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January 10, 2011 • Issue 11:01:01

# The convergence of traditional and alternative payments

**W**hile most payment professionals agree that credit and debit cards, both plastic and virtual, will remain the country's predominant payment forms into the foreseeable future, the growing importance of new payment methods is undeniable.

Even the card brands have begun to recognize alternative payments as legitimate competition, which is reflected in their new-found willingness to explore emerging channels through partnerships with alternative providers. This may indicate that, as alternative payments become more mainstream, conventional and unconventional payments will move toward co-existing within the same channels, rather than continuing to inhabit primarily distinct worlds.

A number of trends are driving the use of alternative payment methods and the proliferation of companies that offer them. These include the ascendancy of debit over credit payments and new legislation designed to regulate electronic commerce. The most significant enabler, however, is the growth of the Internet and mobile commerce sectors; observers say the latter, in particular, may be fostering an alternative payments explosion that is already bubbling to the surface.

## Mobile power

"We view mobile as this disruptive event that has upset the plastic-centric world, as we now have a new device and no one leaves home without it, which is like the American Express tagline," said Conrad Sheehan, Chief Executive Officer of mobile and Internet commerce solutions provider mPay Inc. "People are thinking, 'What can I do with it?' And payments are one of the big things."

Alternative payments can be defined as those that do not run on the conventional credit or debit rails. They include automated clearinghouse (ACH) payments that use bank account numbers for routing; gift and closed-loop prepaid cards that use intra-company networks; payments made through third-party providers like PayPal Inc.; and mobile payments that draw from prepaid accounts or charge consumers with an add-on to their phone bills.

Though most modern alternative payment forms have sprung from the use of new technology around mobile and e-commerce, conventional and alternative payments are not distinguished by the level of technology involved. For example, under the definition used in this article, cash and checks are alternative payment forms, but mobile transactions that use a virtual credit or debit card are not, because the transaction is still processed through Visa Inc. and MasterCard Worldwide networks.



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- » Dan D. Wolfe—Teledraft Inc.

**Notable Quote**

**Even if you and your processor are on the same page regarding who owns the merchants, as well as what that means in practice, unless your ISO agreement clearly explains that agreement on paper, you have no guaranty that a third party will understand your arrangement the same way you do.**

**See story on page 28**



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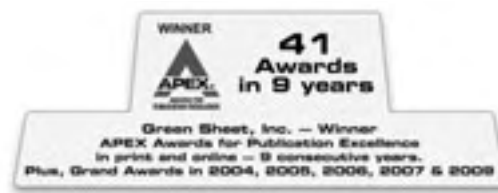
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on page  
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eight!”



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

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# Forum

## Help for planning a magnificent year

Another new year has begun. Each passage of a calendar year brings a sense of anticipation, a feeling of renewal and hope for the future. We can set aside our worries of the past and forge our paths anew.

At this time, many of us make resolutions to guide us on the next phase of our journey. It is also a wonderful time to dust off business plans and ensure that our businesses are also setting course for a bright future.

*The Green Sheet* has published many articles to assist you with setting both personal and business goals. We offer the following recommendations to help you in planning:

### Ensuring sales and marketing success in 2011

by Peggy Bekavac Olson

Education, Dec. 13, 2010, issue 10:12:01

*-You can create plans for growth that are actionable, easy to follow and aligned with business strategy.*

### If you're in business, you need a plan

by Paul H. Green

Inspiration, Sept. 27, 2010, issue 10:09:02

*-A business plan serves as a map created to guide your future performance.*

### Budgeting: A crucial management skill

by Vicki M. Daughdrill

Education, Aug. 9, 2010, issue 10:08:01

*-A budget is the basis of every financial plan, the foundation that companies and individuals build on to reach their financial goals.*

### Managing your most important asset

by Jeff Fortney

Education, July 12, 2010, issue 10:07:01

*-Successful ISOs and merchant level salespeople are intentional and disciplined when it comes to using time.*

### Get on track with a business mentor

by Paul H. Green

Inspiration, May 10, 2010, issue 10:05:01

*-A mentor can help you reach goals and see the path to success clearly.*

## Plan today for results tomorrow

by Paul H. Green

Inspiration, April 12, 2010, issue 10:04:01

*-In both personal and business endeavors, planning can dramatically improve results.*

## The annual marketing and communications plan

by Peggy Bekavac Olson

Education, Dec. 14, 2009, issue 09:12:01

*-Don't overlook creating a comprehensive, integrated marketing and communications plan to support your goals.*

These are just several of the many articles in our archive at GS Online ([www.greensheet.com](http://www.greensheet.com)). We hope they help you get 2011 off to a great start!

Editor

## CORRECTION

### ControlScan, Merchant Warehouse speak up

In a Research Rundown item titled "Micro-merchants unprepared for PCI DSS compliance," published in *The Green Sheet*, Dec. 13, 2010, issue 10:12:02, we erroneously attributed the report, *Diversity Reigns: The Second Annual Industry Survey of Level 4 Merchant PCI Compliance Trends*, to PaymentsSource. The report was issued by ControlScan and Merchant Warehouse. *The Green Sheet* regrets the error.

## Call us, write us

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



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# QSGS

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

Cover Story

1

## **The convergence of traditional and alternative payments**

While most payment professionals agree that credit and debit cards will remain the country's predominant payment forms into the foreseeable future, the growing importance of new payment methods is undeniable. Even the card brands now recognize alternative payments as legitimate competition. What does this mean for ISOs and merchant level salespeople?

Feature

34

## **PPS' CEO sees changing landscape ahead**

Ken Goins, Chief Executive Officer at Prepaid Solutions Inc., characterized 2011 as a year in which the prepaid card industry will continue to grow and develop, as well as a period in which disruptions to the marketplace caused by technology and legislation will shape the industry's direction. Will this accelerate the blurring of boundaries that traditionally define prepaid?

View

24

## **Payment prognostications for 2011**

As a new year starts, it is time for payment experts to predict what will happen in 2011. Rampant confusion and misinformation exist regarding the "next big thing" in payments. While it may be folly to predict the future, it is useful to highlight issues affecting the evolution of card, check and automated clearing house transactions.

Feature

34

## **How Fed draft rules might affect prepaid**

In an initial analysis of the Federal Reserve Board's draft rules to implement the Durbin Amendment to the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Mercator Advisory Group LLC notes potential market opportunities and uncertainties for the prepaid card industry, with general purpose reloadable card providers potentially coming out as winners.

View

28

## **Who owns the merchants?**

In the payments industry the phrase "owning the merchants" is not readily understood by those unfamiliar with industry practices. Even experienced payment professionals often disagree on what it actually means. This article discusses the ever-evolving definition of "merchant ownership" and provides tips about which ownership rights may be most valuable.

News

44

## **Effect of proposed debit regs on ISOs**

A December 2010 meeting of the Federal Reserve Board outlined how it proposes to implement the Durbin Amendment to the 2010 *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The Fed offered two scenarios on how to tackle its debit card interchange regulation mandate; both scenarios involve capping debit card interchange at 12 cents per transaction.



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- Kevin Jones, Vice President of Sales and Marketing



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News

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### Fed's proposed interchange cap dings AmEx

American Express Co. was the latest card issuer to take a hit in the aftermath of the proposed Dec. 16, 2010, outline by the Federal Reserve Board to regulate debit interchange fees. In an investor conference call held Dec. 20, analyst Chris Brendler, of Stifel, Nicolaus & Co., downgraded AmEx shares from "buy" to "hold," triggering a sharp decline in share value.

News

47

### EMS gives back during holidays

Imagine spending a day close to Christmas handing out toys to less fortunate families. What could be more in keeping with the holiday spirit? Executives at Elite Merchant Solutions, a transaction processor based in Van Nuys, Calif., spent Saturday, Dec. 18, 2010, doing just that.

News

46

### Merchant sues U.S. Bank for alleged data breach cover-up

An Arizona-based merchant, Paintball Punks, recently filed a class-action lawsuit against U.S. Bank that alleges the bank failed to protect Paintball Punks and other merchants from financial losses resulting from a breach of the bank's credit card data. The complaint asserts that the bank allowed compromised card accounts to remain active and didn't notify affected cardholders.

Education

56

### Street Smarts<sup>SM</sup>: Will leasing make a comeback? - Part 1

This is the first in a two-part series on leasing in which members of GS Online's MLS Forum respond to the following query: Margins are getting thinner and thinner. Will agents start giving away the processing at cost and selling a lease to make \$1,000 at sign up? Upfront money, directly from an independent source, is very attractive. What say you?

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Education

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### Risk management and PCI

Now is a good time to discuss what risk management is, how it works, and what its strengths and weaknesses are. The core idea behind risk management is that you can't treat the idea of "safe" as if it's an on/off switch, with the "on" setting meaning no risk. There is no such thing as no risk.

Education

66

### Evaluating the value (and cost) of training

The most difficult thing to do as a salesperson is to set time aside to gain knowledge. Time costs money, and time taken away from selling is very expensive. Yet the complexity of the payments world creates a Catch-22: there is much to learn, but the cost of time spent learning can seem too great. This article offers key questions to ask before scheduling any training.

Education

68

### Marketing resolutions for the New Year

This article offers resolutions to consider that can help propel your business. These resolutions encompass some of the basic building blocks of marketing. Even though they may sound intuitive and somewhat trivial, you'd be surprised at how many companies don't have them solidly in place.

Inspiration

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### Bring in the year with steely resolve

As another year begins to unfold, you are probably formulating a fresh set of resolutions. And if you are serious about following through to make this year the best it can possibly be, now may be the time to rethink how you think. One of the most powerful actions you can take in this regard is to banish the negative from your mind.

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# IndustryUpdate

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## NEWS

### Ingenico buyout offer in limbo

France-based POS equipment maker **Ingenico SA** stated the company received a buyout offer of 28 euros a share, or approximately \$1.9 billion total, on Dec. 14, 2010. *Bloomberg News* reported that an unnamed source identified the buyer as **Danaher Corp.**, a maker of hand tools, engineering test equipment and water-treatment systems. Less than a week after the offer, Ingenico disclosed that its board of directors had reviewed the offer with the potential buyer, which "has not been in a position to submit a binding offer that could be accepted by the board." *Bloomberg* cited possible French government opposition to the deal as a stumbling block.

### WesPay, Northwest Clearing House merge

The **Western Payments Alliance** and the **Northwest Clearing House Association** plan to merge operations under the WesPay name, the boards of directors for both organizations disclosed. WesPay comprises 900 member financial institutions and 100 associate members in California, Hawaii, Idaho, Nevada, Oregon, Utah and the Pacific territories. NWCHA represents 190 members in Alaska and Washington. By combining, the organizations will be better able to respond to the dynamic marketplace while maintaining continuity of service for members, the associations stated.

The merger will enable the combined WesPay to expand services to its members, including assistance with remote deposit capture (RDC). The organization will maintain offices in both San Francisco and Seattle, with the continued expertise of the full staff. Both organizations are members of NACHA – The Electronic Payments Association.

### Canada gets tough with Visa, MasterCard

The **Canadian Competition Bureau** is attempting to invalidate what it calls restrictive rules imposed on merchants by **Visa Inc.** and **MasterCard Worldwide**. The bureau filed an application with the Competition Tribunal to strike down the rules, alleging they eliminate competition between the two brands for merchants' acceptance of their cards. "Visa and MasterCard's anti-competitive behavior hurts businesses and consumers alike," said Melanie Aitken of Canada's Commission of Competition. "It is particularly harmful for small and medium-sized businesses, key engines for economic growth in Canada."

In a statement, Visa called the bureau's suit "anti-consumer." The company's rules "protect consumers from being punished by large retailers who seek to impose surcharges," Visa stated. "Visa's policies do not preclude retailers from offering an incentive to customers to use different forms of payment."

