so-called Durbin Amendment provided merchants relief to offer discounts to customers who choose to use alternative forms of payment, thereby affecting closed-loop gift card programs.

Given Daveed's assessment, it seems to me that the federal government, in its desire to "convince" the electorate that it is doing something about preventing future financial crises, has embarked on a path to demonstrate control. The conclusions of analysts of these laws notwithstanding, the effect on consumers who obtain, possess, use, don't use and give gift cards will be negligible. Let's examine the law.

Cards not covered by CARD

- **Prepaid phone cards:** The pervasive prepaid phone card market, with its unfathomable rates and fee structures, must have benefited from a good lobbying effort.
- **Reloadable cards not marked as gifts:** If the balance of a reloadable card not marked as a gift card is redeemed for dollars, how does this type of card gain exemption?
- **Cards not marketed to the general public:** If not to the general public, then to whom? Members? So if buying a card makes you a member, would it suffice that the card program is not marketed to the general public?
- **Cards issued in paper form only:** Cards can be printed on paper, with a mag stripe or barcode (prepaid phone cards would be a good example), yet they could have nondisclosed expiration dates and fees. Does it make any sense that cards printed in this fashion should be exempted?

Issues with expiry, dormancy

- **Expiration dates:** One perspective has always been that expiration dates have the effect of driving cardholders to the issuer's business location prior to the expiration, thereby increasing the velocity of customer adhesion. Our perspective has always been that the gift card program is designed to bring customers to the issuer's place of business *regardless of when that happens*. An expiration date on a gift card is biased toward a negative outcome. Expiration dates give the cardholder a reason not to stop by,

Selling Prepaid

even if it is 10 years from now. There shouldn't be expiration dates; the law is correct.

- **Dormancy/inactivity fees:** On the one hand, arbitrarily debiting fees and charges from the balance on an unused card cannot be fair in law or in equity to any cardholder, whether the cardholder paid for the balance or received the card as a gift from another. On the other, the merchant has a cost of maintaining the balance availability and usage data on the card in order to meet customer satisfaction needs, accounting concerns and government reporting obligations.

There should be a balance between the two. In this instance the law is correct again in that reasonable and disclosed fees based on a cardholder's non-use of the card allows the merchant to effectively manage the card program to the benefit of all the cardholders.

About disclosure

We make cards for our customers. Our standard 2 1/8" x 3 3/8" card, subject to the mag stripe for the card number and a required 1/8" bleed edge, leaves less than four square inches in which to print a card number, maybe a small logo, sometimes a business name, address and phone number, and all of the disclaimer/limitation/legal

language now and becoming necessary for proper disclosure. A five point font is as small as the text can be printed and meet the legibility standard. There just isn't much room to post the commandments. This might become a larger issue depending upon any additional disclosure requirements and a merchant's desire for an aesthetically pleasing card.

So, in summary, the CARD Act establishes the benchmark of how all closed- and open-loop gift cards are to be treated. It remains to be seen how this law will interact with state laws for gift cards that may be in conflict. The compliance date postponement until after the 2010 holiday season brought a great relief to merchants, issuers, program managers, card printers, etc. For more information about the CARD Act, go to www.federalreserve.gov.

My thanks to Daveed Schwartz for his information. Next, we'll finish this discussion and look at the application of closed-loop versus open-loop gift cards for a particular business. 📧

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

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- The contest drawing will be observed by Weiser LLP, an independent accounting firm.

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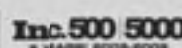
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Company Profile



Federated Payment Systems LLC

ISO/MLS contact:

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Senior Vice President of Sales
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Email: savery@fpsemail.com

Company address:

2 Huntington Quadrangle
3rd Floor, North Wing
Melville, NY 11747
Phone: 866-912-8770
Website: www.federatedpayments.com

ISO/MLS benefits:

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- Advanced training and collateral materials

A gateway to Canadian merchants

Federated Payment Systems LLC provides processing solutions and value-added services for merchants based in the United States and Canada. The company offers a full range of services including credit and debit card processing, equipment leasing, gift and loyalty card programs, cash advance, and check approval services for traditional, mobile and e-commerce applications.

The company was founded in 1999 by John Guirguis, who prior to Federated had worked extensively in the operations side of the payments industry. He merged services, partnering with Jon Levitt, another ISO and seasoned sales professional, who was chartered with running the company's sales and marketing initiatives. And today, Federated has grown to more than 230 employees with another 450 payment professionals working externally to support more than 25,000 merchants.

"We, as a company, have grown from serving the processing needs of the smaller, traditional brick-and-mortar businesses to becoming one of the leading merchant service providers, first in the U.S. and, for the past two years, Canada," said Levitt, who serves as Federated's Chief Executive Officer. "Today, we offer solutions for every type of business, from traditional retail to mail order/phone order, e-commerce and mobile, while providing the world-class service and support our customers, as well as our ISO partners, need to grow their business."

Roots of expansion

Federated discovered a land of opportunity when the company launched its services into Canada. Realizing rapid expansion of its merchant base in Canada, Federated quickly found that many Canadian merchants were paying higher rates than most U.S. merchants, and many of the merchants they encountered revealed that customer service, for the most part, was minimal at best. "We jumped into the Canadian market for three key reasons: lack of competition, mandated chip-compliant terminal upgrades and restructured interchange," said Scott Avery, Senior Vice President of Sales at Federated Payments.

"Until recently, the market was controlled by a handful of large, merchant-unfriendly banks who overcharged the merchants with prices one-and-a-half to two times what they should be paying," Avery said. "Due to strong relationships Federated has with its alliance partners, we have now unveiled a simple solution to allow U.S. and Canadian ISOs to maximize their opportunity to increase profits by expanding into the Canadian market." In Canada, Interac Association, MasterCard Worldwide and Visa Inc. have all committed to chip migration by the end of 2015, when full compliance will become mandatory. With Canada's shift to Europay/MasterCard/Visa (EMV) chip-enabled devices and cards, Federated sees tremendous growth opportunities in equipment leasing programs, as most merchants in Canada currently rent their equipment, and of those merchants, only 15 percent are chip-compliant.

With debit and credit card fraud losses in Canada reportedly totaling nearly \$250 million in 2006 and rising at an annual rate of close to 30 percent, experts

Company Profile

are hopeful that chip migration will reverse this alarming trend. Federated said that adoption of chip technology in Canada is expected to reduce exposure to fraud and could ultimately result in rate reductions for processing card payments. Another factor Federated believes will open additional opportunities for selling in Canada is the fact that Visa and MasterCard restructured interchange 12 months ago from eight levels to more than 123 levels, offering more ability to accurately tailor pricing to transaction type.

Stateside ISOs stake claims in Canada

Since its entry into Canada, Federated has developed a lucrative turnkey program for U.S. ISOs and merchant level salespeople (MLSs) interested in selling payment processing services to Canadian merchants. The company unveiled its new program during the 2010 Electronic Transactions Association Annual Meeting & Expo held in April in Las Vegas.

"It's an open market, and we've laid the groundwork for U.S.-based ISOs to move into the Canadian market with a program that provides a roadmap to success in Canada," said Jim Perri, Vice President of Operations at Federated. "We've built a number of proprietary systems that will enable the ISOs we work with to be more productive."

The company's Canadian branch, Federated Payments Canada, offers ISOs access to the company's exclusive web-based agent portal: Canadian Account Tracking System (CATS). According to Federated, CATS is unlike any other system in Canada in that it offers an intuitive, user-friendly interface with on-demand, flexible, custom reporting on all facets of merchant account activity and sales performance.

Additionally, the company reported that CATS provides ISOs and MLSs instant access to a full suite of training materials and documentation. The system has the ability to create tickets, generate customer service alerts, and can produce reports based upon more than 200 separate criteria. All the statistics an ISO needs for day-to-day operations are available on demand. The customizable administrative features allow ISOs full control over sales team access to information.

"CATS is truly a unique tool in the Canadian market providing owners, managers and sales reps from our partner ISO organizations with real-time, online access to all the information they need to run their business efficiently," stated John Guirguis, founder and President of Federated.

Solid support from all angles

This year, Federated launched a redesigned website:

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Your mobile merchant customers are out in the field every day using the tools of their trade to fix their customers' problems. Now you have a sophisticated tool to fix the way they charge for their services. AprivaPay™ gives mobile merchant customers the ability to perform credit card transactions right on their smartphones. It's easy, cost efficient and simplifies credit card transactions. Now anywhere and everywhere becomes a point of sale. No matter how complicated the job, charging for it has never been this easy.

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www.federatedpayments.com. "The restructured website provides key features that enhance the customer online experience, including an extensive list of frequently asked questions; access to SafePay, which allows Internet-based businesses to process online transactions; 24-hour access to technical support and customer service; and enrollment in the Federated merchant referral program," said Greg Slot, Federated's Director of Marketing and Communications.


Federated prides itself on its sales and support efforts, with teams focused in Canada and the United States available to answer questions and resolve issues pertaining to alternative funding, EMV chip compliance in Canada, training and the many other services offered by the company. Expert technical support is available 24/7, 365 days a year. Also, according to Federated, most support issues are resolved on the first call, and a study conducted in the first quarter of this year showed 85 percent of customer service calls were answered within 15 seconds.

Federated sells and supports all major equipment and terminal manufacturers and software processing packages available on the market today, and in-house programming allows for fast deployment of equipment. In addition, SafePay, Federated's industry-leading, proprietary Internet gateway, supports 80-plus shopping carts and is defined by the company as ultra-secure. "We are 100 per-

cent PCI compliant and work with our clients to ensure their systems are as secure as possible." Perri said. "It is very important to us to make sure we're always looking out for our partners."

Building an international revenue base

Federated Payments takes a consultative approach in developing long-standing relationships with its merchant customers, ISOs, MLSs and cash advance partners to enhance the speed and functionality of merchant commerce. Various programs maximize front-end and back-end profits, combined with a no-liability program, to provide a turnkey solution to both U.S. and Canadian ISOs and MLSs of all sizes and levels of operation.

Federated offers revenue sharing and buy rate options to ISOs and MLSs operating in the United States and Canada. It also provides pre-set appointments under select programs, with sales reps choosing the program that best suits their needs. Additionally, the company reported that its commissions are paid daily, based on an attractive upfront commission structure; residual income is provided with true split over interchange; detailed residual reports show exactly what is being paid; and a designated hotline is available to answer residual report questions. Federated also operates a dedicated website for its sales partners: www.hugeresiduals.com. 