### Visa sees strong growth in Latin America

**Visa** reported that its payments volume in Latin America and the Caribbean grew 20.3 percent for the year ended Sept. 30, 2010. The total payments volume for the region totaled \$253 billion. Brazil and Mexico achieved volume growth of 23 and 14 percent, respectively. Other countries in the region increased volume by 17.1 percent. The performance of products aimed at affluent consumers boosted regional results, particularly on Visa Gold, Signature, Platinum and Infinite cards.

### Treasury's move to electronic payments to save \$1 billion

The **U.S. Treasury Department** expects to save Social Security \$1 billion over the next 10 years by switching to electronic payments. Recipients applying for ben-

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- According to **MasterCard Advisors SpendingPulse**, a macroeconomic report tracking national retail and services sales, apparel was a strong performing category during the 2010 holiday season (Nov. 5 through Dec. 24), growing 11.2 percent over the 2009 holiday season.
- **Amazon.com** reported that during the period from Nov. 14 through Dec. 19, 2010, the Kindle (Wi-Fi), Kindle 3G and Apple iPod Touch 8GB were its best-selling electronics.
- **TrueCar.com**, a company that tracks new car pricing trends, revealed that the average price for new cars in November 2010 was down \$715 from November 2009, and down \$435 from October 2010.

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## Industry Update

efits after April 30, 2011, will receive their payments electronically. Those already receiving checks must switch to direct deposit by March 1, 2013. The Treasury Department estimated its annual expense associated with paper checks to be \$120 million.

## ANNOUNCEMENTS

### Apriva surpasses 100 reseller milestone

**Apriva Inc.** has signed more than 100 distributors for its AprivaPay POS software. Available as downloadable software on smart phones, AprivaPay is created for merchants who want to accept mobile card payments in the field. Distribution partners include AT&T, Apple Inc.'s iTunes and Google Inc.'s Android Marketplace.

### Commidea products certified PCI compliant

**Commidea Ltd.**, a payment processing software developer in the United Kingdom, said two of its end-to-end dual-encryption payment products achieved compliance with the Payment Application (PA) Data Security Standard (DSS). The Ocius Vx510 and Ocius Vx810 Duet are the most recent Commidea products to obtain certificates of compliance.

### Discover sales volume rises

**Discover Financial Services** said sales volume for its fourth quarter, which ended Nov. 30, 2010, rose 6 percent over the same quarter of 2009. Sales volume totaled \$23.2 billion in the quarter, up from \$21.9 billion. Credit performance improved, with the net charge-off rate dropping to 6.58 percent, down 185 basis points from 8.43 percent during the same period in 2009.

### First Data's TransArmor surpasses milestone

**First Data Corp.** reported that more than 100,000 U.S. merchants now process transactions using the company's TransArmor encryption, tokenization and key-management technologies. The service was officially launched in September 2010.

### Ingenico achieves environmental certification

**Ingenico** received ISO 14001 environmental certification, which was awarded by an authorized, independent assessor. The achievement certifies that the company practices environmental management of its business practices.

### Trustwave joins PCI Forensic Investigator Program

**Trustwave** joined the PCI Security Standards Council's Forensic Investigator Program. The program aligns industry requirements for identifying and approving forensic investigators. As a Payment Card Industry (PCI) forensic investigator, Trustwave assists breached organizations in determining how payment card data was obtained by unauthorized parties.

## PARTNERSHIPS

### CardinalCommerce selects Adaptive Payments

**Adaptive Payments** and **CardinalCommerce Corp.** are integrating their two platforms to deliver Adaptive's secure payment authentication services for e-commerce sales. Adaptive's e-commerce checkout product will be delivered to Cardinal Centinel merchants as part of the Universal PIN Debit Service.

### AmeriMerchant teams with First Data

**AmeriMerchant LLC** contracted with **First Data Merchant Services Corp.** for processing services for AmeriMerchant's merchant cash-advance program. First Data ISOs that wish to participate in the AmeriMerchant program now get batch-splitting services for their merchants, to enable seamless repayment to AmeriMerchant. Through March 31, 2011, AmeriMerchant is offering

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## Industry Update

incentive bonuses for First Data ISOs that sign up to sell the cash advance program.

### Arizona dentists partner with BluePay

The Arizona Dental Association partnered with BluePay Processing LLC for card processing services. BluePay allows Arizona dentists to accept automated clearing house payments, as well as payment cards.

### Secure Vault Payments network adds member

Checkgateway LLC joined the Secure Vault Payments network, offering the online payment option to its 10,000 merchants. Secure Vault Payments was developed by NACHA and eWise.

### ClickandBuy goes with Voltage for tokenization and encryption

Online payment system ClickandBuy International Ltd. chose Voltage Security Inc. for advanced data security. The tokenization and encryption software and services will protect cardholder data for ClickandBuy's 13 million end-user customers as part of compliance with the PCI DSS. ClickandBuy has 16,000 online merchants.

### FIS chooses Inetco transaction management system

Fidelity National Information Services Inc. (FIS) deployed technology from Inetco Systems Ltd. Inetco Insight streamlines troubleshooting processes and reduces the risk of downtime in FIS' expanding electronic payments business.

### Colorado banks pick Fifth Third for ATM processing

Two Colorado-based financial institutions signed ATM and debit processing contracts with Fifth Third Processing Solutions LLC. Legacy Bank and Champion Bank signed up for fraud protection, monitoring and debit marketing services, as well as transaction processing.

### Global Bay integrates products on Demandware LINK

Mobile retail software developer Global Bay Mobile Technologies said it integrated its "Apple mobile POS" solution with Demandware LINK's e-commerce platform. Demandware Commerce retailers may now use Global Bay's mobile POS, inventory management and business software products.

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## Industry Update

### PlaySpan and IP Commerce join forces for online content

IP Commerce Inc. teamed up with PlaySpan Inc. to deliver PlaySpan's payment options to social and digital content developers through IP Commerce's Managed Services Platform. The partnership enables a variety of secure in-app payment methods for online content producer-merchants without technology lag times. PlaySpan's UltimatePay product provides 85 global payment methods in 180 countries, including payment cards.

### JM Associates pilots Star Network encryption app

JM Associates Federal Credit Union was the first financial institution to pilot STAR CertiFlash, a PIN debit application from First Data's Star Network. The technology is programmed onto contactless chips embedded within payment devices, enabling single-use encryption for each transaction.

### Developers partner for authenticated iSMS payments

Luottokunta, Microsoft Corp. and BookIt Oy developed an authentication service that allows for mobile payments from phones using iSMS, a short messaging service. Payment transactions reside within Luottokunta's eMobile system, so that company is responsible for data protection. In iSMS, no additional accessories or applications are necessary to equip mobile phones for making payments.

### Connecticut credit union chooses Vertifi

Connecticut-based Nutmeg State Federal Credit Union picked Vertifi Software LLC to provide item processing services, including RDC. Vertifi was chosen for its advanced image processing capability.

### PerkStreet converts debit program

PerkStreet Financial is converting its debit card program to MasterCard in early 2011. The arrangement gives PerkStreet debit account holders access to exclusive discounts.

### Software vendor uses 3DSI tokenization

Industrial software vendor Tribute Inc. is integrating CardVault tokenization service from 3Delta Systems Inc. into its business software applications. Tribute's distribution software will embed CardVault to help clients reduce the cost of complying with PCI DSS requirements.

### US Alliance, Chexar launch check-cashing product

US Alliance Group Inc., a maker of payment process-

ing products, and Chexar Networks Inc. partnered to launch a check cashing product suite for retailers. The system, which includes a kiosk station operated by retailers' personnel, was in pilot tests at various locations through the first half of 2010.

### Hypercom looks to Verizon Business

The professional security services team of Verizon Business, a unit of Verizon Communications Inc., helped Hypercom Corp. achieve and maintain PCI DSS certification on its SmartPayments Wynid hosted electronic payment platform. The hosted platform protects retailers and cardholders in card transactions, the companies stated.

### VyStar streamlines PIN debit services

VyStar Credit Union made the Accel/Exchange debit network operated by Fiserv Inc. its exclusive PIN debit provider. A client of the network for 20 years, VyStar dropped other PIN debit providers in recent years to reduce costs. It recently dropped a second service provider.

## ACQUISITIONS

### Global Access buys segment of ATM network

Global Access Corp., a provider of self-service kiosk products, purchased a portfolio of ATMs from an undisclosed, privately held nationwide network.

Global Access indicated it bought 140 ATMs and an existing relationship with a global oil and gas company to manage ATMs at service stations in three Midwestern states. The deal was expected to close at the end of December 2010 and to add \$2 million in revenue to Global Access' ATM business.

## APPOINTMENTS

### TSYS promotes five executives

Total System Services Inc. (TSYS) promoted five team members to executive management. David Chew, who joined the company in 2006 as Senior Director in Finance, was named Group Executive, Finance. John Dale Hester, who joined TSYS in 1992 and leads North American sales, was named Group Executive, Relationship Management.

Hester is responsible for the North American consumer business line. Bruce Jones, who has been with the company for 22 years, was named Group Executive, Applications Systems. Joining TSYS in 2007, Daryl Seaman, a manager of global information technology (IT) staff involved in product licensing and processing



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## Industry Update

services, was made Group Executive, IT Applications.

**Marie Williams**, a 26-year veteran of the company, was promoted to Group Executive, Relationship Management. For the past eight years, Williams was Senior Director in Consumer Services.

### Dwyre moves to Mocapay

Payments industry veteran **Doug Dwyre** joined Mocapay as Chief Product Officer. Previously, he managed global business development at Voltage Security and worked at First Data in an executive position.

### RocketPay picks Hometh

**Caroline (Carrie) Hometh** recently joined RocketPay, a broker of international merchant accounts for card-not-present merchants.

Hometh will focus on helping merchants expand their payment infrastructures worldwide in addition to fostering sales channels and acquirer and service provider relationships worldwide. Most recently, Hometh served as Executive Vice President of Sales and Global Marketing Officer for Payvision.

### GlobalPlatform elects 2011 officers

GlobalPlatform, an association that sets stan-

dards for managing applications on secure chip technology, announced its Board of Directors for 2011. **Marc Kekicheff**, formerly Vice Chair, was elected Chairman. Kekicheff is Senior Business Leader of Chip Innovation at Visa. Other new or re-elected officers include Vice Chair **Uwe Wittig**, Group Vice President, Payments Division of the Cards and Services Business Unit at Giesecke & Devrient GmbH; Secretary/Treasurer **Yves Moulart**, Director of Development and Innovation, Secure MCUs Division, STMicroelectronics NV; board member **Jerome Becquart**, Senior Vice President, Products and Services, ActivIdentity Corp.; board member **Eikazu Niwano**, Senior Research Engineer, Service Integration Laboratories, NTT Corp.; board member **Jean-Loup Dépinay**, Program Manager, Research & Development Fundings, Oberthur Technologies Inc.

### FrontStream makes changes

FrontStream Payments Inc. appointed **Nina Vellayan** Chief Executive Officer, in addition to her previous role as President.

Founder and former CEO **Emmet Seibels** assumed the title of Chairman of the Board. Additionally, **Tom Head** was appointed Chief Financial Officer. Formerly, Head was CFO of Valutec Card Solutions Inc. ☐

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# DICTIONARY

## in·de·pend·ent

Pronunciation: \\_in-d\_-pen-d\_nt\

Function: *adjective*

1 : not dependent: as **a** (1) : not subject to control by others : **SELF-GOVERNING** (2) : not affiliated with a larger controlling unit **b** (1) : not requiring or relying on something else : not contingent (2) : not looking to others for one's opinions or for guidance in conduct

**NOTE:** *An independent organization or other body is one that controls its own finances and operations, rather than being controlled by someone else.*

**Synonyms:** absolute, autonomous, nonaligned, nonpartisan, on one's own, self-contained, self-determining, self-governing, self-reliant, self-ruling, self-sufficient, self-supporting, separate, sovereign, unconnected, unconstrained, uncontrolled, unregimented

**Antonyms:** dependent, subordinate, subservient

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# Payment prognostications for 2011

By Brandes Elitch

CrossCheck Inc.

**A**s a new year starts, it is time for "payment experts" to predict what will happen in 2011. Rampant confusion and, frankly, misinformation exist out there regarding the "next big thing" in payments, so I will try to at least define the issues pertaining to card, check and automated clearing house (ACH) transactions – even if I can't predict the future.

Most everyone is aware that payments via social networks will lead to a series of innovations, particularly from nonbanks, which are not traditional players in the payments system. However, this article will talk about more conventional payments.

Let's start with the recently released *2010 Federal Reserve Payments Study*, which covers the period from 2006 through 2009 and was released Dec. 7. The award for the most understated comment of the year goes to the Fed

vice president who said, "It is likely that the results of the study reflect changing consumer behavior during difficult economic times." Well, all-righty then – do ya think?

What most observers will take from the study is the headline: "Electronic payments crowd out checks." But it would be a mistake to conclude that checks are not important. During this three-year period, checks dropped 7.2 percent. Even so, they still comprise 24.4 billion items a year, totaling \$31.6 trillion.

This compares to total dollar volume for electronic payments of \$40.7 trillion. To put it another way, dollars cleared by check are still three-quarters of total electronic payments, 25 years after the first Electronic Data Interchange initiatives by major banks.

## B2B, the check stronghold

Most business-to-business (B2B) payments are check-based and are likely to remain so for some time. One commentator, Dan O'Neill, writing in the excellent *First Annapolis Navigator*, suggested this is due to "long-held views on and desires for centralized control and physical specimen document imaging and retention, as well as organizational inertia."

Right now, the majority of invoices from suppliers are paper, not electronic, and some of the electronic ones are printed to initiate a paper-based payment process. And, of course, currently, there is no centralized database of payees, nor is there a convention for standardized line item detail capture.

But the key concept behind checks is that if you are taking a high-dollar payment (examples include brokerage, insurance, tax, title settlement or critical time-sensitive payments) you will want a check (or wire transfer), not an ACH credit, because you desire absolute finality of payment and the Uniform Commercial Code and 200 years of check law on your side, not Reg E and NACHA – The Electronic Payments Association's rules and regulations.

The Federal Reserve Bank of Chicago has received significant attention for the electronic payment order (EPO) concept. It would allow the consumer to write a check digitally, on a smart phone or other computer device, and then send the digital check (a debit push) to the payee, which would send it to the payee's bank to clear the way check images do now.

The EPO requires a digital signature signifying intent and authentication, unlike remotely created checks used by some merchants today. Since it is unclear as to which laws would apply to the EPO, it is likely banks will use an

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approach based on mutual agreements. Consumers like to write checks; why shouldn't they be able to write and clear them electronically?

There is an alternative, credit-push version of the digital check, (kind of like electronic bill payment) where the bank's account holder instructs the bank to transfer funds electronically to the payee bank, but the applicable law is uncertain here, too. In this case, the payment would not be made unless there were sufficient funds in the account, so the payee can be certain the funds are good upon receipt.

At this point, the Fed has not yet approved any of these new payment transfer methodologies, but you can see there is a lot of new thinking in this space. I think we can expect some ruling from the Fed in the coming year here.

### **Credit, on the wane**

The Fed study shows other noteworthy trends. One is that credit card balances dropped for the 26th consecutive month in October 2010. Revolving debt, which includes credit cards, dropped 7.6 percent to \$800 billion from a year ago. In 2009, debit card usage surpassed credit card usage for the first time. Javelin Strategy & Research projected, assuming current trends continue, credit card use would fall below 50 percent by the end of 2010.

Another recent study revealed that only about 63 million Americans (out of a 300 million-plus total population) are actively using a credit card every month. Indeed, credit card volume actually declined 0.2 percent from 2006 through 2009 – the first decline since the Fed started tracking it. If you are selling credit card processing, think about this trend. There is less unsecured debt available from card issuers, and consumers are reducing their debt. These are long-term structural changes in the card industry.

The real story is the 14.8 percent growth in debit card transactions over the study's period. Some observers believe that PIN debit (ATM transaction with no interchange charged) will ultimately overpower signature debit (interchange based and running on the Visa Inc. and MasterCard Worldwide rails). The cost differential is too great for this not to happen. Yes, consumers will still use checks to make recurring payments, but ACH and home banking will inevitably make significant inroads here.

The key thing to remember is that most consumers want to pay with their checking accounts rather than credit cards. It's just that (at the POS) they are using their debit cards rather than writing checks, but the money is still coming out of the checking account.

### **ACH, ripe for increases**

ACH transactions increased 9.3 percent during the Fed study's time period, but remember that ACH is a batch, store-and-forward, next-day settlement system primarily

used by very large billers. Most ACH transactions are for recurring debits, preauthorized by the consumer. ACH volume at the POS and over the Internet is still small because there is no easy way for consumers to pay with a one-time ACH, at least, not yet.

There are also issues involving the authorization process for one-time transactions. Some very smart people at NACHA are working on this. Some people believe the growth in ACH will be a big trend in 2011 and cite NACHA's Secure Vault product for one-time payments.

This product allows a consumer to buy something (in what we used to call a "card not present" environment) without a debit or credit card, using his or her bank's online banking platform. The bank authenticates the consumer and provides the business with real-time authentication and payment confirmation. The payment is made by the consumer's bank directly to the merchant, so the merchant doesn't need to collect the consumer's personal financial information.

For this to work, the consumer would have to be on the bank's electronic banking platform, the merchant would have to be signed up with the Secure Vault network and all parties would have to use banks that were members of this network. I don't know about this – it reminds me of

*Financing for ISOs*

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***Smaller banks have always complained about the "free ride" that ACH transactions get, because the cost to large originators is only a few cents per transaction.***

the Visa POS product, which Visa has flogged for years now, with very little traction in the marketplace.

The Fed proposed substantial debit interchange rate cuts in December 2010, which could cause debit card issuer revenue to fall dramatically. Remember, the regulators have already changed how banks can collect overdraft fees, previously the single biggest fee-based income source for financial institutions.

Now they are looking into interchange rates. No one in our industry wants interchange rates to be regulated by the government. But in the past, income from interchange and overdraft fees was so substantial that it allowed the banks to subsidize other transactions, such as ACH.

Smaller banks have always complained about the "free ride" that ACH transactions get, because the cost to large originators is only a few cents per transaction. When I worked for a major cash management bank, our execu-

tive vice president said, "No bank has ever made money in the ACH business and no bank ever will." This is probably truer today than it was then. If major banks see their revenue decline precipitously from both credit and debit cards, they will make up the shortfall somewhere else, and ACH processing looks like a logical place.

**B2B cards, not for big business**

There is one more payment product that has been heavily promoted by the card brands for many years: payment cards for B2B transactions. In spite of millions of dollars in advertising, payment cards have been a nonstarter.

I predict they will continue to be. Almost every study I have read about this product is replete with references to payment fraud; employees with access to these cards somehow managed to make fraudulent purchases with them.

While such payment cards might work for a small to midsize business, why a large enterprise would want to pay interchange for accounts payable mystifies me (and most other people in this space, apparently). As an ISO or merchant level salesperson, I wouldn't devote much time to this product.

I want to close with a comment by Adolfo Nicolas, the Jesuits' Superior General. In an article in my alumni magazine (Santa Clara University), Nicolas talks about the "globalization of superficiality." He believes the way people work today on the web short-circuits the laborious, painstaking work of serious, critical thinking. He feels we are overwhelmed with a "dizzying pluralism of choices and values and beliefs and visions of life" and is calling for new ways to promote depth of thought and imagination.

He noted that the Japanese Ministry of Education found its curriculum had made great advances in science, technology, mathematics and memory work. However, it had become weaker in teaching imagination, creativity and critical thinking, the three points that are essential to Jesuit education. In managing and growing your business, where will you focus in 2011? ☐

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

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# Who owns the merchants?

By Sarah Weston

*Jaffe, Raitt, Heuer & Weiss PC*

**I**n the payments industry the phrase "owning the merchants" is not readily understood by those unfamiliar with industry practices. Even experienced payment professionals often disagree on what it actually means. This article will discuss the ever-evolving definition of "merchant ownership" and give you tips about which ownership rights may be most valuable to you.

## What does owning the merchants mean in concept?

A red flag goes up in my mind each time I am asked to draft an ISO agreement and my client informs me he or she has verbally agreed with the processor that the ISO will own the merchants. Drafting this arrangement on paper is easier said than done because the two parties often have not worked through the details of what owning the merchants really means.

I understand owning the merchants to mean that the ISO will, among other rights and obligations:

- Have the unrestricted right to move all or any portion of the merchants to a different processor and, as a related right, to direct the processor to assign the merchant agreements to a third party designated by the ISO at any time, including upon termination of the agreement
- Have the unrestricted right to sell the merchants to any third party
- Have a direct business relationship with each merchant and, as a related right, to be a party to the merchant agreements
- Control who communicates with the merchants and how such communication is performed
- Administer and control the merchant agreements and the relationships created thereby including decisions regarding the continuance, amendment, assignment or termination of each merchant agreement

***A red flag goes up in my mind each time I am asked to draft an ISO agreement and my client informs me he or she has verbally agreed with the processor that the ISO will own the merchants.***

- Own all transaction data derived by use of cards at a merchant's location, including transaction history, sales volumes, merchant identification information, etc. and, as a related right, to have the right to restrict other parties' use of such information
- Have control over new fees or fee increases charged to merchants
- Have the right to continue to receive residuals related to the merchants even after a processing agreement is terminated if the merchants are not moved to another processor

Or the ISO may have some combination of these rights, subject to card organization rules.

## What does owning the merchants mean in practice?

If you were to ask the processor involved in the previously mentioned verbal agreement what it meant when it agreed the ISO would own the merchants, you would likely get a different answer than the list provided herein.

This is because merchant ownership means different things to different people. Even if your processor has agreed to allow you to own the merchants, the rights the processor will agree to give you in your contract can often be very different.

For instance, while the processor might be amenable to language that says the ISO owns the merchants and has a direct relationship with them, if there is a broad anti-assignment clause tucked away at the end of the ISO agreement (a clause that requires the ISO to obtain written consent before assigning the agreement or any right under that agreement), in effect the ISO might be prohibited from ever moving the merchants.

What kind of ownership is that? It's like buying a car that you are only allowed to sell if your boss gives you written consent to do so – at his or her sole discretion.

Even if you and your processor are on the same page regarding who owns the merchants, as well as what that means in practice, unless your ISO agreement clearly explains that agreement on paper, you have no guaranty that a third party will understand your arrangement the same way you do.

This is problematic. What if something goes wrong in your relationship with the processor and one party sues the other?



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## View

In that case, a judge or jury might end up interpreting what your contract means.

The jury reading your contract probably has no working understanding of the payments industry, including the concept of merchant ownership, and thus would have no way to understand the agreement between you and your processor unless it is set forth clearly and simply in your ISO agreement.

Since no two groups of industry players tend to agree on specifically what merchant ownership means, the only way to protect yourself is to clearly define this relationship in the contract between you and your processor. If you don't, you might be in for an unpleasant surprise when you attempt to exercise your ownership rights.

### Other related rights

Other rights related to merchant ownership include:

- Right to sell residuals: Although closely related, the right to sell your residuals under an ISO agreement is a separate right than the right to sell or assign merchants. Owning the merchants doesn't mean you automatically have the right to sell residuals related to those merchants.

If you want to be able to assign your residual stream now for a specified multiple, make sure your ISO agreement gives you the right, at any time, to sell your right to receive future residual payments relating to the merchants and that such language is included separately from the language specifying merchant ownership.