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Debit surcharges targeted by California lawmakers

A debate has emerged in California over the practice of merchants surcharging consumers when they use debit cards to make purchases at the POS. On one side stand proponents of a California State Senate bill designed to prevent merchants from applying fees to debit and prepaid card purchases.

On the other side are retailers and representative associations who protest that the proposed ban would hurt business.

SB 933, authored by California State Sen. Jenny Oropeza, D-Long Beach, passed the Senate on a 22 to 9 vote on June 3, 2010. A date for a floor vote on the bill in the California State Assembly has not yet been set.

The legislation would close what advocates call a "loop-hole" in state law that allows merchants to apply surcharges on debit and prepaid card transactions. (Credit card surcharges are already banned under state law.)



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SB 933, authored by California State Sen. Jenny Oropeza, D-Long Beach, passed the Senate on a 22 to 9 vote on June 3, 2010.

The bill is sponsored by the consumer group Consumers Union. Many other consumer action groups, including the AARP, as well as chambers of commerce are in support of the bill. Visa Inc. has also thrown in its support.

In an April 5, 2010, letter to Sen. Oropeza, Paul Russinoff, Vice President, State Relations at Visa Inc., wrote that the bill would "expand existing consumer protections for credit card use to debit cards."

Russinoff argued that "checkout" fees undermine the convenience and efficiency of electronic payments and place a burden on low-income consumers in particular.

The bill "recognizes that, at a time when working families face numerous challenges to make ends meet, they shouldn't have to face the confusion, embarrassment and added cost of getting to the counter only to learn that they must pay an unexpected additional 'checkout' fee," Russinoff said.

"Some of the hardest hit would include California's neediest citizens, those whose state benefits are distributed on prepaid cards," he added.

In a statement to *The Green Sheet*, Sen. Oropeza said, "Social Security, veterans' benefits and child support payments are paid via debit cards, and unemployment insurance and disability payments will soon be paid through debit cards as well. Now is certainly the time to prohibit these surcharges.

"Prohibiting surcharges on credit cards is recognized as an important consumer protection; surely prohibiting debit card surcharges must be as well."

Retailers unswayed

But Bill Dombrowski, President of the California Retailers Association, believes Visa's support of the bill is tied to potential action the U.S. Department of Justice may take against Visa concerning its prohibition against merchants surcharging and "steering" transactions to payment forms on which lower interchange rates are charged.

"Visa is facing a class action suit by the retailers in a federal case in Brooklyn, and one of the proposed remedies is that retailers would be able to pass on the interchange fee to the customers and break it out like you do sales tax on the receipt," Dombrowski said.

"In California, that's against the law for all credit card transactions, but it's not against the law on debit card transactions.

"And so [Visa is] trying to argue that debit cards should be treated like credit cards, and customers shouldn't be hit with these fees. And they are trying to ignore the fact that it's the interchange fee that's being passed on that they caused."

Retailers argue that the surcharges are necessary to offset rising interchange rates. A November 2009 Government Accountability Office report concluded that "from 1991 to 2009, 43 percent of the individual Visa rates and 45 percent of the MasterCard rates that prevailed in 2009 had been increased since they were originally introduced."

The card brands counter that while merchants might be spending more on interchange, it is only because consumers are using payment cards more often.

Still plenty of options?

Ken Musante, President of Humboldt, Calif.-based ISO Eureka Payments LLC, said it appears the bill is targeting PIN debit transactions.

While the actual language of the bill does not make that claim, Musante believes that is the bill's purpose because of the nature of businesses that surcharge on debit card purchases.

"Typically it's at locations that don't take credit cards, right?" he said. "And so they're using and working within PIN debit rules and the few PIN debit providers that allow them to put a surcharge in place."

Musante gave as an example the ARCO gas station chain that does not accept credit cards because of the higher interchange costs associated with credit. But because ARCO doesn't take credit cards, it can discount gasoline, which serves as an enticement for consumers to fill up there, he said.

That the station imposes a surcharge on debit card purchases does not reduce consumer options, according to Musante. "You've got the option of using your PIN debit card or you put cash in the machine," he said.

"As a consequence their prices are less expensive, and they are charging the consumer for what their charges are for that type of acceptance," he added.

A third option is for the consumer to go elsewhere. Musante compared the ARCO example to ATMs that charge fees: consumers can pay the fee to use a nonbank ATM because it is conveniently located, or the consumer can opt to find a surcharge-free ATM tied to the particular bank that issued the consumer's debit card.

Musante pointed out that while Visa forbids merchants to surcharge for debit card purchases, Visa does allow merchants to provide discounts on cash-only purchases. ■

Have NFC payments reached tipping point?

Recently, news outlets reported that Verizon Wireless, AT&T Inc. and T-Mobile USA joined forces for a smart-phone program that enables near field communication (NFC) payments at the POS. The carriers are apparently working with Discover Financial Services and U.K.-based global financial service provider Barclays PLC to pilot the system in a handful of U.S. cities.

Discover and the mobile carriers reportedly involved declined public comment, and few details about the venture have been revealed.

A Bloomberg.com article relied on three unidentified insiders as sources for the news. But analysts have said the project could be a landmark for NFC payments, which

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have largely failed to take hold despite the widely held anticipation that they'd storm the U.S. market.

"While this will be a pilot initially, the fact that Verizon and T-Mobile are jointly engaged makes all the difference," said George Peabody, Director of the Emerging Technology Advisory Service for Mercator Advisory Group. "Now we just have to see what Apple's role will be, given the patent applications it has filed for point of sale merchandising and payments.

"This is the tipping point for NFC payments, and it is a direct challenge to other card networks."

A rocky history

Yet the history of alternative payment projects involving mobile phones at the POS suggests that any wide-scale rollout of NFC faces considerable obstacles.

Conrad Sheehan, founder and Chief Executive Officer of mobile and alternative solutions provider mPay Inc., said there is a parallel between this latest partnership among mobile carriers and a failed consortium in Europe known as SimPay.

Although that project, which started in 2003 and was shut down in 2005, did not revolve around NFC, it did

involve a similar partnership between large mobile carriers – T-Mobile, Orange (owned by France Telecom SA) and Vodafone Group PLC – that were pushing an alternative payment plan. In this case, consumers could charge POS payments to their cell phone bill rather than pay the merchant up front.

The plug was pulled on SimPay after one of its founding members dropped out in 2005, and Sheehan said the forsaken project exemplified the difficulties of putting together large consortiums that push alternative payments.

According to Sheehan, broad merchant adoption requires a payment acceptance alternative that's more lucrative than the status quo, but offering a service that's both cheap for merchants and profitable to the array of different players behind it can be tricky and complex to implement.

"It always goes back to the trillion-dollar gorilla in the room, which is the merchant," Sheehan said. "It isn't clear to me how, precisely, this is going to work.

"Merchants will be reluctant to do anything if it's just AT&T and Verizon earning a ton instead of [card issuers] earning a ton. Merchants aren't going to care, and

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acquirers aren't going to care. They're both going to say, 'What's in it for me?'"

Tech already in place

However, according to Mohammad Khan, President and founder of NFC technology firm ViVOtech Inc., the consortium project will be simplified because the groundwork allowing NFC to take off is already in place.

He said NFC acceptance technology is installed and ready for use at the stores of a number of major U.S. retailers – Wal-Mart Stores Inc., Target Corp., Home Depot U.S.A. Inc., Jack in the Box Inc. and McDonald's Corp. among them – and that the entry of mobile giants into the mix will finally cause the NFC dam to burst.

"If this news is true, I think it's a major deal for NFC, because it shows that the [cellular phone] operators are able to see where NFC could help grow their business," Khan said. "Number two, it shows that NFC is becoming real, and that it is finally going to go commercial very soon – in months. I believe that the year 2011 will be the launching year for NFC in a big way." ■

Skimmers shifting from ATMs to gas pumps

A rash of recent incidents in Florida involving card skimmers at gas stations may indicate a shift away from the use of skimmers at ATM sites and toward their use at other automated payment kiosks, analysts have said. Gas stations appear to be particularly vulnerable.

Two skimming devices were found July 23, 2010, at a Gainesville, Fla. gas station. Gainesville is in Alachua County, where several other skimmers had been found earlier in the month. The first one was found at an Alachua County Shell station on July 6; two more were then discovered at a nearby Sunoco station on July 8.

According to Michael Tyler, Director of Marketing, Integrated Systems for VeriFone Inc., the Florida incidents are part of a growing problem in the United States.

"We've seen an increase in the focus of the data criminals on fuel dispensers targeting areas where you'd typically see crime – New York, Florida, California, Las Vegas," he said. "Candidly, the economic downturn of 2008 and 2009 coupled with \$4 a gallon gas prices really hurt this industry."

Security holes

There appear to be several reasons behind the rise in the

use of skimmers at gas stations. One is that banks and ATM providers have ramped up the security around ATMs, prompting criminals to seek other unguarded targets.

Another reason is the relatively lax security at many gas stations and the ease with which criminals can perpetrate large-scale thefts using skimmers at service pumps, according to Tyler, who added that pumps open using a universal key that yields access to the mainframe and circuitry used to route electronic transactions.

"There's a common set of keys that will open almost any fuel dispenser out there, and you can buy them on eBay," Tyler said.

"Bad guys drive up to the fuel stations, pose as a pump technician and open up the terminal, usually from the side of a pump that's opposite the cashier so they can't be seen without a camera," he added. "They'll unplug one cable that connects the key pad to the display and fit in a connector device. It takes two minutes."

Also, many pumps do not use encryption at the immediate POS, instead routing transactions to the station's central terminal (located in the attended kiosk or service station) before they're encrypted. Tyler said criminals thus

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News

get readable data; they usually install a Bluetooth or other transmitter with the skimming piece to relay card data to a nearby computer.

Many stations behind the curve on PCI

According to Tyler, the newest Payment Card Industry (PCI) Data Security Standard (DSS) addresses these and other problems – by mandating, among other things, that service pumps contain encryption measures, unique access controls and tamper resistant modules that deactivate upon detection of a foreign presence.

But he added that, although the July 1, 2010, deadline for implementing the new measures has passed, many gas stations lag behind.

That is true of merchants generally, but Tyler said gas station owners are having special difficulty mustering both the initiative and the funding to achieve PCI DSS compliance. He said upgrades that run as high as \$3,000 per fuel dispenser combined with the sheer number of dispensers out there can total more money than many franchises are willing to spend.

"The problem with fuel stations is that credit card fees are the biggest cost component of their business," Tyler said. "The margin they make on fuel is all gone with the costs

from card transactions, which make up the bulk of their transactions."

However, Dee Karawadra, founder, President and Chief Executive Officer at Impact PaySystem, a merchant service provider that specializes in gas stations and convenience stores, said skimming at service stations has yet to mushroom into a major problem. He said the biggest security concern has long been the practice of using service pumps as a testing ground for stolen cards; gas pumps are favored targets because they are unattended and ubiquitous.

He added that the volume of consumer traffic at gas stations can be its own security check against skimmers.

"An average gas station sees something like 200 or 300 people a day," Karawadra said. "People are constantly coming in and out, where at ATMs it can be easier [to plant a skimmer] because often nobody's around to see you."

"I've heard some stories of skimming going on here and there, but it's not as big a problem as you might think. Criminals are always one step ahead of us but, as of yet, I haven't heard of any major issues." ■

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Trade Association News

MWAA inspires and informs once again

A mid-summer highlight for many in the payments industry was the Midwest Acquirers Association's Eighth Annual Conference held July 21 to 23, 2010, in the Chicago suburb of Schaumburg, Ill. The event explored the theme, *Changing Times ... Changing Visions*, in multiple ways.

While vendors set up booths on July 21, attendees enjoyed two educational tracks. Track 1, Field Guide Seminar's *ISO Strategies for a Changed World*, delivered wisdom and practical advice on such topics as international acquiring, mobile marketing, portfolio investment, recruiting and hiring, sales training, and social networking. Track 2 offered the *ABCs of ACH* in the morning and the *ABCs of Self Service* in the afternoon.

Dorsey gets strong reactions

Later, all came together for Electronic Transactions Association President Holli Targan's opening address on hot topics in acquiring followed by Jack Dorsey's keynote on the impacts of social media on payments. Dorsey, the founder of Twitter Inc. and alternative payment system Square Inc., was a bold choice of speaker.

Some attendees grumbled that Dorsey's "we'll figure it out as we go" approach to payments is naïve and that he doesn't know enough about the industry to be taken seriously. Others, however, felt his brilliance, willingness to take risks and success so far cannot be discounted and that Square could win the hearts of a new generation of consumers, especially since Dorsey thrives on interacting with users to shape services to their liking.

The day ended with a reception in the exhibit hall, where overall attendance appeared to be down a bit from 2009, but the hall was lively, and business connections, meetings and deals were going strong. Attendees, sponsors and vendors had ample time to mingle the following day, too.

Leaders provide guidance

Presentations on the second day included a general session about the state of the industry by Tom Wimsett, President and Chief Executive Officer of National Processing Co. Wimsett pointed out that our industry is one of the largest in the world (\$165 billion in 2009) and that the United States represents 50 percent of the payments market.

Among the trends he discussed were the transition from paper to electronic transactions, shifting demographics, broader merchant acceptance, increased small-business

startups, technology convergence and new card products. Also, industry leaders shared knowledge in sessions about globalization, retail crime, online social networking and customer retention.

Perry is honored

In the closing session, Linda S. Perry was awarded the MWAA's Lifetime Achievement Award. Perry, who now heads a payment-focused strategic business development consulting practice, retired from Visa Inc. after 17 years of service.

"Linda Perry has been at the focal point of merchant acquiring in her role at Visa," said Mark Dunn, MWAA Treasurer and President of Field Guide Enterprises LLC. "She shaped the acquiring strategy of the largest association in the payments industry for many years and continues to provide context to her clients for new developments in electronic payments."

Perry is a founder and board member of Women Networking in Electronic Transactions; she also served on the ETA's board for 13 years. ■

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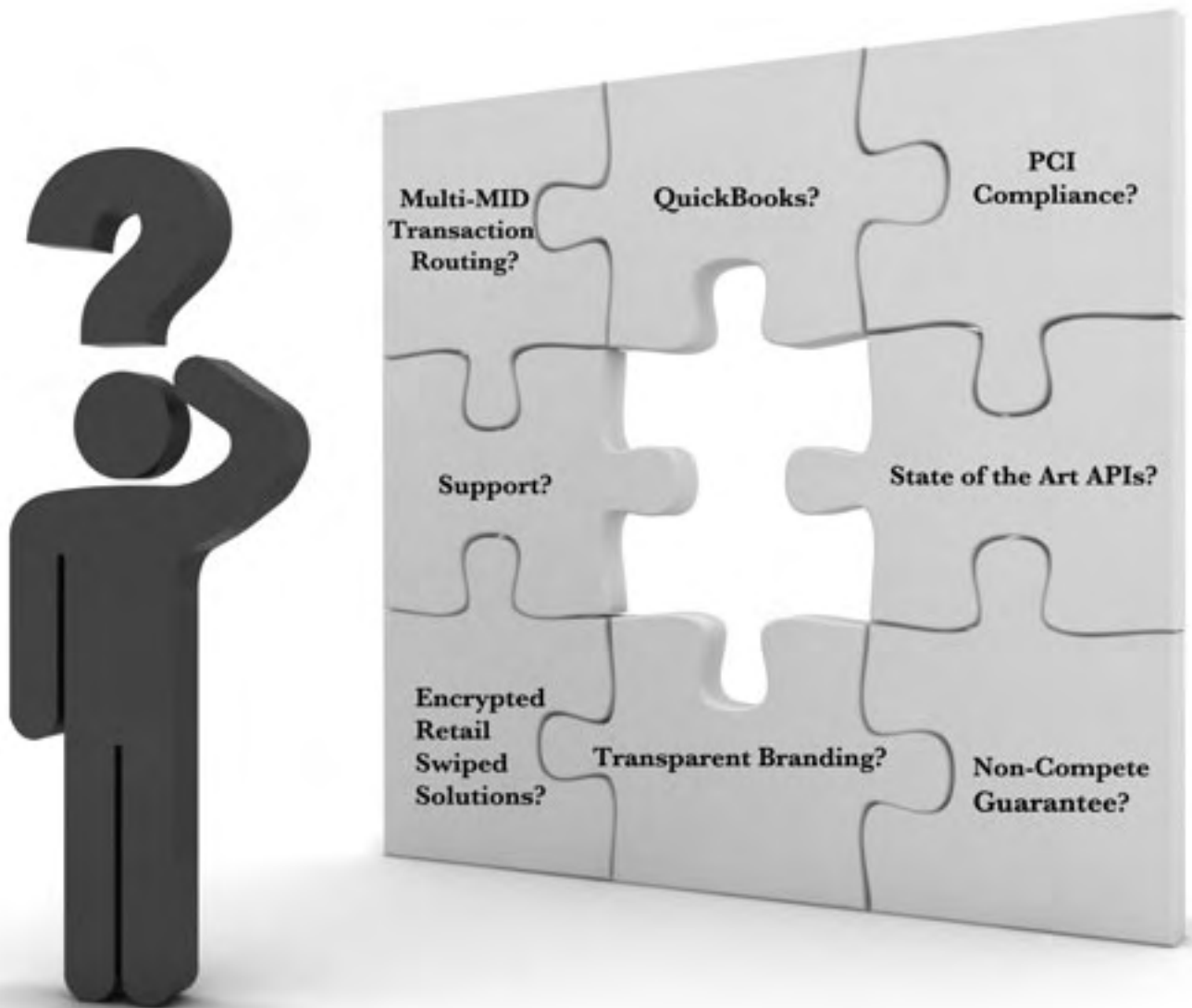
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Portfolio power players from page 1

Segments worth the wait

For instance, coming transitions in the U.S. population and in the health-care profession herald new frontiers for ISOs and MLSs. The first of the baby boomers will reach age 65 in 2011, and the U.S. Census Bureau estimates the number of seniors will more than double from 40.2 million in 2010 to 88.5 million by 2050. The U.S. Bureau of Labor Statistics projects the number of physicians and surgeons will jump 22 percent to 805,500 by 2018, up from 661,400 in 2008.

Another segment that will continue to show strength is the petroleum industry. Though a more mature payment market than health care, it still holds promise for MLSs armed with knowledge and perseverance.

So how does an MLS penetrate these seemingly disparate markets? Several commonalities exist among health-care, petroleum and large-scale merchants. First, all share longer sales cycles than typical mom-and-pop merchants.

Rarely is a sale made upon first visit; most require months of diligent effort – years for major hospital accounts. Each operates differently, making it necessary to learn a given sector's nomenclature and hierarchy to gain the keys to admittance and eventual rewards.

Critical time of need in health care

A central issue many in the medical profession are facing is mounting pressure from government regulators to adopt electronic health record (EHR) systems. With the passage of the American Recovery and Reinvestment Act of 2009, eligible professionals, including medical doctors, dentists, podiatrists, chiropractors and optometrists, must adopt and meaningfully use EHRs by 2014 or face penalties starting in 2015.

"Health care really needs a tremendous amount of help, because while the rest of the payments business has advanced to very efficient processing, health care has remained fairly labor intensive and fairly manual," said Mary Dees, President and Chief Operating Officer of Preferred Health Technology Inc. "Right now health care is a wide open field in terms of encouragement for payment processes."

To illustrate the gravity of the situation, the Centers for Disease Control and Prevention reported that in 2009 only 6.3 percent of office-based physicians in the United States had adopted fully functional EHR software systems, while the majority had either installed partial systems or none at all. In terms of the payments industry, Dees expects demand to be especially strong for web-based health care products that handle eligibility, claims processing and payments.

Dee Karawadra, President and Chief Executive Officer of Impact PaySystem, offers health insurance eligibility ser-

VICES that verify information, such as whether a patient's insurance is valid, and can determine patient co-payment and deductible amounts, all in about 10 to 15 seconds. The service eliminates time-intensive calls to insurance companies; the typical phone wait time is 15 to 20 minutes, with a maximum allowance of three claims per phone call.

Improved revenue cycle management is a critical need for many medical offices, Dees stated. An automated system can escalate the speed of patient payments. With traditional billing methods executed by mail, the collection cycle can take anywhere from 90 days to six months, or the amount may be written off entirely. Industry insiders place the percentage of nonpaying patients at 35 to 40 percent, up from 15 percent just a few years ago.