Additionally, your contract should specify if separate consent is required to sell residuals, as opposed to the right to assign the entire contract or the right to assign a portion of the merchant portfolio.


- Right to collect losses directly from merchants: Regardless of whether you own the merchants, if you are liable for any portion of merchant losses, protect yourself upfront.

Demand language in your ISO agreement that requires your acquirer/processor to assign their rights under merchant agreements to you to enable you to make a claim against the merchant directly for the amount of such merchant losses. Otherwise the merchant might argue that you have no right to pursue a claim directly against the merchant.

This legal defense is called privity of contract. It requires that only parties to contracts, not third parties, can enforce rights under such contracts. Here's how it works: imagine your neighbor refers a plumber to you because your faucet is leaking.

You enter into a contract with that plumber to fix your faucet; then for some reason you don't pay him. In that case, only the plumber should be able to sue you for losses, not the neighbor who referred the plumber to you.

If you are not a party to the merchant agreement, you could need your processor's cooperation to seek reimbursement for losses against a merchant who raises a privity of contract claim. Skip the headache and make sure your agreements contain clear, concise language.

To make sure you can exercise rights in accordance with your idea of merchant ownership, hammer out the details of what it really means to have merchant ownership so you, your processor and any third parties reading your contract see the same picture. 

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



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# Selling Prepaid



## Prepaid in brief

### NEWS

#### **Fed study shows prepaid fastest growing payment type**

According to the *2010 Federal Reserve Payments Study*, transaction volume on prepaid cards was the lowest among electronic payment forms in 2009. However, prepaid cards represent the fastest growing noncash payment type overall, the study said.

The study compared electronic payment trends in the United States from 2006 to 2009. In that time period, the number of overall prepaid card transactions grew 21.5 percent year over year, from 3.3 billion in 2006 to 6 billion in 2009. Meanwhile, the dollar value on the transactions in that time frame kept pace at 22.4 percent yearly growth.

#### **NBPCA sees operational flaws in proposed swipe fee reform**

The **Network Branded Prepaid Card Association** voiced concern over "operational flaws" in the Federal Reserve's recently announced debit card interchange fee structure and network routing proposals designed to implement the Durbin Amendment to the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

The NBPCA said flaws in the Fed's proposed rulemaking, such as requiring gift cards and flexible spending account cards to include PIN-based debit features, would create inefficiencies, increase fraud risks and raise costs for issuers that would be passed on to consumers.

#### **Gift card SpendTrend shows slowing activations**

In the *First Data SpendTrend Bi-Weekly Closed-Loop Prepaid Cards* analysis, **First Data Corp.** said gift card activation levels declined as spending dropped off overall in the first half of December 2010, and recession wary consumers remained cautious when it came to gift giving purchases.

First Data reported that during the first two weeks of December, year-over-year dollar volume on activations dropped off 0.3 percent, compared to activation growth of 8.6 percent in November. Additionally, overall year-over-year dollar volume growth of redemptions slowed to 3.9 percent in December, down from 5.9 percent in November.

### ANNOUNCEMENTS

#### **ACE Cash Express serves over 17,000 holiday meals**

**ACE Cash Express Inc.** donated \$3,803 and 1,710 pounds of food to the North Texas Food Bank, which served over 17,000 meals during the 2010 holiday season. The donation was made through the ACE Community Fund, ACE's corporate philanthropic program.

#### **GiftCardMall.com wins award**

**Blackhawk Network** said GiftCardMall.com won an Outstanding Website award at the 14th annual WebAwards, produced by The Web Marketing Association.

#### **Citi donates phone cards to soldiers overseas**

For the 2010 holiday season, Citigroup Inc.'s **Citi Cards** donated 100,000 AT&T prepaid phone cards worth approximately \$700,000 to U.S. troops stationed abroad. Each phone card provided 20 minutes of free international talk time to the United States from AT&T military calling centers in areas like Iraq and Afghanistan.

#### **eCommLink launches global payments platform**

Las Vegas-based processor **eCommLink Inc.** released what it calls a first-of-its-kind global processing platform that supports an array of international payments.

The architecture of the platform enables "localization" of the processing engine based on regional regulations, language, currency and processing standards, while still offering flexibility and a robust feature set, eCommLink said.

#### **First Data adds name brands to eGift Social**

Ten merchants now offer virtual cards on Facebook via the First Data eGift Social application. **First Data Corp.**



launched eGift Social in July 2010 with Cold Stone Creamery. Since then it has added Kmart, Sears, Sephora, Dots, Boston Market, Burger King, Culver's and Joe's Crab Shack.

### L.A. teachers get Vanilla before Christmas

**InComm**, provider of the Vanilla Visa prepaid card, reported it gave the Los Angeles Unified School District 100 Vanilla Visa Gift Cards prior to Christmas 2010. The cards were valued at \$100 each and were awarded to select teachers at Marshall and Fremont high schools.

### InsurCard wins Ocard

The **InsurCard Visa Prepaid Card**, issued by the Bancorp Bank Payment Solutions Group, an entity of The Bancorp Inc., won the Best International Prepaid category at the Ocard awards ceremony in Paris. The InsurCard allows insurance companies to control payments and ensure on-time fund disbursements to claimants, the company said.

### MoneyGram expands, prepays debt

7-Eleven Inc. stores in Australia now offer money transfers via **MoneyGram International**. The service, available through self-service kiosks operated by the Cullinan Consulting Group., is being rolled out in about 400 stores across Australia, thereby tripling MoneyGram's network in the country, the money transfer specialist said.

In addition, MoneyGram added 4,200 locations to its network in India through Bank of Baroda, Axis Bank and Vijaya Bank. MoneyGram now sports over 30,000 locations throughout India.

Also, MoneyGram reported it made a loan prepayment of \$75 million; added to previous prepayments, its debt burden has been lowered 35 percent since January 2009.

### SCL hits 30 million activation mark

U.K.-based **Stanton Consultancy Ltd.** (SCL) reported it activated its 30 millionth prepaid card. With its UltraPoS solution, SCL manages the sale and distribution of travel money and open- or closed-loop prepaid cards.

## PARTNERSHIPS

### Blackhawk advances with new players

**Blackhawk Network** said its gift card mall is now available on the website of **eBay Inc.** Blackhawk called eBay the "perfect complement" to Blackhawk's global network of supermarkets, big box retailers, convenience stores, pharmacies, specialty and Internet retailers. In other news, Blackhawk made a pact with **Tesco Bank** to place gift card malls in over 600 Tesco stores across the U.K.

### New taxi prepaid card pilot announced

The **New York Metropolitan Transportation Authority** partnered with **JPMorgan Chase & Co.** for a 90-day pilot program that provides the city's Access-A-Ride customers with Chase Visa prepaid cards for taxi rides.

### PlaySpan makes moves

Monetization-as-a-service (MaaS) **PlaySpan Inc.** teamed with platform-as-a-service provider **IP Commerce Inc.** to deliver PlaySpan's solutions to social and digital content developers through IP Commerce's Managed Services Platform. Additionally, **Nexon America**, the North American online game publishing arm of Nexon Corp., inked a deal with PlaySpan to leverage PlaySpan's MaaS platform to expand purchasing capabilities for gamers and provide credit card processing and fraud risk management services.

### NovoPayment, MasterCard to introduce meal vouchers

NovoPayment Inc. subsidiary, **Tebca Mexico**, along with **MasterCard Worldwide**, launched the Bonus Alimentación MasterCard, a corporate prepaid card designed to assist public and private organizations in Mexico in distributing food and meal benefits to employees.

### Brazil gets new wireless prepaid tandem

Prepaid card software developer **VendTek Systems Inc.** signed an agreement with Brazil's mobile telecommunications company **Software Express** to implement a prepaid phone card program in the South American country.

## APPOINTMENTS


### Sumby joins i2c

Processor i2c Inc. hired **Mark Sumby** as Vice President, Business Development. Formerly, Sumby served as National Sales Manager at Columbus Data Services LLC.

### Plastic Jungle names new VP

Online gift card exchange operator Plastic Jungle Inc. tapped 15-year industry veteran **Loren Scott** for the position of Vice President of Business Development.

### Godkin appointed legal counsel at EB

Electronic benefits card provider Evolution Benefits Inc. promoted **Lynda Godkin** to Vice President and General Counsel. Godkin will continue as Senior Vice President and General Counsel for EB subsidiary Women's Health USA Inc. 



## Features

# PPS' CEO sees changing landscape ahead

**K**en Goins, Chief Executive Officer at Prepaid Solutions (PPS), characterized 2011 as a year in which the prepaid card industry will continue to grow and develop, as well as a period in which disruptions to the marketplace caused by technology and legislation will direct how the industry moves forward. Goins points to the initial public offerings of Green Dot Inc. and NetSpend Corp. in 2010 as signs of a maturing market. Consumer awareness and use of prepaid cards continue to grow, which Goins said proves prepaid cards are becoming an increasingly popular alternative to credit and debit cards.

But with heightened popularity comes heightened scrutiny. Federal regulators and consumer protection advocates are zeroing in on prepaid. For example, Consumer's Union, the consumer protection advocate, has issued reports critical of the industry. But Goins believes Consumer's Union is painting prepaid with too broad of a brush. One thing the industry can do is a better job marketing the products and "demonstrating the relative value of these cards," Goins said.

### Landscape changers

Federal law, such as the Durbin Amendment to the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, affects the closed-loop gift card market. The new regulations on escheatment and expiration dates has made the gift card arena a problematic one to operate in, Goins said. "It's just not the same game as it was before," he added. "It's more difficult to be profitable with those cards... So it's certainly not getting our attention as much."

The effects of the creation of the Consumer Financial Protection Bureau (also mandated by the Dodd-Frank bill) on the prepaid card industry are unknown. "It's a new entity and it doesn't perhaps have the same degree of checks and balances as perhaps other [agencies]," Goins said. "It has a certain amount of power that is really untested at this point and nobody really knows how it will be used. So we have to be cautious of that."

Goins hopes the influx of Republicans into the new 112th Congress will bring more balance to the political process and quiet the emphasis on "landscape changing legisla-

tion. A certain amount of legislation and regulatory oversight is always good, but it's got to be in balance," he said, with both Republicans and Democrats shaping laws that are not too one-sided.

Goins recognizes mobile payments as another landscape changer for 2011. A natural synergy exists between smart-phone-based payments and prepaid card accounts, he said. A target market for general-purpose reloadable prepaid cards are unbanked consumers who don't have bank accounts, and thus do not have access to debit cards to conduct electronic payments. But, as Goins stated, many if not most unbanked individuals carry cell phones. "So the triangulation of those people, the cards and cell phones is a natural place to create opportunity," Goins said.

It's a period of experimentation in the mobile payments arena, as players enter partnerships and joint ventures to develop m-payment applications and solutions. "Some will be successful, some will not," Goins said. He figures it to be a two- or three-year process for the industry to learn what works, at which point consolidations will gain speed around that business model.

### Movement in prepaid

Speaking of consolidations, MasterCard Worldwide's Dec. 2010 purchase of Travelex's London-based prepaid card program management operations directly affects PPS as it uses that Travelex division to distribute and market its maritime prepaid card program for the Travelex OceanPay Payroll Card. Goins called the purchase a bold move by MasterCard and indicative of where the market is heading, as the card brand is venturing into unfamiliar territory as a prepaid program manager. It is evidence that the boundaries that define businesses are beginning to blur, Goins said.