Dees, whose company specializes in integrated, web-based solutions that automate collection of patient payments through the company's web portal, said, "For someone who wants to specialize in a vertical market and create a portfolio where they're not coming in and simply selling on price, our card services are the commodity.

"Our service is truly a value add because we are improving the financial picture for our customers regardless of what the discount rate is."

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Some revenue cycle management programs charge the patient's credit card or bank account an estimate of the amount due at the time of visit, reconciling the difference later when the health-care provider has determined the actual amount. A more advanced system will authenticate the patient's authorized card or bank information on file and automatically debit the patient's account only after the actual amount due has been determined by the provider, Dees noted.

An effective revenue management system should also be capable of administering automatic payment plans for patients and offer collection services, if possible, Dees said. She added that ISOs truly have the power to transform the health-care industry from one that relies almost exclusively on paper checks to one that operates more efficiently and profitably using credit card, debit card or automated clearing house transactions.

Dees recommends that ISOs and MLSs align with reputable companies that offer systems with scalability, flexibility and security.

Understanding the chain of command

Before plunging into the health-care sphere, ISOs and MLSs should be aware that the size of the medical practice often dictates the length of the sales cycle as well as the

number of points of contact an MLS needs to make within an organization to establish a relationship. Selling cycles for health-care accounts vary from three to six months for individual or group practices to as much as two or three years for multiple location or hospital accounts.

Data from the U.S. Bureau of Labor Statistics suggest that many physicians and surgeons are now choosing to work in group practices to more easily afford the costs associated with administration, operations, and the acquisition of new technology and equipment.

The data show that nearly 53 percent of this group was affiliated with a clinic or association in 2008, making consolidated medical group practices an excellent niche market for MLSs.

The bureau's data also highlight other health-care segments: 19 percent of physicians and surgeons were employed by hospitals in 2008; 12 percent worked in private practices; and about 16 percent were in government, educational services and other outpatient care centers.

According to Dees, who frequently visits medical offices, the first step for an MLS is to get through the gatekeeper. Because front-office staff is generally protective of the health-care practice, it's important to have clear, quick messaging as to why the next person in the chain of command should speak with you.

Karawadra recommends calling on contacts provided by gatekeepers within a day or two of office visits to request 10 minutes to discuss the benefits of your services.

Dees noted that people often misjudge how decisions are made in health-care offices. "They assume the doctor is always the person who's going to be the big decider," she said. "Frequently, the doctor is purely the one who signs the contract. The office manager or practice administrator is generally the one who evaluates proposals. They're often the key influence for the decision maker. The doctor signs off on the paperwork because it's his practice."

Digging into petroleum

Karawadra believes petroleum "is one of those things that most MLSs out there fear because they don't know what it's going to take to get the store or set it up. They don't know what to do to take the next step once they sign the application and are ready for a download, which discourages them from going after a very lucrative market. An average gas station does about \$60,000 to \$65,000 in monthly volume; larger stations average half a million dollars per month."

He noted that, for petroleum accounts, it can take from three to six months to establish contact and gain the confidence of those involved in making decisions. He feels the most direct approach is to locate the middlemen. Commonly referred to as "jobbers" or "petroleum

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marketers," they are responsible for purchasing products directly from refining companies and reselling them to gas stations or other industry-related businesses.

Jobbers typically franchise three or four different brands, which they resell to store owners, Karawadra said. From there, either the store owner owns the pump and shares a percentage of the revenue with the jobber or vice versa.

"A majority of the time, when a jobber owns the pump, he wants to do the credit card processing," Karawadra said. "The reason for that is simple. If a station orders a full tank of gas, which can run \$30,000 to \$35,000, between now and next week, he would have recouped the money from credit card sales because the deposits were posted directly to his account. Experiencing better cash flow, he's willing to pay the fees, and whatever balance is left over can be settled with the store owner."

MLSs interested in petroleum can locate jobbers through local gas station owners or by contacting one of the regional petroleum marketer associations listed online. After gaining a foothold in the petroleum industry, referrals from the jobber network eventually roll in, Karawadra reported. He said the income from signing two gas station accounts per month is nearly equivalent to that of signing 12 mom-and-pop, brick-and-mortar accounts.

Putting it all together

So how does an MLS balance time between long-term and short-term sales cycle accounts? "Every day you want to put merchants in the flow and work it, so having, let's say, 30 percent of your sales time geared toward something bigger and 70 percent toward what's going to feed your family on Friday, makes sense," said Jason Felts, President and CEO of Advanced Merchant Services Inc.

Felts emphasized the importance of building value over time to gain trust. He recommended fostering relationships with members of industry trade associations to generate opportunities for selling to multiple merchants within a targeted industry.


He also pointed out that in larger organizations, such as hospitals, boards and committees are often involved in the decision process, which may require developing a personalized PowerPoint presentation or well-packaged company video.

"One of the keys to long-term sales is getting to know a lot of people within an organization," said Dave Crooks, President of Easy Pay Solutions Inc. He added that everyone, from the senior executive's secretary to computer programmers, can offer internal links; programmers in particular not only know the product well, but they also know the organization inside out. Crooks also syncs his BlackBerry to Microsoft Outlook to keep track of the contacts he's made, as well as his progress on each sale.

A firm believer in using social networking to make new connections when working on long-term sales programs, Crooks said, "I've actually used LinkedIn to get a connection. You can request an introduction on LinkedIn, and someone who knows that person will offer to make an introduction for you. You need to have two or three personal recommendations from existing customers in your profile to make the introduction."

Crooks also uses Google Alerts to keep abreast of industry news and learn about local events that might interest prospects.

Because consistent contact is essential to longer sales cycles, he recommends forwarding "industry news clippings about something in their industry, an idea or an item that has surfaced in the industry, perhaps some new development in PCI, just to add value. You've got to find a way to get your company name in front of them every single month."

Felts advised those going after accounts with long sales cycles to "just make sure that if you invest the time, you secure the deal. Of course, the payoff in the end is that either you're landing a large account that's going to be lucrative or you have an opportunity to sell a lot of accounts." 

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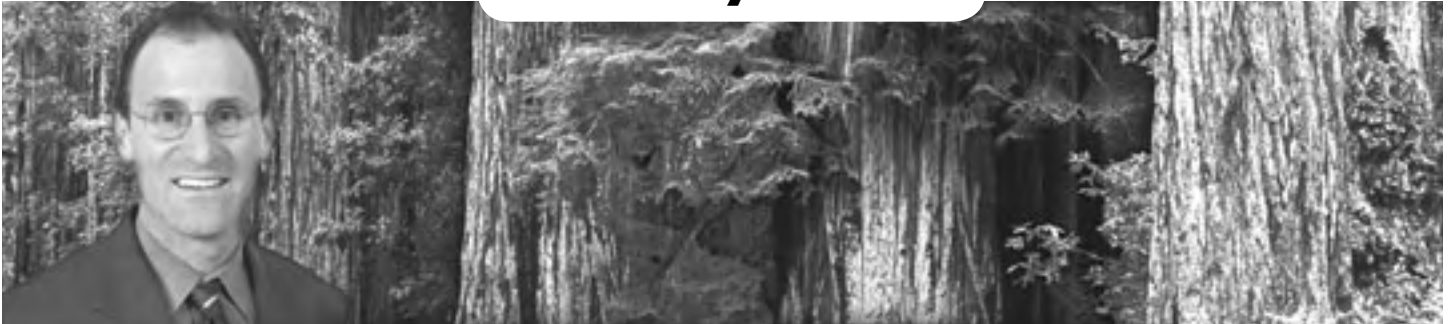
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Variations on valuations

By Ken Musante

Eureka Payments LLC

Residual valuations are always a hot topic because the value of a given merchant defines how much effort ISOs can afford to put into a deal. In trying to better understand the valuations from a merchant level salesperson's (MLS's) perspective, I posted the following question on GS Online's MLS Forum:

"What is the going multiple on an MLS's residual? Have you had experience getting a loan on your residual, and was that a better decision than an outright sale? What are the reasons to sell your residual versus getting a loan against your residuals?"

It all depends

CCGUY shared what many Forum respondents agreed with: selling a portfolio provides a cash infusion but may not be the best long-term decision. He wrote, "In the long run the way to go was to get a line of credit from the bank based on personal and business credit.

"[We] had one small portfolio we thought about selling once, too, and we service the merchants but we do not add to it. Selling would have been a nice influx of cash, but holding on to it has paid a lot more over the long haul."

CCGUY was able to get a bank loan, which generally have much lower interest rates but come with a cost. Banks require substantial documentation and, as **CCGUY** pointed out, the loan was based on personal credit, which typically means banks will require a personal guarantee, blurring the line between your private and business lives.

THECREDITCARDMAN reiterated **CCGUY**'s point when he said, "I needed 50k to fund some projects and did not

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want to use personal monies. If I sold the rights to one of my portfolios, \$4,200/mo @ 12x, I would have gotten the 50.4k. Instead, I asked for a loan against, @ 11 percent, 12 months payback = \$52,800. Now the loan is almost paid, and I still have the income stream."

SLICK STREETMAN agreed. "Why would I sell what I have worked so hard to build?" he asked. "I do my darnedest to build long-term relationships by setting up each new account as if they were my own brother or sister. Lots and lots of TLC are poured over each and every one of my customers in hopes of having them for the long haul.

"On the other hand, if I had a portfolio that was heavily laden with leases, yes, I would gladly consider selling out before the chickens come home to roost."

Complications

WWW.PAYMENTLOGISTICS.COM better defined the question and pointed out some of the difficulty in selling residuals: "The problem with answering a question like this is that an agent is not technically selling their residual stream; they are selling their 'bundle of rights' (and often obligations), which includes the conditional right to receive residual payments.

"Furthermore, the financial condition and upstream risk

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"The difficulty today is that the value is way down. Selling today would almost appear as a distress sale - even though I am seeing signs that buyers are coming back. Not running, but are coming back. So, to me, the choice to sell is as varied as one person is to the other. The key to any choice is timing, value, etc...."

Forum member **CLEARENT**

of the ISO or provider paying those residuals can also have an impact on the value of the portfolio. Where does the residual payer stand in terms of industry hierarchy? ... Finally, purchasing an MLS's portfolio, or 'bundle of rights,' can be perilous because of how common and easy it is for the MLS to move merchants in violation of the purchase agreement."