He likens the changes taking place in prepaid to the movement of plate tectonics, as businesses "start to move together" to gain operational efficiency and market scale. As the market continues to mature, the rate of consolidations will speed up, which will create disruptions in the industry, he said. Over the last 10 years, the industry has been "kind of moving along on its own way, everybody in their little boxes," Goins said. "And so, all of a sudden, some of those boundaries are changing." 📍

## How Fed draft rules might affect prepaid

**I**n an initial analysis of the Federal Reserve Board's draft rules to implement the Durbin Amendment to the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Mercator Advisory Group LLC notes potential market opportunities and uncertainties

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## Selling Prepaid

for the prepaid card industry, with general purpose reloadable (GPR) card providers potentially coming out as winners. In the December 2010 paper titled *The Durbin Amendment: A First Analysis of the Draft Rules*, Mercator's Director of Debit Advisory Services, Patricia Hewitt, said the draft rules, as presented in the Dec. 16 Fed meeting, point to a "confusing mix of market opportunities and competitive challenges, along with a long, long list of questions yet to be answered." The Durbin Amendment gives the Fed two main mandates: to cap debit card interchange and to regulate the routing of electronic transactions over card networks. As part of her overall evaluation of the draft rules, Hewitt laid out how the proposals to implement those mandates might affect the prepaid card industry.

### Maybe, maybe not

Hewitt said the rules must define what constitutes a regulated debit card account. "In this definition are business debit cards and any prepaid card program that utilizes individual accounts," she wrote.

Given that card issuers will reposition programs and services to make up for revenue shortfalls due to debit card interchange restrictions, GPR cards may "realize a boost," Hewitt said. First, traditional financial institutions may calculate that GPR cards more efficiently serve "less profitable customers and nontraditional financial services companies," Hewitt said. Secondly, if banks change debit card programs and eliminate free checking and other incentives, debit card customers might opt out of banking relationships and turn to less expensive GPR cards, Hewitt added.


However, Hewitt said the routing rules might throw a "very wet blanket" over positive GPR developments. Hewitt interprets the rules as *not* exempting most types of prepaid cards (including GPR cards) from the network exclusivity and routing restrictions.

### Questions under consideration

Among the many questions still to be answered by the Fed, Hewitt posits two that pertain to prepaid:

1. Should interchange fee standards be different for prepaid cards compared to those for debit cards?
2. Should unaffiliated, non-network-branded GPR cards ("mall" cards restricted to a limited group of merchants) be defined as debit cards and therefore be regulated?


Businesses have until Feb. 22, 2011, to comment on the Fed's draft rules. To submit comments, go to [www.federalreserve.gov/newsevents/press/bcreg/20101216a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20101216a.htm).

Mercator's complementary Viewpoint analysis can be accessed at [www.mercatoradvisorygroup.com/images/DurbinDraftRulesAnalysisFinal.pdf](http://www.mercatoradvisorygroup.com/images/DurbinDraftRulesAnalysisFinal.pdf). 

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For more information, contact:

Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136  
Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145  
Max Sinovoi, National Sales Manager West: 800-201-0461 x 219  
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# CompanyProfile



## ISTS Worldwide Inc.

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Fremont, CA 94538  
Phone: 510-943-4556  
Fax: 510-742-9269  
Website: [www.istsinc.com](http://www.istsinc.com)

### ISO/MLS benefits:

- Focus on the retail-payments vertical
- Global execution capabilities
- End-to-end participation with customer IT needs
- Reduction of labor and other costs
- Frameworks-based development of retail payment applications

## IT solutions for retailers and those who serve them

Soon after launching ISTS Worldwide Inc. in 2002 as a general technology consulting company, Chief Executive Officer Viren Rana realized the optimal space for ISTS was in retail payments. He felt his company possessed the requisite capabilities to help retail organizations and their service providers with their payment needs, so ISTS set out to become the most successful information technology (IT) solutions provider in the industry.

ISTS said its array of offerings includes delivery of global applications; broad-based technology solutions; potential to reduce labor-related and other costs; scalable delivery capabilities; and the gamut of IT outsourcing, from limited to all inclusive.

According to Rana, a core strength of ISTS is its ability to help ISOs with any of their technology needs. He pointed out that once an organization's requirements are identified, the technology can be executed and a significant portion of the IT work can often be transitioned offshore. Rana has found that using highly trained and educated staff in India means a significant cost savings to ISTS customers, while still providing the highest levels of technology expertise and services.

ISTS offers customized application development and integration using complementary enablers, people, processes, technology and global delivery capabilities to help its customers optimize retail and payment technology.

The ISTS Systems Development Life Cycle (SDLC) and IT Outsourcing services include technology strat-

egy, architecture services, application outsourcing, development, outsourced quality assurance (QA) and testing, post implementation support, and global execution.

ISTS stated that its fundamental strengths in software application development and enterprise integration have enabled it to ride a wave of rapid technology adoption in traditional retail, for both the payments front-end and back-end applications.

### Always up to date

As technology continues to evolve, ISTS endeavors to employ consultants who best understand newly emerging payment solutions. "We believe it's our business to know what MLSs and ISOs need," said Mustafa Shehabi, Senior Vice President, Sales and Marketing.

He added that the company brings together subject matter expertise, including "payment processing experts; compliance specialists; security experts; and high-transaction, low-latency application developers to deliver effective payment solutions.

"Our team consists of business and technology process specialists across the entire retail and payments vertical," Shehabi said. "They work together at our state-of-the-art global delivery center in India to deliver solutions with reduced time to market."

Chandan Mukherjee, Vice President of Retail Payment Applications for ISTS, offered the following perspective: "We believe in delivering innovative products with low cost of ownership and a high level of flex-

## Company Profile

ibility to meet the immediate as well as future needs of our customers."

The company described its consulting teams as retail payment experts who work in conjunction with highly skilled and experienced technology specialists to develop turn-key solutions; often these professionals work within ISTS customer organizations to achieve desired objectives.

### Nimble onshore and off

ISTS stated it has developed an effective, comprehensive solutions delivery model that combines the benefits of local engagement, using high-level solution definition and design in the United States, and solution execution, using highly skilled and trained talent offshore in India. ISTS believes this agile development approach provides its clients with an efficient delivery framework that allows for flexible, cost-effective and rapid solution development.

"At ISTS, we see a huge opportunity in the world of retail and payment systems, specifically to build custom applications for the larger retail and payments community," Rana said. "We have been able to successfully bring three key enablers to outsourcing – namely domain capabilities, technology expertise and global execution – to deliver value in terms of cost and skills for our customers."

**"At ISTS, we see a huge opportunity in the world of retail and payment systems, specifically to build custom applications for the larger retail and payments community."**

– Viren Rana  
CEO, ISTS

### Ready for payment pros

ISTS has found that in this world of diminishing margins and competitive pricing pressures, merchant level sales-people and ISOs must work hard to maintain customer loyalty by leveraging technology to build differentiation, lower their operational costs and help their merchants drive customer foot traffic.

The ISTS team claims a depth of retail experience and solution delivery expertise that spans the entire retail enterprise spectrum. Thus, ISTS believes employing a technology partner that can assist retail customers in defining a strategic vision and implementing tactical solutions will have an immediate positive impact on any payment company's operations.

### In step with retailers

ISTS' custom application development and integration expertise enables it to deliver cost effective, tactical and scalable solutions for distinct retail environments – from mom-and-pop storefronts to multilane, multilocation retailers, and from the POS to the back-office.

ISTS works with clients on retail store technologies, multipayment applications, POS systems, gift and loyalty card applications and self-service solutions. ISTS reported that it draws upon its understanding of technology and practical knowledge to provide frameworks that can be built and customized to reduce a client's time to market, deliver custom end-to-end solutions or build components that can integrate into a client's existing infrastructure platform.

### Replete with technology solutions

ISTS offers a comprehensive selection of custom application development and delivery solutions, including application architecture and development, test strategy development, automation, execution and deployment, and post production application support.

The company provides what it says is a unique blend of technical excellence, innovative development method-



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ologies and metrics-driven application support models, which can be deployed in diverse IT environments.

The company focuses on application development in the retail payments domain, including several areas of emerging technologies such as mobile payments, embedded POS systems and large-scale transaction processing.

The company also boasts niche development capabilities on embedded platforms, including applications for mobile and countertop payment devices across a variety of embedded operating systems. It also claims a range of unique quality assurance processes and methodologies that can deliver tremendous value during internal and partner initiatives alike.

In addition, ISTS augments postproduction application support with what is reportedly a unique approach that allows for seamless transition of application ownership from development to support teams.

This framework makes it possible for generic application support teams to manage, monitor and enhance multiple applications with lower support incidences, high quality and full compliance with configuration and change management processes, ISTS noted.

### **Knowledgeable and flexible**

ISTS provides consulting services in various areas of enterprise development and support, including infrastructure design and management, enterprise security standards design and enforcement, enterprise application architecture, and domain-specific solutions development.

The company reported that its consultants belong to various industry bodies and standards committees, so they provide access to the latest compliance and regulatory standards. The ISTS team has developed best practices and best-of-breed implementation frameworks across all of these domains.

ISTS pointed out that it can implement a complete solution as a turnkey initiative or augment existing project teams with domain-specific expertise. It can also provide staffing assistance for organizations wishing to put together their own team of technologists, as well as put together architectural recommendations and models for technology solutions on an as-needed basis.

ISTS can develop a core team that specializes in providing QA services for each client. ISTS' QA and test automation assist clients in building secure software products and sophisticated tools for performing comprehensive software testing.

ISTS believes that independent verification and validation are to software quality assurance what third-party financial audits are to corporate finance, because unbiased testing efforts yield the best possible quality software. ISTS

also reported that its customers achieve superior quality because ISTS, as a third party, is doing software testing and validation.

ISTS also specializes in deployment and management of global enterprise solutions for large corporations across the payments industry worldwide.

### **Focused on quality**

According to ISTS, its team of industry experts helps clients automate their enterprises and speed up transactions, and its application management services can assist clients in maintaining their existing applications, as well as add new functions or create and implement new applications to support an organization's growing needs.

The embedded systems group at ISTS provides software development and testing services for embedded and real-time systems. The team has expertise in retail terminals, kiosks, entertainment electronics, the mobile and handheld industry overall, and mobile payments. ISTS develops embedded software on multiple platforms and has experience in interfacing and driving software development for designed systems.

ISTS can supply business intelligence and data warehousing assistance and infrastructure management services. It focuses on providing IT infrastructure solutions and services to a global customer base and covers such technology areas as data center management, network administration and enterprise system management.

### **Intimate with security needs**

The global information technology sphere is rapidly moving toward the deployment of open, online, readily available modular systems, ISTS has observed. The explosive growth of such systems has contributed to a situation in which huge amounts of critical data are exchanged over a medium (the Internet) that has minimal protection. A small loophole is all it takes to compromise the security of a company's systems. A break-in by an unauthorized intruder can cause irreparable damage.

ISTS security services can help with planning and design of security architecture, policies and public key infrastructure; implementation and setup of security products (hardware and software); security monitoring and management; and security audits.

Looking to the future, Mukherjee said, "I think companies will be hungry for a technology partner. ISOs would benefit greatly from this type of partnership."

ISTS said that most of its clients are based in the United States, but other global markets are emerging. In 2011, ISTS plans to start doing business in Europe. Time will tell whether ISTS will indeed become the dominant IT solutions provider in the payments industry. ■

## Effect of proposed debit regs on ISOs

**A** Dec. 16, 2010, meeting of the Federal Reserve Board outlined how it proposes to implement the Durbin amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. The Fed offered two scenarios on how to tackle the amendment's debit card interchange regulation mandate; both scenarios involve capping debit card interchange at 12 cents per transaction.

As summarized by Fed economist Mark D. Manuszak in the live broadcast of the meeting, the first proposal would calculate the interchange fee based on each debit card issuer's costs, but the fee would fall between a cap of 12 cents and a "safe harbor" of 7 cents. The second option would be to impose the same interchange fee for all issuers required to comply with the law (those with assets of at least \$10 billion), with a cap initially set at 12 cents, Manuszak said.

He noted that the amendment authorized the Fed to allow for an adjustment to the interchange fee to account for issuers' fraud costs. An additional provision of the amendment charged the Fed to devise rules that would guard against "network exclusivity" over how debit card transactions are routed for back-end processing.

Manuszak offered two proposals: the first would require that transactions be routed over at least two unaffiliated networks; the second alternative mirrors the first, except that two additional networks would be available for each way a debit cardholder elects to authorize a transaction, such as via PIN debit or signature debit. The two routing approaches are designed to promote network competition, Manuszak said.

### Outcomes for ISOs

According to the Fed, the average interchange fee for all debit transactions in 2009 was 44 cents per transaction, or 1.14 percent of the transaction; signature debit was 56 cents (1.53 percent) and PIN debit was 23 cents (0.56 percent).

Wall Street analysts estimate that capping interchange at 12 cents per transaction could reduce interchange revenue to banks by as much as 90 percent. On that news, the stock prices for Visa Inc. and MasterCard Worldwide dropped over 10 percent on Dec. 16.

Payment attorney Paul Rianda said the obvious outcome of the proposed regulations for ISOs is to significantly reduce residuals. If this compensation is actually going to drop "70 to 90 percent, depending on who you believe, that's got to flow down to the ISOs and agents," he said. "And the fact is that about 40 percent of the incoming

transactions now are debit. So it's not like it is a 5 percent sliver." To compensate for the lost revenue, ISOs might impose new fees on merchants, such as an annual processing fee or "PCI fees," Rianda said. "I'm sure there's ways they can figure out to make it up. And they're going to have to because they can't just take this hit in income."

But Sam Caine, President of Card Payment Services Inc., an ISO based in Frisco, Texas, believes ISOs' residuals may increase in the long run if the 12-cent cap is instituted.

With debit card interchange going down, banks will likely reduce or eliminate low-cost or free checking account programs, which are funded by interchange, he said. Without those incentives on checking accounts, consumers might shift from debit to credit, with banks nudging them in that direction, he added.

Because interchange fees are higher on credit cards than debit, merchants would see their interchange costs "go up, not down," he said. "They'll see a dip initially, but over say three to five years, it will be higher than it is today." Since higher interchange costs mean larger residuals for ISOs, "I see acquirers and ISOs being the least impacted of all the constituents," he said.

However, the regulations will provide safeguards against banks attempting to circumvent the rules, according to Craig Sherman, Vice President for Government Affairs at the National Retail Federation. If banks attempt to make up for lost revenue on debit cards and "increase interchange on credit or find a way to push the transactions onto credit, that's addressed in the Durbin amendment and that would be a violation of federal law," he said.

Sherman added that he doesn't know why banks would want to dissuade or otherwise steer customers away from using debit. "They're still going to have a very healthy profit on the debit cards," he said. "If they want to walk away from that, that's their concern."

### ISO opportunity

Randy Vanderhoof, Executive Director of the Smart Card Alliance, predicted if the debit card interchange cap goes into effect, it will shake up the industry and highlight the benefits of migrating payment systems to the Europay/MasterCard/Visa (EMV) chip and PIN security standard.

Banks have tolerated fraud on debit cards because it has been offset by large profits off the cards, Vanderhoof noted. But that will likely change if an interchange cap reduces banks' profits.

"The fraud is still going to be there at the same levels, but the amount of revenue coming from those transactions might get cut by as much as 75 percent," he said. "That means the percentage of those fraudulent transactions against the revenue that those transactions generate is going to dramatically increase."

The antidote to reducing fraud losses on debit cards is for issuers to adopt the more secure and fraud-proof EMV chip and PIN smart card technology, Vanderhoof said.

Meanwhile, merchants can take the savings they realize from reduced interchange and invest it in upgrading infrastructure, such as installing EMV-compatible POS terminals, he added.

"My understanding is that ISOs have had a hard time just selling the merchants on the idea that they should be investing in chip-based readers today because there's no certainty that the financial institutions are going to move to EMV," Vanderhoof said.

But that uncertainty may soon disappear. "Today, under the current conditions, I think it's easier for the ISOs to make that case," he said. "And, therefore, they'll have the opportunity to upsell those merchants that they're doing business with today because there's now a stronger likelihood that [EMV] is going to be needed down the road."

The Fed has until April 21, 2011, to finalize the regulations, which are scheduled to take effect July 21, 2011. ■

## Fed's proposed interchange cap dings AmEx

**A**merican Express Co. was the latest card issuer to take a hit in the aftermath of the proposed Dec. 16, 2010, outline by the Federal Reserve Board to regulate debit interchange fees. In an investor conference call held Dec. 20, analyst Chris Brendler, of Stifel, Nicolaus & Co., downgraded AmEx shares from "buy" to "hold," triggering a sharp decline in share value.

Earlier, shares of Visa Inc. and MasterCard Worldwide fell because of the news from the Fed. Although AmEx does not issue debit cards and is not the target of the proposed debit interchange fee cap of 12 cents per transaction, as is the case with Visa and MasterCard, Brendler wrote in a published report that he foresees "an inevitable shift against AmEx as merchants become increasingly focused on payment costs."

### Queasiness regarding reduction

Responding to the latest development, Ken Musante, President of California-based ISO Eureka Payments LLC, commented, "The decline in card issuer stocks reflects the market's reaction to the unexpected response from the Federal Reserve. What the markets were expecting to see was a 50 to 75 percent drop in the interchange on debit, not the 90 percent proposed.

"The issue is that with this uncertainty out there, and obviously what they're worried about with AmEx is if debit is so much cheaper than credit, will merchants start doing away with American Express to the benefit of Visa, MasterCard and Discover?" Musante added.

Paul Martaus, President of the payment consultancy Martaus & Associates believes the proposed regulations will have no direct impact on AmEx, but because there is an "outside possibility that someone may ... control interchange on credit cards, they could possibly lose some profitability because they're the highest-cost credit card."

Martaus pointed out that the entire press is "stuck on the idea that the Fed has decided to lower the cost, or cap the cost, at the point of sale at 12 cents. That's wrong. The 12 cents that they're talking about is a cap on interchange, not on the swipe fee at the point of sale. Nowhere is the Fed allowed to determine the cost at the point of sale. That's the retail cost."

### Possible shift in payment models

The developing consensus among payment experts is that new payment models will emerge as a countermeasure to federal regulation of debit interchange fees, but what the future holds remains speculative.

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When debit interchange regulations were adopted in Australia, the impacts were immediately evident. "The formerly free debit cards in one year jumped to \$131 a year for every consumer," Martaus said. "The second thing that happened was every reward program in the country went away overnight. The third thing that happened was that consumer prices at the point of sale went up."

Sage Payment Solutions President Greg Hammermaster said in a statement, "Regulatory impacts on payment networks can cause marketplace disruption – from the potential for new bank fees placed on debit cards driving down debit card use to the potential of powerful new loyalty-driven payment solutions from large retailers grabbing a larger piece of consumers' wallets."

Martaus speculated that debit cards could be supplanted with a program referred to as a "relationship account," which takes into account both debit and credit.

"When the transaction hits the system to be authorized, it will go against a line of relationship-related credit and then be settled in the back-end of a debit account," he said.

"There is no current interchange rate yet determined for a relationship type account." Consumers are likely to pay annual fees for such accounts, he added. 📧



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## Merchant sues U.S. Bank for alleged data breach cover-up

**A**n Arizona-based merchant, Paintball Punks, recently filed a class-action lawsuit against U.S. Bank that alleges the bank failed to protect Paintball Punks and other merchants from financial losses resulting from a breach of the bank's credit card data.

The suit, originally filed in Hennepin County (Minnesota) District Court in November, was removed to the U.S. District Court in Minneapolis on Dec. 6, 2010. The complaint against U.S. Bank asserts that the bank allowed compromised card accounts to remain active and didn't notify affected cardholders, instead covering up the data breaches.

Paintball Punks, which sells paintball supplies online, claims the data breach resulted in the merchant receiving nine fraudulent orders totaling \$11,259.91 that were billed to U.S. Bank-issued credit cards. The transactions in question occurred between August and December 2009.

When cardholders disputed the charges, U.S. Bank processed chargebacks against Paintball Punks' bank account for the amount of the fraudulent transactions.

### New type of complainant

Paul Rianda, a California attorney who specializes in the bankcard industry, commented that cases involving a merchant bringing a class action suit against a bank for losses stemming from a data breach are unusual. "Usually it's the cardholders bringing class actions," Rianda said. "Maybe these guys are a little more aggressive."

Ross Federgreen, founder of CSRSI, a consulting firm specializing in electronic payments and data privacy management, believes that – depending on its outcome – the suit by Paintball Punks could stimulate the filing of other suits by merchants seeking relief from chargebacks under similar circumstances.

"Even though [merchants] may not be culpable, they are the ones that suffer significantly," Federgreen said. He pointed out that merchants sometimes absorb "almost a triple penalty," via the cost of the chargeback, the chargeback fee and the loss of the merchandise.

"The fact that the case is getting coverage early on is very important," Federgreen added. "It's something that would be useful to keep an eye on as it matriculates to various motions, proceedings, and ultimately to court." 📧

## EMS gives back during holidays

**I**magine spending a day close to Christmas handing out toys to less fortunate families. What could be more in keeping with the holiday spirit? Jeff Brodsky, Director of Operations; Paul Rasidakis, Director of Sales; and Justin Milmeister, President at Elite Merchant Solutions, a transaction processor based in Van Nuys, Calif., spent Dec. 18, 2010, doing just that.

It was the culmination – and, according to Brodsky, the most personally rewarding part – of the company's first Give Back Week, a campaign involving 19 of EMS' merchants in Ventura County, Calif., and the Ventura County branch of Spark of Love, an organization that provides gifts to families in need. The merchants discounted regularly priced merchandise and services by 15 percent to customers who brought in new, unwrapped toys for donation from Dec. 11 through 19.

### Reaching those in need

Also as part of Give Back Week, EMS contributed to Ventura County Children's Services Auxiliary the revenue it generated during the month of December

***Brodsky reported that the campaign netted about 560 toys. He estimated sales at the participating businesses enabled EMS to donate \$3,650 in processing revenue.***

from credit card processing at participating merchants. Brodsky reported that the campaign netted about 560 toys. He estimated sales at the participating businesses enabled EMS to donate \$3,650 in processing revenue.

On Dec. 18, Spark of Love hosted a "holiday storefront" that allowed parents of foster children and other families identified through county social programs to pick out toys for children under their care. "We helped them pick up the gifts and got to interact with all the families, and that was the best part of this, in my opinion," Brodsky said. "For us, the success was measured ... by the amount of families we actually touched."

Encouraged by the modest success of the event, Brodsky said the company may ultimately extend the length of the toy collection and expand it to Los Angeles County. "We are going to continue to do it, absolutely bigger and better in the years to come," Brodsky said. ☑

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Alternative payments from page 1

## PayPal: The disruption leader

A December 2010 webinar devoted to alternative payment provider PayPal characterizes the company as "disruptive" to the traditional payments space because it better reflects the changing landscape of how people pay.

In *Why is PayPal Disruptive?*, Jim McIntosh, Vice President, Strategic Initiatives for Inetco Systems Ltd., said, "Transactions that were traditionally done by cash or check can be done in many other ways," including online and via mobile phones. Companies like PayPal are facilitating those transactions, he added.

According to McIntosh, one misperception about PayPal is that it is dependent on the revenue channels of its parent company, eBay Inc. In fact, PayPal is driving online and mobile payments, he said.

PayPal has 90 million active accounts globally and generated \$2.8 billion in revenue in 2009. In 2008, PayPal processed \$25 million in mobile payments; by the end of 2010 that number is projected to be \$700 million, McIntosh noted.

### Claiming categories

PayPal has also expanded its payment categories. McIntosh said it traditionally processed P2P and consumer-to-business payments. Now it has added business-to-business, micropayments and mobile payments.