WWW.PAYMENTLOGISTICS.COM is correct. Any buyer or lender against a portfolio must conduct due diligence, taking all the above – and more – into account. MLSs must also weigh the relative diversity of the merchants in question, their industry, portfolio size, attrition ratio, margin, processing platform and device, pricing methodology, seasonality, and merchant agreement. All of these factors

must be considered, and each one has a distinct level of associated risk.

SALESAMS reiterated this very point and confirmed there are folks buying portfolios. "I think any MLS should start with their own ISO," he wrote. "I can confirm that AMS has purchased agent portfolios this year ranging from 10x to 20x (the average monthly residual)."

According to **SALESAMS**, AMS bases its valuations on portfolio size and performance, how many large accounts are in the portfolio, attrition guarantees on the portfolio, and what portfolio agreements exist concerning future business commitments.

Providing perspective from his personal dealings, **CLEARENT** said, "I have not sold but have bought portfolios, and from my research, multiples dropped about two years ago and really took a bath around the time of the Cynergy [bankruptcy]."

CLEARENT separately discussed the various motivations for a sale and the assets being sold. "It's a matter of your business plan," he wrote. "Let's say you have built a nice, steady residual stream, but want to retire. You don't want to support merchants anymore, and (forbid it) you have a form of minimum production to retain your residuals.

"If you can get a good value, you could sell the residuals, invest the return and treat it like a large IRA. Or maybe you want to sell a portion or one of your portfolios to expand your business. I have known some of the free equipment people who have sold groups of merchants to pay for the equipment, rather than raise added cash. Figuring the growth in business from the free equipment would offset the loss of longer-term revenue.

"The difficulty today is that the value is way down. Selling today would almost appear as a distress sale – even though I am seeing signs that buyers are coming back. Not running, but are coming back. So, to me, the choice to sell is as varied as one person is to the other. The key to any choice is timing, value, etc...."

Other views

To gain more viewpoints, I reached out to a couple of industry executives. First, I spoke with Harold

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Montgomery, Chief Executive Officer of Calpian Inc. and long-time investor in merchant residuals and portfolios. Harold believes portfolio valuations are difficult to ascertain because there have not been enough data points (portfolio sales) to develop trending.

Certainly valuations are lower than they were 2 to 5 years ago for a host of reasons, including the difficulty for buyers to obtain financing; The Credit Card Accountability, Responsibility and Disclosure Act of 2009 that, although it may not directly impact acquiring, may impact card usage and credit availability; and the economic environment, which is causing cardholders to keep a tighter grip on spending.

Calpian remains an active buyer, and Harold believes in the industry's future. However, for deals to make sense, the parties need to cooperate on a structure that protects all involved. Solutions include paying the purchase price over time and having the seller guarantee some level of portfolio performance by providing deals to offset attrition.

Other solutions exist, but the point is that "all cash" deals are much less prevalent and, if absolutely necessary, are being done at distressed valuations.

Another long-time industry professional, Darrin Ginsberg, CEO of Super G Funding LLC, also shared his perspective. Super G Funding offers MLSs the opportunity to either obtain loans against their portfolios or straight buyouts, depending on the needs and aspirations of the MLS. This provides MLSs the opportunity to compare both proposals.

Super G Funding evaluates various criteria when examining a portfolio, including the processor, the portfolio's diversity and its size. In general, loans are provided for up to 50 percent of the portfolio's monthly residual, multiplied by 10. The effective interest rate is between 17 and 19 percent. Adjustments are made for exceptional growth and other factors, and each residual advance is independently underwritten. More information is at www.supergfunding.com.

Size matters

It was interesting to learn that when buying a portfolio, the larger the portfolio, the greater the multiple. Darrin stated that the approximate multiple paid is as follows:

Monthly residual	Approximate multiple
\$0 to \$5	12x to 13x
\$5 to \$10	13x to 16x
\$10 to \$25	16x to 18x
\$25 to \$100	18x to 20x
\$100 +	up to 25x

Larger residuals command larger multiples because more buyers are interested in them, and the portfolios are generally more diversified and more professionally managed – and have less attrition.

I am actively involved in a new ISO, building portfolio residuals. I'm 44 years old and do not have immediate retirement plans. But some time in my life I will retire. When that day comes, I am comforted that although the residual multiple from a portfolio sale may be down from years past, I can always maintain my residual payouts and contracts and continue to get paid in accordance with my contracts.

In effect, the residual can be an annuity. Or, if the portfolio multiple is to my liking, I can choose to sell. Of course, both of these scenarios depend on my contract with my processor allowing for either, but that is a subject for another article. And with that in mind, I ask that you please continue to offer me your article suggestions. I need them.

When in doubt, sell something. 📺

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

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Education (continued)

Going global in Europe

By Carrie Hometh

Payvision

For many ISOs and acquirers across the country, one of the most attractive areas for international sales expansion is Europe. Now is the time to tap into this lucrative space, using the most effective sales tools of knowledge, education and due diligence.

Europe has undergone remarkable changes in the past few years. According to industry statistics, this particular market has experienced double-digit growth in e-commerce since 2008, with extraordinary increases in eastern and southern European countries.

Single Euro Payments Area

The most notable changes in the European card-not-present arena are recent regulatory mandates that have materially changed the European e-commerce landscape. They include the Single Euro Payments Area (SEPA) and Payment Service Directive (PSD).

SEPA is defined by the European Payments Council as "the area where citizens, companies and other economic actors can make and receive payments in euro, within Europe, whether within or across national boundaries under the same basic conditions, rights, and obligations, regardless of their location."

SEPA applies to the 27 European Union member states, as well as Iceland, Liechtenstein, Norway, Switzerland and Monaco. SEPA was set up by the European banking sector and is regulated by the EPC.

SEPA provides a new basis for harmonized financial services, Internet payments and e-invoicing throughout Europe. Its objective is to ensure consistency between cross-border and national payment transactions.

The tools to accomplish these goals include harmonized bank account numbers, a pan-European debit card network, European direct debit network and the SEPA credit transfer (SCT) service.

In January 2008, more than 4,300 banks in 32 countries representing roughly 95 percent of payment volumes in Europe took a historic first step in starting SEPA by launching the SCT for euro payments. The SCT enables payment service providers to offer a core credit transfer service throughout SEPA, whether for single or bulk payments.

With the SEPA migration set for Dec. 31, 2012, the EPC put a stake in the ground, and all financial institutions are

moving toward it, but it is not sure that all aspects of SEPA will be implemented by 2012. Nevertheless, the opportunities with SEPA for e-commerce abound.

Payment Service Directive

Authored by the European Parliament in 2007 and translated into national law within the member states, the PSD seeks to prevent money laundering and provide consumer protection for payment transactions.

The PSD ensures that rules on electronic payments are the same throughout Europe. It details information a consumer should receive and makes payments safer.

The PSD will also provide the legal foundation for creating an EU-wide single market for payments. It hopes to establish a modern and comprehensive set of rules applicable to all payment services in the EU. Like SEPA, the PSD target is to make cross-border payments as easy, efficient and secure as a domestic payment within a member state.

It also seeks to improve competition by opening up payment markets to new entrants, fostering greater efficiency and cost-reduction. The PSD provides the necessary legal platform for SEPA.

All payment institutions have to be PSD-certified before April 1, 2011. The impact of the PSD on European e-commerce can be seen in various areas. In addition to all payment institutions needing to be certified, they will be monitored by national authorities.

This provides a more transparent European market with barriers to criminal activities. It also provides better consumer protection and a more efficient money-laundering monitoring system.

No matter where card-not-present merchants are located, they should consider selling globally in international currencies. They should also recognize the complexity of globalization and look to knowledgeable sales professionals aware of all the country-specific rules and regulations

Any merchant level salesperson interested in developing expertise in global sales should research this ever-changing marketplace and take advantage of every educational opportunity. ■

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

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Education (continued)

Succeeding at PCI compliance - Part 4: Maintaining the program

By Dawn M. Martinez

First Data Corp.

In the world of Payment Card Industry (PCI) Data Security Standard (DSS) compliance, once is not enough. For merchants, adherence to PCI standards must not only be validated every year, but also vigilantly monitored to defend against new security threats, accommodate changes in regulatory standards and address internal information technology changes that may compromise cardholder data.

For acquirers, the same ongoing vigilance is required to keep a PCI compliance program running smoothly. Once you have planned, piloted and rolled out your program, the effort must be sustained to ensure that your merchant base not only climbs on board but also stays on the train.

This final article in the "Succeeding at PCI compliance" series contains guidelines for measuring and maintaining PCI success in your merchant portfolio.

Track program progress

When you established your PCI compliance program, you should have set specific campaign goals. Let's say you decided you want 80 percent of your merchant customers to enroll in your program and 70 percent of those to achieve PCI compliance in the first six months.

You will need to monitor your progress against that goal. Have you hit your target? Are you still moving the needle? Where are you falling short?

Different PCI compliance vendors provide distinct reporting mechanisms for keeping tabs on program status. For example, at First Data Corp., we have access to an online console where we can see detailed real-time information on overall campaign performance, including bar graphs and pie charts that display the data graphically.

We can also drill down to individual merchant scan and Self-Assessment Questionnaire (SAQ) results at any time, and determine at a glance how many merchants are up for renewal each month.

Regardless of your particular reporting format, check your benchmarks regularly. If you're not satisfied, discuss your concerns and potential remedies with your service provider. A mid-course correction may be in order.

Enforce your program rules

In Part 3 of this series, I briefly touched on the need to

establish an enforcement policy for merchants who fail to participate in your PCI compliance program or neglect to follow through to achieve PCI validation.

One approach to enforcement is to give merchants time to become compliant and then impose a financial penalty on the outliers.

Options include a flat fee for every month the merchant fails to achieve or maintain compliance; a graduated penalty that increases at specific intervals (for example, every six months) for continued noncompliance; or an increase in your reserve fund requirements to cover potential PCI fines.

Smaller penalties tend to be ignored; be willing to modify your enforcement policy if circumstances warrant. At First Data, for example, the penalty originally adapted across the board was later lowered for our smallest merchants. The goal should not be to punish but to persuade.

Update merchant data

As the acquirer, it is your responsibility to inform your PCI compliance vendor of any changes in your merchant contact information or your merchant base itself. That includes new merchants, cancelled accounts, changed merchant IDs or contact names, and so on.

Work with your vendor to determine when it updates its database and whether it would like to receive the refreshed information by spreadsheet, text file or other means.