PayPal is popular because it simplifies payments for merchants, consumers and application developers, even as the processing of payments gets more complicated, McIntosh

explained. With PayPal and other alternative providers, merchants can be set up to accept electronic payments "faster, easier, for less money than traditional methods," McIntosh said, adding that consumers use alternative payments because they are fast, easy and convenient.

### Pleasing developers

As for application developers, PayPal's online platform provides a toolkit that helps them tailor apps for PayPal's payment engine. Further, PayPal has developed its own mobile apps to run on Apple Inc.'s iPhones, Google Inc.'s Android phones and Research In Motion Ltd.'s BlackBerrys.

"When you put all the revenue channels, developer tools and payment types together, they have an impressive suite of offerings that we believe will be disruptive to the payments industry," McIntosh said.

### Players proliferating

But PayPal is not alone. McIntosh mentioned that alternative payment contenders like Amazon Payments, Google Checkout, Boku, Zong and Square Inc. – and even Visa and MasterCard – are opening their systems to developers that will provide a "creativity and a quantity of applications that the payments industry has never seen before."

Processors, acquirers, network providers and issuers need to adapt to the changing payments landscape, McIntosh advised. "As the complexity and volume of transactions increases, companies in the payment chain need to be very responsive," he added.

To view the webinar, go to [www.inetco.com/PayPal\\_webinar/](http://www.inetco.com/PayPal_webinar/).

### Appealing alternatives

Sources say it is critical that card-based ISOs and other conventional payment entities not view new technology as the exclusive province of alternative payment providers, but rather as an important sales tool that can benefit any type of payment provider if properly utilized.

"Mobile is just one more case in which we're promoting electronic commerce, and one more way we'll use a credit card instead of cash," said Scott Zdanis, co-founder and co-CEO of Merchant Warehouse. "Cash, I think, is maybe our toughest competitor in alternative payments, as much as it is not typically acknowledged as one."

Yet while an increasing number of ISOs and merchant level salespeople (MLSs) are testing the mobile market – primarily by incorporating mobile payment acceptance into their offerings – mobile commerce has been rocket fuel for alternative payments. PayPal may have led the

charge toward alternative payments with its third-party payment e-commerce product, but the alternative providers popping up today are almost entirely centered on mobile – firms like Zong Inc., Boku Inc., Obopay Inc., Bling Nation Inc. and Moneta Inc.

All of these companies are leveraging the mobile phone to bypass traditional card payments and replace them with a different mechanism, be it a short message service message or a user's mobile phone number, in conjunction with billing methods that draw from prepaid accounts or consumer bank accounts or charge cell phone accounts.

"Alternative payments have always struggled with that chicken and egg scenario of which comes first [consumer or merchant adoption]," Zdanis said. "With mobile payments, they have the device in the hands of the customer already. Therefore, there could be a good base when that merchant says, for example, 'I'll accept a near field communication device now because I know there are already

## CoverStory

a number of people ready to do that type of transaction."

Alternative providers tout a range of advantages. For merchants, the cost of transacting tends to be lower because payment providers don't levy interchange and, in many cases, bypass the services of third-party acquiring channels and the fees they impose.

Certain alternative payments may be more convenient for consumers because the information entered for payment is less voluminous than what's required of typical card payments; in addition, some alternative platforms can perform person-to-person (P2P) payments with mobile phones and may also be deemed safer than payment cards because they commonly use less sensitive information for transacting.

For the unbanked and underbanked consumers – 30 million in the United States, according to the Federal Deposit Insurance Corp. – alternative payments are often the only available method for making Internet purchases.

### Trusted infrastructure

Skeptics point to the potential dangers of using a brand new system, compared with the proven risk management protocols of the card networks.

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The card world has multiple parties (acquirers, processors and issuers) that play important roles in risk management, the Payment Card Industry Data Security Standard for protecting card data, and policies that indemnify consumers victimized by card theft.

Critics contend that alternative channels lacking anything close to this level of oversight are missing a critical piece for enforcing digital security, adjudicating chargeback disputes and assessing liability.

Perfecting new systems is time-consuming, and it may be especially difficult to establish one governing body to oversee the wide and varied disbursement of emerging alternative providers, in contrast to the relatively monolithic credit and debit card world. Also, setting up such a system would inevitably force providers to raise their merchant fees to pay for it, possibly eliminating the crucial selling point of being a lower cost option to card acceptance.

"There's nothing in place, no set dispute resolution mechanism in place where you know you're not going to have to pay if you're the victim of fraud or if you don't get your product," said California-based payment attorney Paul Rianda. "If a third party is just initiating an ACH transaction without these controls, there's nothing really in place to contest it."

### Micro payment niche

For the time being, most alternative payment providers have confined their services to smaller payments – especially "micro payments" (which PayPal defines as transactions of less than \$12), which have proven to be a perfect fit for alternative channels. For one, smaller dollar amounts have minimized repercussions involving liability.

Second, many low-dollar payment platforms require alternative channels because such platforms aren't geared to the interchange system, under which fees can be too high to make the transactions worthwhile.

Some of today's dominant micro-payment providers are in the burgeoning virtual game space where players can make in-game purchases, many of them exceedingly low-priced, using real-world money.

"There is an opportunity to deliver a service completely outside of traditional Visa/MasterCard," Sheehan said.

"Within a business context, the type of payment that is traditionally challenged by credit cards is the micropayment and bill payment. Take those two sectors and weave in a mobile device, and it's a confluence of those things that creates an economically viable electronic [alternative payment platform]," Sheehan added.

While micropayments have proven a comfortable niche

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for many alternative payment companies, debit and credit cards still have the lion's share of the overall market – although that territory is shrinking, and most of the ground being ceded is online.

Online payment provider Moneta's 2010 report, *Alternative Payments Come of Age: Threat or Opportunity?*, citing a report from Javelin Strategy & Research, states that alternative payments made up 15 percent of U.S. online transactions in 2007, 18 percent in 2008 and 20 percent in 2009, and are projected to grow to 31 percent by 2013. Meanwhile, the online market share held by credit cards dropped from 60 percent in 2007 to 52 percent in 2009. The report forecasts it will drop to 40 percent by 2013.

### Acquirer strategies

What should traditional payment providers do to stem the defection of consumers and merchants to alternative payments? Is the best course to seize a share of the growing alternative payments market or to hunker down and adopt methods for combating this challenger?

If decisions by the card brands are harbingers of the industry's future, they point to the increasing involvement of traditional players in the alternative space.

It appears that the card brands, which have kept them-

selves in a cone of isolation for decades, are beginning to yield to outside influence.

"Let's face it: our whole lives we've heard Visa, MasterCard, American Express and Discover, and then maybe one or two others that have popped in and out of the world," Zdanis said. "But new players are entering this market more than we've seen in the past, and in the future it will be even easier for new players to enter, and that will keep the Visas and the MasterCards on their toes."

In October 2009, First Data Corp. partnered with PayPal to promote enrollment in the alternative service among cardholders using First Data's STAR debit network; in November 2009, American Express Co. bought Revolution Money, which enables online P2P money transfers; and in August 2010, MasterCard acquired online processor and alternative payment provider DataCash Ltd.

In addition, two new mobile consortiums suggest a buildup of interest in near field communication (NFC) payments, which allow POS purchasing with a chip-embedded mobile phone.

One involves a pilot program for NFC delivered by a partnership of Visa Inc., U.S. Bank, DeviceFidelity, Monitise PLC and Fidelity National Information Services Inc.; the other will be delivered by a new venture called ISIS, made up of AT&T, T-Mobile USA, Verizon Wireless, Discover Financial Services and Barclays Bank.

Visa and Discover's involvement in NFC projects may indicate the brands intend to share, but not cede, control of their stronghold: the POS market. Some observers foresee NFC as the first true enabler of the convergence between alternative and card-based payments, with consumers enjoying a host of options within their state-of-the-art mobile wallets.

"I see them converging," Sheehan said. "We've got 300 million people in the U.S. and for all intents and purposes one debit card – Visa has something like 70 percent of that market, which is remarkable. We're not a one-size-fits-all society, and I do see Visa, now that they're being publically traded, having to develop new products and services."

### Forced innovation

A major driver of the card brands' expansions may prove to be the implementation of federal regulations governing payment cards, and particularly the Durbin Amendment to the Dodd-Frank Wall Street Reform and Protection Act of 2010, which will allow the Fed to set caps on debit interchange.

The anticipated lowering of debit rates may prompt issuing banks, whose healthy profits from interchange rates seem imperiled, to look elsewhere for revenue.

Likewise, to the extent that the card brands remain com-

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placent about the status quo, regulations like the Durbin Amendment may help push them toward new frontiers.

The involvement of the brands and issuers in alternative payments would naturally seem to pave the way for acquiring players.

Many ISOs have been driving expansions at the POS with the proliferation of sophisticated gift and loyalty programs that, among other features, use customer data to shape merchant marketing campaigns.

However, ISOs and MLSs must also balance their merchants' interests with other factors when considering new payment options, including the risks of partnering with less established players and the possibility that new channels will be underutilized.

"If they get anxious and get involved with an alternative payment provider, and the player is not successful in the long term, they would have placed a bet and wasted resources they can't afford to lose," said Ashish Bahl, CEO of Acculynk, an e-commerce company whose core offering is an online PIN debit service.

"I think [alternative payments] are going to be a high-growth area, but be sure the company you select to do

business with has a critical mass right now. ... The last thing acquirers want to do is to spend energy boarding merchants and not have any volume," said Bahl.

### Strong ISO partners

Opportunities for alternative growth may be particularly good for ISOs serving mobile and e-commerce merchants. While a large portion of alternative payment companies do not market through third parties, that may change. As alternative payments mature, reach more customers and raise the caps on amounts they're willing to transact, the need will increase for third parties that expand a company's sales reach and help manage the myriad problems common to all commercial enterprises.

"I think acquirers will become more valuable because you, as a merchant, need someone who can understand the different options out there. I think the advent of alternative payments, whether online or in a brick-and-mortar store, inherently creates more value for merchant level sales reps because they can help the merchant understand different issues around security, the settlement process and charge-backs – and those processes will differ across the different payments. And while business margins are compressed right now, this offers some opportunity to open up new revenues," Sheehan said. ■

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# Education

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## Will leasing make a comeback? - Part 1

By Ken Musante

Eureka Payments LLC

*Editor's note: This is the first in a two-part series on leasing. The second installment will be published in The Green Sheet, Jan. 25, 2011, issue 11:01:02. In addition, responses to this topic were still coming in when this article was submitted. To view the latest comments, visit the "Street Smarts Article – Will Leasing Make a Comeback?" thread on GS Online's MLS Forum.*

**G**S Online MLS Forum member **IONPS** stated, "Never talk religion, politics or terminal leasing in polite company." With that in mind, I obtained permission from **MAKETELINC** (Samuel A. Silver of Make-Tel Inc.) to reword a forum post he made regarding leasing. I appreciate both the question and all those who participated in the discussion it sparked.

This topic was also timely, as I had just encountered a merchant who had a very low rate yet was stuck in a lease for \$37 per month. The lease started at \$29, but after tax and monthly maintenance, it was up to \$37.

Here is my abridged version of **MAKETELINC's** post: "Margins are getting thinner and thinner. Will agents start giving away the processing at cost and selling a lease to make \$1,000 at sign up? Upfront money, directly from an independent source, is very attractive. What say you?"

A spirited discussion ensued on the MLS Forum. **CCGUY** started us off. "Leasing will make a comeback if the Super ISOs stop giving the terminals away," he wrote. "Then terminals on eBay would make a comeback too. ... Why lease when you can buy? ... Merchants want what they see. ... If they see a lot of postcards and ads for free terminals, that is what they want. ... If it is not advertised, then merchants will get the status quo."