Conversely, it is your vendor's responsibility to keep you updated on your merchants' participation and compliance status. Smaller acquirers can typically import this information into their internal databases from their vendors' reporting systems if desired, but larger acquirers may need weekly or monthly file feeds because of the size of their portfolios.

This is the case with First Data. We use our service provider's online console to track and analyze our program performance, but because our merchant base exceeds 600,000, our vendor also supplies a data feed from which we update our internal records.

Have merchants report IT changes

In your communications with merchants, be sure to remind them to report any change in their technical environment to your PCI compliance vendor. A change such as new payment software, a new server, a switch from analog phone lines to high-speed Internet service

for payment terminal connectivity or the addition of an online sales division will likely require a PCI status review. It may also dictate a switch to a different SAQ and a modification in scan requirements.

Changes that involve Internet protocol addresses are of particular concern. If the merchant adds online transactions or even basic functions such as email or employee Internet access, an Internet-based security scan may be required to help identify vulnerabilities.

If a scan was not previously required and a merchant fails to notify your vendor of such changes, that business's PCI compliance status may be jeopardized.

Publicize new security developments

Data security strategies are in a constant state of flux. Hackers invent new ways to invade networks. Card brands modify their PCI guidelines. The PCI Security Standards Council issues periodic updates, including a new version of the requirements that is expected to debut in late 2010.

Communicate changes like these to your merchant portfolio, both to protect merchants against new security threats and to alert them to new developments that may affect their PCI status.

Manage yearly renewals

Like a blood test, PCI compliance validation represents a point in time. And it has to be repeated because of the many variables in the merchant environment that can affect a pass or fail mark.

Together, you and your PCI vendor have a responsibility to ensure that your merchants understand the rules and adhere to the renewal schedule.

That means sending reminders about quarterly vulnerability scans for the merchants who require them, as well as alerting merchants when they fail a scan or neglect to schedule one if required.

It also means informing merchants 30 to 60 days before their yearly PCI services

agreement is set to expire and supplying re-enrollment instructions, including the need to complete a new SAQ. A good PCI vendor will handle these renewal chores so you don't have to.

Make an ongoing commitment

Remember, launching a PCI compliance program is the first step in what must be an ongoing commitment to helping your merchants keep customer cardholder data safely under lock and key.

Maintain a watchdog role, which may mean enlisting the help of an expert PCI vendor to avoid bringing the burden and associated costs in-house. You have multiple incentives to do a good job – including the threat of fines to merchants for PCI-related security breaches.

The previous articles in this series published by *The Green Sheet* include "Succeeding at PCI compliance – Part 1: Planning the initial rollout," May 24, 2010, issue 10:05:02; "Succeeding at PCI compliance – Part 2: Executing an effective pilot program," June 28, 2010, issue 10:06:02; and "Succeeding at PCI compliance – Part 3: Implementing the rollout," July 26, 2010, issue 10:07:02.

Hopefully, the guidelines provided in these articles will help you build a strong, cost-effective program that will keep you and your merchants in the PCI's good graces. ☑

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



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Education (continued)

Technical details: What to share and what to spare

By Dale S. Laszig

Castles Technology Co. Ltd.

Have you ever felt like a deer in the headlights during a whiteboard exercise? Merchants can feel that way when we get too technical. Most wouldn't know the difference between an 8-bit and 32-bit ARM processor. They get brain freeze trying to read a self-assessment questionnaire (SAQ). They rely on merchant level salespeople (MLSs) to replace broken equipment. They just want to keep transactions flowing; they aren't interested in becoming payment processing experts.

But there's a downside to avoiding technical details. Merchants who don't understand our services will be more susceptible to competitive offers and fraudulent transactions. Taking time to educate them will build stronger relationships and pave the way for referrals; it will also help them identify the warning signs when unscrupulous customers or solicitors walk through their doors.

So how can we share just the right amount of technical information with our prospects and customers, without overwhelming them or losing their attention? The key is to make our technology relevant by observing it from a merchant's point of view. Features and benefits are only meaningful when they answer a need or solve a merchant's problem.

Following are guidelines for informing nontechnical audiences about our industry's fees, regulations and technology.

Discussing interchange

Despite the more than 100 variations of qualified and non-qualified bankcard transactions in our current processing environment, many merchants will still ask, "What's your rate?" To foster understanding:

- Share a chart of current interchange rates during sales calls to establish transparency and trust while demonstrating the complexity of interchange. Also, show prospects a sample merchant statement to explain your own pricing.
- Encourage merchants to visit Visa Inc.'s and MasterCard Worldwide's website sections devoted to merchants at <http://usa.visa.com/merchants/index.html#/page1> and www.mastercard.com/us/merchant/index.html, respectively, to get a detailed overview of current interchange rates and card brand rules.

- Spare the details of each individual interchange category to avoid losing your prospects' interest and your own momentum as you close sales. You can honestly say that interchange is a work in progress subject to ongoing review by the card brands and emerging government oversight.

Talking about security

Considering how much resource processors, ISOs and third-party providers have invested in understanding and implementing the Payment Card Industry (PCI) Data Security Standard (DSS), how can we condense this information into pertinent sound bites to educate our merchants? Here are some tips:

- Share the PCI bottom-line message of protecting cardholder data. Emphasize that the PCI DSS protects merchants as well as their customers. Many merchants who have heard about the high-profile security breaches at major retailers may not realize the highest percentage of fraud is occurring at Level 4 merchants like themselves.
- Explain why it's no longer acceptable or legal to store receipts that have complete card numbers, expiration dates and addresses on them.
- Spare the implementation details. Build a case for creating a security strategy and explain that PCI is not a one-size-fits-all solution. Convey that the process begins with an SAQ but doesn't end there; the SAQ will clarify and expose weaknesses in a merchant's processing environment so the right security tools can be applied.
- Refer merchants to your company's chosen PCI specialists who can work directly with them to create a security framework that not only meets current standards, but is also flexible enough to meet the changing requirements of the evolving payments sphere.

Homing in on hardware

If you were a merchant, what would you look for in a credit card processing system? Would you care more about looks or performance, high speed or low price? Answers will differ according to the personalities, preferences and priorities of each customer.

Your first priority is to understand each customer's motivations. Too many MLSs err in recommending a product to fit the needs of a business instead of a person. A small business owner with big aspirations might be offended if you suggest a low-end credit card terminal for processing. Similarly, a high-profile retailer operating on low margins

and a reduced budget is not necessarily a candidate for a fully loaded, customized processing system.

Here's what to do:

- Share an overview of your product line, briefly highlighting the advantages of each device. Reassure customers that the system they invest in today is scalable and designed to grow in direct proportion to their business requirements. Make them aware of buyback or upgrade programs your company offers.
- Avoid technical details that can be easily found on the reverse side of a product brochure by those who care about megahertz, Underwriters Laboratories listings and other data that's of more use to engineers than business owners. Focus on the business side of things by emphasizing profitability, trustworthiness and ease of use.

Suggesting the right software

Internet connectivity has increased demand for credit card processing applications with multiple access points that can be incorporated into larger enterprise operating systems.

Merchants can choose from an array of processing software, from traditional countertop and mobile terminal applications to virtual terminals and payment applets that blend into accounting software and larger POS management systems.

There is so much choice in today's processing software that merchants can become overwhelmed and have difficulty making decisions. The best approach in helping merchants choose the right fit in processing software is to get a sense of their requirements. To do this:

- Spare a complete rundown of every different type of software and operating system on the market. Focus instead on the systems that are most appropriate to your clients' businesses.

- Share how a new system can save time, solve a problem or create new revenue streams, and merchants will be more motivated to make the software investment.


Whether you are managing a territory or a team of agents, your ability to organize the details of your business will be a key factor in your success. Knowing what to share and what to spare will pave the way to peak performance. ■

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

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Education (continued)

Are your online contracts enforceable?

By Sarah Weston

Jaffe, Raitt, Heuer & Weiss PC

Savvy companies look for faster, more convenient ways to do business. For example, some companies allow their merchants and ISOs to enter into contracts over the Internet.

Thanks to federal and state laws, contracts entered into via the Internet are as enforceable as those signed with pen on paper; however, Internet-specific contracts require extra steps before execution. Here are tips to make sure your online contracts will be enforceable.

Ensuring assent

Like traditional contracts, online contracts require assent to the terms of the agreement (among other conditions) to become valid. To meet the requirements for online assent, the process must provide:

- **Opportunity to review all terms of the contract before entering into the agreement:** The signing party should be able to read at his or her own pace and should not be timed out. All agreement terms should appear on the screen before the signing party has the opportunity to click the "I Agree" button.

Your website should also be configured so the signing party must view the terms of the contract before agreeing to them. Courts have allowed parties to escape contractual obligations when websites have not prominently displayed all of the terms on the website.

Once the signing party views the terms, your website should allow the party to access those terms online for further reference, save them to a computer and print them.

- **Clear and consistent terms:** The screens on which the contract appears must display all contract terms clearly. The agreement should be in a legible font both on screen and in print.

The information provided throughout your website should be consistent. For example, the portion of your site dedicated to marketing should not contradict the agreement terms.

- **Clear notice indicating the consequences of assent to the contract:** For example, immediately before the "Yes, I agree" button, include a statement such as: "By clicking 'Yes' below you acknowledge that

you have read, understood and agree to be bound by the terms above" or "These terms are a legal contract that will bind you as soon as you click the following assent button."

- **A choice to accept or reject:** Provide a clear choice between assenting to the terms or rejecting them, and explain the consequence of rejection. The rejection option should be as clear as the assent method, such as clicking a button or typing terms such as "I do not agree," "No," or "I decline."

If the merchant or ISO rejects the agreement terms, that action should automatically prevent him or her from getting an account. No party should be able to complete the transaction without agreeing to the terms.

- **A way to detect and correct errors:** Provide a reasonable method to avoid, or to detect and correct, possible errors during the assent process. Presenting a summary of the agreement before the "I Agree" button appears is one method.
- **A way to retain contract records:** Once you have entered into an online contract, make sure you retain the contract in an acceptable form.

Electronic contracts must be retained in a form that accurately reflects the information in the contract, accessible to all persons entitled to access the information for the period of time required by law, and in a form accurately reproducible for later reference by transmission, printing or other methods.

Also, maintain accurate records of the content and format of the electronic agreement process, documenting steps the signing party had to take to gain access to particular items and the version of the agreement in effect at the time of the contract.

Store information about each contract so if your merchant or ISO requests a copy, you can provide it and proof of their assent, either in hard copy or electronic form. Ensure adequate security standards to safeguard the information in electronic records.

Card company rules also state that the member must have prompt and unrestricted physical access to all original, executed merchant agreements and must forward complete copies upon a card organization's request.



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- **A method of authentication:** Implement a method that authenticates the signing party to provide you with confidence that the person entering into the contract truly has the authority on behalf of the signing party.

You can link the signing party's identity to his or her assent by maintaining accurate records of the merchant's or ISO's identifying information, electronic assent to the terms, and the version of the agreed-upon terms.

Amending the online contract

A time may come when you want to change the terms of a contract. Be careful when amending online contracts because specific language is required.

- Don't use language that requires a writing executed by both parties to amend the contract. While this language might be typical in a traditional pen and paper contract, if you want to have the ability to change your online agreement without getting specific consent from the other party, avoid such language at all costs.
- Use language that specifically allows you to amend your online agreement by either posting the change

online or, preferably, by providing notice of the change to the other contracting party.

- Use modification language that is expressly limited to prospective modification and does not apply retroactively to any events occurring prior to the contract amendment. At least one court has found that contracts that allow one party to unilaterally amend a contract retroactively are unenforceable.

Abiding by card brand rules


The card company rules also address contract enforceability. For instance, the rules require merchant contracts to be in writing and signed by the merchant and the member; however, they don't specifically require that they be signed with a pen.

Each party to the online merchant agreement must sign the contract, either manually or electronically.

All requirements imposed by traditional laws relevant to original signature contracts, such as know-your-customer and card organization site inspection rules, apply equally to agreements signed electronically.

You can take several steps when posting your agreements online to help ensure enforceability. By providing evidence that the other party actually knew of the contract terms before entering into the agreement, you can almost eliminate the possibility that your contract will be deemed unenforceable.

Additionally, while the safest approach is to get the other party's explicit consent to amend each contract, if you do not want to go through the time and effort to obtain each party's approval to every amendment, then at least be sure:

- Your contracts permit you to unilaterally amend contracts without obtaining the other party's consent.
- You can send notice of the modified contract provisions to the other party by posting notice of the change on your website and by sending notice of the amendment via email or hard copy.
- The amendment is expressly limited to events occurring after the amendment and not effective retroactively. 

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



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Education (continued)

The proper care and feeding of LinkedIn

By Marc W. Halpert

Connect2Collaborate

All good tools require maintenance. To keep your toolbox in optimal condition, you have to arrange and polish the tools so they are accessible and easy to use. So it is with LinkedIn, a business connectivity tool in the social media toolbox.

The over 65 million people using LinkedIn comprise a huge professional business community that is, in essence, a personal learning network of people who help each other with little or no expectation of getting anything back in return, although, of course, business attributable to those contacts is always welcomed.

Over the past five years, LinkedIn's role in my online networking has become an ever more vital aspect of my marketing strategy. I "pay it forward," giving and later receiving.

New business prospects find their way to me because I

work LinkedIn for referrals. I data mine from the extensive LinkedIn database to look for common threads that yield business results.

Like anyone else, I still need to get on the phone or visit merchants in person; it's part of what merchant level salespeople (MLSs) and ISOs do. But once I make the face-to-face contact, I follow up on LinkedIn and make the new connection a part of my community.

Work your LinkedIn presence

Following are 10 ways to work LinkedIn to make your presence there fruitful. These tips have helped my webinar listeners and the people I coach; they have told me over and over that these ideas really work. Start with one or two of them, layer more in and keep it going.

1. Nurture your profile

Setting forth a dull, static LinkedIn profile and expecting merchants to find their way to you is unreasonable in today's business world.

A profile that looks like a cut-and-paste job from your resume or an out-of-date, drab website will fail to spotlight you as a desirable "brand." An unattractive company profile page on LinkedIn is also taboo.

Look around, observe how competitors display their profiles on LinkedIn and then adapt rich keyword clauses to match your personality. Never stop. Keep massaging your profile, since we all change over time.

Every adaptation and enhancement to your LinkedIn profile is an investment in you as a brand that says to potential clients: This is exactly why you would want to rely on me to process your payments.

2. Enhance your profile with free LinkedIn tools

Free tools on LinkedIn await you, so use them. Post your marketing materials on LinkedIn for prospects to peruse.

The Box.net and SlideShare tools will instantly enhance your profile with more depth, showing "why you," in PDF, JPEG, MP3, PowerPoint and video formats. In my emails, I also embed links to files of specific material I want contacts to review.

Use a personal LinkedIn URL (mine is www.linkedin.com/in/marchalpert) in your email signature, as well as on marketing materials and business cards. That will make it easy for interested parties to find out more about you.

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mention the books you are reading, events where you are presenting and business trips you are scheduling. Doing this will enhance your profile and visibility.

3. Offer your expertise and comment

Add to the global learning conversation; give expert information or comment in an appropriately positive way that truly adds to the discussion. Since everyone gains from your expertise, you can stand out.

Your LinkedIn contacts are similarly busy showing themselves in the best light, so help them out: post encouraging, honest, complimentary comments on top of theirs. Don't grandstand; participate.

Success comes from being noticed and admired. Your network is predisposed to follow how well you are doing. Show clients why they should be proud to be associated with you, and let competitors gnash their teeth.

4. Recommend others but avoid becoming a 'mutual admiration society'

Offer an unsolicited recommendation to an associate, vendor or someone who has been instrumental in your success, and that person will remember you forever. Don't be bashful about asking a client for a recommendation either. LinkedIn is designed to make it easy to recommend others, or ask someone to recommend you, so go for it.

One caveat: Don't post your recommendation about Bob and have Bob recommend you on the same day. That looks like a "mutual admiration society" and cheapens the effect.

Wait a few days or a week between posting the two recommendations. Then you can effectively publicize what you have to offer twice. Give and receive, but not simultaneously.

5. Join, participate and, when appropriate, leave groups

Anyone can belong to up to 50 LinkedIn groups for free. However, it's better to be a vibrant, active member of a few groups than an observer in many. To get a huge return on your investment, find groups, participate often and leave when they no longer suit your needs.

I learned which netbook brands and models to consider purchasing by joining such a group and asking for expert opinions to guide my purchase. And then I left. (Thanks, netbook users' group.)

I was approached by a webinar listener who remembered my mentioning a post I made to a LinkedIn group to which we both belong. She referred me as an MLS to an agency she is working with hundreds of miles away, and I made a business proposal to help the agency. That's what I call a great referral.

6. Ask open-ended questions to get at the heart of the matter

While you are participating in groups, seek the wisdom their members possess. Ask questions about challenges you face, and you will reap the benefits. A potential client asked me to look into something outside my area of expertise.

Seeking the answer, I posted an open-ended question to a specific LinkedIn group, and weeks later the perfect answer came from someone in Europe whom I do not know.

I relayed the answer to the client, who was impressed that I had followed up and found the perfect response. I was later invited to quote on the client's merchant processing business.

I have seen timely, open-ended questions lead to

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Education

over 100 answers within groups. Such questions must be about hot topics for so many people to become involved enough to comment. That further tells me the topics are useful for my own knowledge and for the personal learning network I am creating among colleagues and clients.

7. Make a good first electronic impression

For asking to link to someone, LinkedIn provides the default message: I'd like to add you to my professional network on LinkedIn. – (your name). This is dull and mundane. Why should the individual bother? What have you done to make yourself memorable?

Instead, differentiate yourself: remind the person how or where you met him or her, how you can mutually benefit each other, and what actions should be taken.

Send something like this: Bob, thank you for the great conversation after today's luncheon about ways we could work with each other. Later this week I will follow up on the areas we discussed. So please join my network as we increase each other's networking connections. Best regards and speak to you soon, (your name).

I am frequently asked what to do when asked to link to someone you do not know or recognize. If everyone followed the instructions I just provided, this would not be an issue.

But for the occasional people I do not know who try to link to me, first I look them up on LinkedIn to identify them further. If I am still uncertain about linking to them, I respond with: Sorry. It's my policy to link to people I have met and gotten to know or do business with. I am not sure this qualifies; accordingly, I will respectfully decline.

8. Project a good visual image

Your profile photo is essentially your brand's first impression. Consumers often decide with their eyes, so put up a great photo. Use one you already have, or get a professional headshot.

But let's see that face. Often people look at your LinkedIn profile while speaking to you on the phone for the first time.

I routinely meet new business contacts for the first time at a public place or coffee shop. I memorize my contact's LinkedIn photo. And I point them to my LinkedIn profile and photo to reduce the uneasiness

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of having to find someone they've never seen.

9. Invest time on LinkedIn wisely

Set aside a certain amount of time each day to work LinkedIn. Be consistent. Manage the time you spend by tightening your profile, contributing to discussions and seeking help.

Keep looking for connections. Use commute time (if you're not driving), meeting breaks, dead time between appointments, etc. to keep on top of your increasingly active LinkedIn network.

I set a timer and decompress at the end of the day by working my LinkedIn connections. It helps me close the business day mentally and starts the process of responses I need for tomorrow.

10. Make your smart phone smarter


We all rely on our smart phones; having more information at our fingertips makes them even more useful. Download the LinkedIn mobile app to your smart phone; it will make you an attractive, effective go-to person anywhere you are.

If a client wants a referral to a colleague, for example, your image as a responsive team player will be enhanced by immediate access to the referral's contact details.

Take care of it and feed it

That wraps up the top 10 nuggets on the care and feeding of LinkedIn. They resulted from my lectures, webinars and coaching, through which I've taught hundreds of professionals, answering their questions and responding to their war stories.

How you use LinkedIn depends on your dedication, personality and need for branding, but knowing the most effective tips and techniques may just land you another piece of credit card processing business down the road.

A sharp LinkedIn presence is a differentiator in a sea of MLS competitors. Learn from those you respect; give back to your peers; receive the reward of their admiration. Then you just might find LinkedIn indispensable. 

Marc W. Halpert owns Your Best Interest LLC, which offers businesses specialized, paperless electronic payment services to optimize cash flow; e-giving, which helps professional organizations and not-for-profits optimize online payments and donations; and Connect2Collaborate, a division of Your Best Interest that offers businesspeople training and coaching in the best uses of LinkedIn. He serves as Lead Instructor at the local University of Phoenix campus and is a SCORE counselor. Contact him at 203-373-0875 or ybillc@optonline.net.



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NewProducts

iPhone terminal with gateways galore

Product: iPay POS

Company: Rapadev LLC

Though the July 1, 2010, deadline for complying with the newest Payment Application (PA) Data Security Standard (DSS) has passed, many merchants continue to buy and use equipment that isn't up to par, according to Randy Palermo, President of Rapadev LLC. Among the applications that are certified on the PA DSS is Rapadev's iPay POS terminal for the Apple Inc. iPhone.

"You have to follow all the requirement guidelines about information on the device, masking information and having a security system, and we've had that since day one, but now it's officially been tested and gotten the stamp," Palermo said.

According to Palermo, some payment apps available through Apple's App Store are not PA DSS compliant. "It's become a really unregulated app store with all these credit card terminal programs," he said. "And these merchants need to understand if they're using an app that's not PA DSS-certified and there's fraud ... they could potentially be liable."

Also on the security front, iPay can be used with IDTech's iMag mobile card reader, which attaches to the iPhone for swipe transactions to enhance security and lower interchange. With or without the reader, iPay allows buyers to conduct signature transactions using their fingers to sign, Palermo noted.

Many gateway partners

The product connects to a long and growing list of gateways, including certain ones in Canada and Europe. Among them are Authorize.Net, Network Merchants Inc., Ogone, Affinity Payments (doing business as PayLeap), PayJunction, RedFin and Skipjack Financial Services Inc. Palermo said iPay is programmed to connect quickly and seamlessly with different gateways and that it will continue to add new partners.

"I just search gateways that have development APIs [application programming interfaces] and I get their API and I write code and integrate with it," Palermo said. "I kind of have a plug-in architecture to my software where it's easier for me to add gateways. Just give me your API, and I'll add you."

Palermo said iPay has three separate databases for entering information related to purchasing. One is designed

Features of **iPay POS** include:

- Equipment is PA DSS certified.
- It connects to numerous domestic and some international gateways.
- Card authentication process begins as transaction information is entered.
- Offering includes multiple databases for data storage and auto-populating data fields.
- Company offers trial period of 10 free actual transactions and unlimited free test transactions.


for purchasing information related to customers, another is for shipping locations and a third is for inventory. Merchants can use those databases to call up existing purchasing data and auto-populate different fields, thus avoiding the hassle of manually entering the same data multiple times.

"Anytime you start your transactions you can go to your customer databases and say, 'I want this customer,' and it populates the field; or 'I'm selling this item,' and it populates the field; or 'I'm shipping to this location,' and it populates the field," Palermo said. "So it can populate all the fields you'd normally fill in manually before you transmit a transaction."

Faster authentication

Palermo added that iPay authenticates transaction information while it's entered, rather than after it's transmitted for processing. With the first keystroke the program begins the authentication process, so the merchant knows if a card number is valid even before submitting the transaction.

Palermo said users of iPay have the option of buying the program outright or just buying individual transactions, like adding minutes to a cell phone. The initial download is free, and the user also gets unlimited test transactions and 10 free official transactions before any charges roll in. "That way, you can decide if you want to buy more [transactions] or just buy the program," Palermo said.

Palermo added that Rapadev is preparing to launch its own private-label gateway for use with iPay. 

Rapadev LLC

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Visit www.greensheet.com/gs_tradeshow_events.php for more events and a year-at-a-glance event chart.



Western Payments Alliance (WesPay)

Payments Symposium 2010: Tools of the Trade

Highlights: WesPay's annual symposium promises quality education seminars, networking opportunities with hundreds of payment professionals, strategy guidance workshops and a technology showcase. The two-day conference's areas of focus include automated clearing house (ACH) operations, card products, fraud and risk management, and regulations and compliance.

Among the discussion topics are emerging person-to-person payments, ACH revenue opportunities, the impact of regulatory changes to the future payments landscape, cyber attacks against financial institutions, check fraud in an image-based milieu and fighting Internet fraud. The event also includes optional post-conference hands-on sessions dealing with the ACH world.

When: Sept. 20 – 21, 2010

Where: Renaissance Hotel, Long Beach, Calif.

Registration: www.wespay.org/content/navigationmenu/symposium



SourceMedia

CardEvolution Summit

Highlights: The CardEvolution Summit is a forum for networking and information-sharing among innovators, system integrators, industry reps and consultants from around the world. CardEvolution Summit, formerly CTST, enters the 2010 marketplace with a refreshed look and a streamlined focus on education and agenda, while continuing to bring best-of-breed vendors, seasoned veteran consultants and thought-provoking speakers.

There will be an exhibit hall, pre-conference workshops, keynote addresses, cocktail receptions and networking sessions. The agenda will include topics dealing with cards and payment technology, security and identity, and mobile and contactless payments.

When: Sept. 20 – 22, 2010

Where: Hyatt Regency, San Francisco

Registration: www.paymentsource.com/conferences/ces

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Western States Acquirers Association

WSAA Annual Sales Conference

Highlights: The Western States Acquirers Association's 2010 Annual Sales Conference will be held at the San Diego Marriott La Jolla, an ocean-side location minutes away from beaches, vistas, theme parks and other attractions. The conference will include panel sessions, an exhibition hall and seminars.

The first day of the conference will comprise the Field Guide for ISOs seminar and an opening reception. The general session will begin the morning of the second day, and a closing session will be held that night.

The theme of this year's conference is "Catch the Wave of New Opportunities."

When: Oct. 13 – 14, 2010

Where: Marriott La Jolla, San Diego

Registration: <http://cwp.marriott.com/sanlj/westernstatesacquires>



Women Networking in Electronic Transactions

Designer Bootcamp and DIVA awards

Highlights: A project of Women Networking in Electronic Transactions (W.net), this is a prime educational and networking event for women in the payments industry, providing them with resources to become exemplary professionals and better leaders.

The day follows WSAA's conference and will include a keynote address followed by seminars on topics ranging from globalization to business etiquette to the economics that drive the payment chain's various players. The event also promises a wine and cheese welcome and networking breaks.

As a lead-in to the Designer Bootcamp, W.net will host the Driving Improvement Via Action (DIVA) Awards at 8:30 a.m. The awards honor outstanding achievements of individuals, companies and W.net members who, throughout the course of the past year, have shown an unwavering commitment to W.net's mission to inspire and empower women in the electronic transactions industry.

When: Oct. 15, 2010

Where: Marriott La Jolla, San Diego

Registration: www.w-net.biz/PageDisplay.asp?p1=7260

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Inspiration

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"Dwelling on the negative simply contributes to its power."

- Shirley MacLaine

Shuffling the deck on negative people

Wouldn't it be grand if we never had to deal with negative people? Unfortunately, life's deck of cards occasionally deals us an unwanted hand. But it doesn't have to bring us down, because as with most card games, we have options. In poker, for example, we can exchange undesirable cards to increase the odds of finishing with a winning hand. With people, we can take swift action to minimize the impact of negative behavior.

Spot the energy zappers

The first step in eradicating negative behavior is to recognize the signs. If you feel as though you're under attack, suffer anxiety or sense a loss of energy when interacting with certain people, very likely they fall into the energy zapper category.

When a merchant, vendor or co-worker has offended you and triggered one of these responses, the natural tendency is to put up a strong defense or recoil from the situation. After all, the individual has treated you in an unprofessional manner. In reality, you must learn to diffuse the situation so it doesn't break down communication altogether.

Before you react, give yourself a moment to examine whether the cause of your hurt, shock or anger was really as offensive as it seems or if you might be reacting to a new situation with habitual responses you have to people or actions that normally set off your hot buttons. Being aware of emotional short circuits can be empowering because you can modify your actions to behavior that disturbs you until it no longer exerts any power when it does crop up.

Another thing to be aware of is that we all have bad days from time to time. The other person may simply be experiencing a temporary setback, so the negativity aimed at you is not a reflection on you. A bit of empathy might offer a quick resolution. If not, keep the interaction brief and move on.

Thwart entrenched negativity

Some people lapse into bad behavior only when life circumstances become overwhelming, but for others bad behavior is a pernicious problem. The latter group is most difficult, because in many cases the unpredictable and manipulative behavior gives the person inappropriate control over the situation.

Here are some quick strategies to buffer bad behavior:

don't take negative behavior personally; shower negativity with perpetual optimism; plan what to say or do before interacting with a habitually negative person; identify what bothers you about the behavior, and learn to control your reactions; be aware of your words, body language, tone of voice and facial expressions; be agreeable and pleasant throughout each encounter.

These strategies cannot transform difficult people. But they can diminish negative behavior so you can end on a positive note, much like exchanging cards to produce a winning hand in poker.

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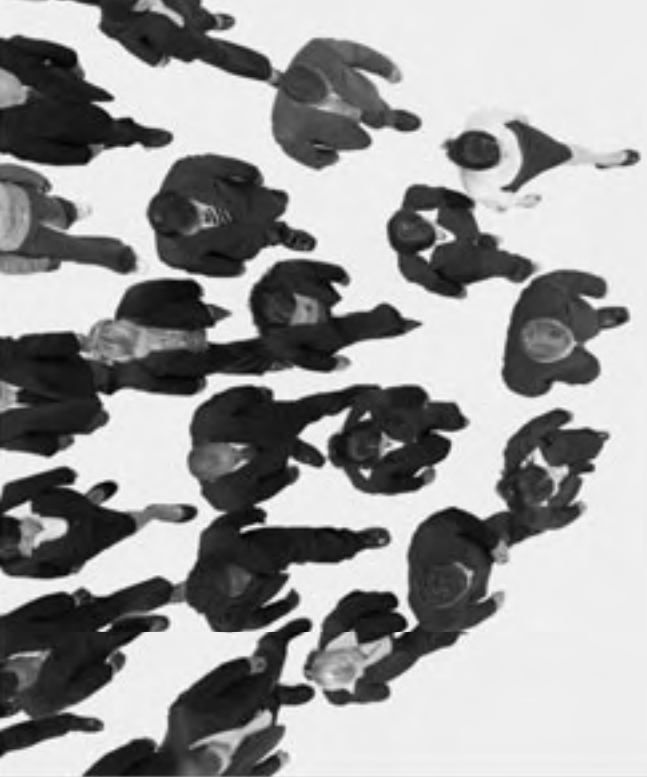


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