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**RHENDRIX76** responded, "If a business owner wants a terminal, they could search Google, and see a lot of results for free terminals. They will also see a lot of terminals for free on eBay."

"So leasing is a very tough sell today as long as this type of advertising exists today on Google and eBay, as well as Costco and now on Staples' website. When I did a search on Google for 'credit card terminals' the No. 1 result was Staples selling credit card terminals ... [Staples] also has a link to set up a merchant account. ... This is making it even harder to lease equipment."

**STEVE NORELL** disagreed with this assessment. "Leasing is alive and well ... if you are the bank," he stated. "By that I mean when a merchant goes to open a checking account, they get solicited for a merchant account."

"The merchant rep shows up and sells him on the package, and since he [the new accounts representative] wants to make more money than the paltry salary they get from the bank, they sell a lease."

"The merchant buys into the pitch because he is from the bank. The term 'bank' carries with it a false sense of a seal of approval. BofA, PNC, BankAtlantic, SunTrust, BBT, Fifth Third – all use this method."

Steve made an excellent point. I shouldn't be surprised anymore, but the number of bankers that have specific and high monthly lease quotas is shocking. The



**"Now, to stir the pot, let me ask you guys this: How frequently do you read and hear complaints of banks and W2-based ISOs regarding fraudulent ISOs? I bet not frequently, because these two have more liability with merchants, and unlike other companies they will be willing to hear what the merchant says and will be more likely to work on a resolution should a complaint arise."**

Forum member **MARINESTEBAN**

banks push their own leasing contracts more than most other acquirers.

In a later post, **STEVE NORELL** added that the "truth is that a good MLS can spin it [the sales presentation] any way he wants in order to get the lease. All the math in the world is not going to make a difference to a merchant that is trying to get his biz opened.

"He has bigger fish to fry. I feel that as long as the lease rate is fair, and included in the lease is a warranty on the terminal and possibly free paper, then go with leases.

"I don't think that it is any surprise that many ISOs only pay their MLSs if they sell a lease, so guess what the MLS does? He figures out a way to sell a lease. If the only way you are going to make a dime is to sell a lease, then hook or by crook you will get that merchant to take a lease."

**MARINESTEBAN** provided another reason for the continuation of leases. "[A]ny company that hires W2 employees will push more leases than ISOs with 1099s. The reason is that they need to cover salaries, and leases are the easiest, fastest way to do it. ... My take is that I don't see anything wrong with leases as long as the [terms and conditions] are fully disclosed.

"Now, to stir the pot, let me ask you guys this: How frequently do you read and hear complaints of banks and W2-based ISOs regarding fraudulent ISOs? I bet not frequently, because these two have more liability with merchants, and unlike other companies they will be willing to hear what the merchant says and will be more likely to work on a resolution should a complaint arise.

"Of course there are cases of unhappy customers out there; let's not be naïve. But they are the least, not the norm."

In a separate post **MARINEESTABAN** added, "As you already noticed, leasing is a sensitive subject because many people abused that practice, but that does not imply that everybody leasing terminals [is harming] the merchants.

"Leasing is good if you know what to do and if you know how to build value around it. There are several benefits

for merchants leasing equipment that very often are not mentioned, and therefore you are selling on price."

**SLICK STREETMAN** provided insight into the genesis of leases and, with the dawn of the Europay / MasterCard / Visa terminal in the United States, a reason leases may again be more widely used.

"[B]anks invented the idea of leasing credit card equipment," he wrote. "At one time, about 30-some-odd years ago, if a merchant wanted to accept credit cards, he had to go through a local bank.

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**"Then along came the electronic age and the birth of credit card terminals. This was a monumental task to the bank - to get the paperwork done and the logistics involved in getting all of these contraptions hooked up and running in a gazillion different businesses in a timely fashion. ... They came up with the idea of [leasing]."**

Forum member **SLICK STREETMAN**

"There was no such thing as an ISO or MSP, and all transactions were done via the ole knuckle buster, the receipts deposited into the bank, and the merchant got paid about twice a month.

"Then along came the electronic age and the birth of credit card terminals. This was a monumental task to the bank - to get the paperwork done and the logistics involved in getting all of these contraptions hooked up and running in a gazillion different businesses in a timely fashion. ... They came up with the idea of [leasing]."

**K-WAGS** provided a more recent perspective, but ended

his comments with a reason leasing could make a comeback that other forum members hadn't yet addressed. "[I] have been in this biz for over six years, and leasing must have already been done before I entered.

"Do I think that it will make a comeback? No, not for me since it was never there. I have never in six years leased a terminal to a merchant or had one that was interested in leasing. I have always either sold the merchant a terminal or placed one for the merchant.

"For merchants that want that free terminal placement, I look at this as a retention tool. I've had several merchants over the years on a placement program that get quotes from other companies.

"They call me to see if I will match the lowball quote, and I always ask if the other company is going to provide them with a terminal. They always say, no, that they would have to buy some expensive terminal from them in order to get those rates. I offer them the same deal, and they usually decide to stay right where they are.

"In conclusion, I think that the leasing of terminals is dead, but leasing of POS systems is alive and well."

**SLICK STREETMAN** also suggested that leasing has its proper place in the industry. He posted, "If a business needs an expensive POS system or maybe terminals, PIN pads [or] check imagers for multiple checkout lanes, a lease, in some cases, at a reasonable payment can make good business sense. Someone that would lease a little nail salon a terminal (especially \$59/48) should be hung on the highest tree."

**LADERA BUSINESS SOLUTIONS** provided yet another perspective. "I see no real advantage to leasing," **LADERA** wrote. "There obviously is none for the merchant. A rent-to-own does the same thing. The only advantage to a sales rep is you get a percentage of the total sale upfront, and you do not have to do the collecting of the monthly cost.

"If you do the rent-to-own yourself, you get to keep 100 percent of the revenue. Plus you can make adjustments on

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the fly. For example, in the middle of a lease, the merchant's husband gets sick so the lady has to close the store. The lease company, by all rights, should still be paid the remainder of the lease.

"With a rent-to-own program, I contact the merchant, stop the rent-to-own charges and pick up the terminal. I have a happy merchant that, when she reopens, calls me. So, a rent-to-own program administered and controlled by you is infinitely better than a leasing program."

**JMATHIS** believes that leasing is an option, but the salesperson ultimately chooses the options to present. "Leasing will not make a comeback as long as the people selling merchant services do not believe in them," **JMATHIS** stated.

"All too often I hear sales reps making the decision for the business owner and either not offering a lease, telling them not to lease or, in most cases, giving away the farm and becoming that order taker with 'free terminal.'"

"With our company, leasing is not dead; however, it has dropped dramatically in recent years. About 10 percent of our accounts have leases. The kicker here is that you must [have the correct commission plan to ensure the lease prices are reasonable]."

"There are benefits to both leasing and buying. A big benefit to leasing is that a business owner can write off the full value of the lease as an expense; however, if they buy the terminal, they must depreciate the value of that terminal first."

The last comment opened the door to a discussion of the mathematical differences among leasing and other options.

**JPFYCHE** was brave enough to offer advice on this, with the disclaimer that merchant level salespeople (MLSs) should consult a tax advisor. "With a capital/finance lease, the lessee can write off the entire lease amount (up to \$500,000 in 2010 versus \$250,000 nor-

mally) under IRS Section 179 in the same year rather than depreciating its cost over time," **JPFYCHE** wrote. I am not a tax professional either, but it appears the IRS.gov site supports JPFYCHE's comments. In the second installment of this two-part series, I'll provide a quote from IRS.gov, as well as further commentary on costs and other aspects of leasing from MLS Forum members.

Until then, when in doubt, sell something. 📺

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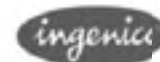
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## Risk management and PCI

By **Tim Cranny**

*Panoptic Security Inc.*

**I**n recent articles I've talked about how Payment Card Industry (PCI) Data Security Standard (DSS) compliance needs to move toward a "risk management" approach to security.

Now is a good time to say more about what that approach is, how it works, and what its strengths and weaknesses are. Fortunately, all of this information is useful right now and isn't just preparation for some future requirement.

The core idea behind risk management is that you can't treat the idea of "safe" as if it's an on/off switch, with the "on" setting meaning no risk.

There is no such thing as no risk. We all spend every moment of our lives – our personal lives as well as our business lives – surrounded by risk: the chance of being affected by cancer, car crashes, corporate malfeasance or a troubled economy, for example. It's just that when the risk is small enough, we simply live with it.

This approach is pragmatic. If you get fixated on eliminating all risk, you'll fail. For example, card processing only exists because it makes business sense for merchants to offer it.

We're never going to sell security to merchants by saying, "Your transactions are now incredibly safe, and it only costs an extra \$100 per transaction." The goal of PCI is to make cardholder data as safe as possible – in a way that is technically and economically viable.

### The goals of risk management

With that in mind, the idea of "safe" transforms into "safe enough." Instead of attempting to eliminate the risk, we focus on whether we can reduce the risk enough so it can be relegated to the enormous list of dangers we just live with every day. In other words, we need to ask, can we manage the risk?

By the way, risk management doesn't do away with questions of how to handle security; the technical details still need to be addressed. It does provide ways to think about what to do, why to do it and in what order. It gives you the right way to start on these issues; the technical details then follow.

So if risk is the key idea, how do we manage it? For that matter, what is risk?

There are various ways to define or measure risk, but the

basic idea is that it measures the degree to which you should be concerned about a particular danger or threat. You could say risk is a combination of likelihood and consequences, where likelihood equates to how likely it is a negative event will occur, and consequences relate to how much damage (financial, reputational or physical) a negative event would cause.

A threat such as nuclear war has a low risk rating (we hope) because even though the consequences would be very high, the likelihood is extremely low.

The risk associated with drinking lukewarm coffee is also low, but for a different reason: no matter what the likelihood, the consequences are minor.

If you store thousands of customer credit card numbers on a poorly secured system, the consequences and likelihood of a negative event are high, so the risk score is high.

Risk management advocates the following: don't spend time worrying about bad coffee or nuclear war. Focus on fixing the risks at the top of the list, such as those poorly protected card numbers.

### A step-by-step approach

A risk management approach involves these steps:

1. Identify assets that need protection. This includes more than just money and physical assets; it encompasses sensitive data, company reputation, legal standing and so on.
2. Identify threats to those assets. Threats can include everything from hackers to embezzlement to accidental loss to earthquakes.
3. Determine an acceptable level of risk for these threat-asset combinations. Remember the answer won't be zero: that isn't realistic. Think in terms of managing risk down to a reasonable level, not extinguishing it.
4. Estimate the likelihood and the consequences of the threat actually happening; you can calculate a risk rating for any given threat scenario.
5. Address threats with a risk rating above your determined acceptable level. This means applying additional security measures to bring down the likelihood or consequences, or both, of the underlying threat until the risk is acceptable.

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Here are a few additional tips:

- Don't get hung up on trying to measure these factors too precisely. Analyze the details, but remember that risk issues are complicated and messy.

If you get too caught up in the hunt for specific, accurate numbers, things will quickly become impractical. You are better off having a reasonable and thoughtful estimate today than an accurate measurement next year.

- When it is time to fix a problem by reducing the risk to an acceptable level, your solution needs to reduce either the likelihood of the threat, or the consequences, or both. (If it doesn't affect either of those, what good is it?)

For example, fire insurance doesn't reduce the chances of a fire, but it does damp down the economic consequences. On the other hand, banning smoking in the workplace reduces the likelihood that people will smoke and thus the likelihood that a cigarette unattended will spark a fire.


In the context of PCI, encrypting a database can dramatically reduce the likelihood of an attacker

obtaining sensitive information, while reducing the number of records stored reduces the consequences.

### Addressing risk at the portfolio level

Risk management is a good idea at the merchant level, but it is more complicated and demanding than a simple follow-the-steps approach. The smart approach: don't dump the burden on merchants; provide them with guidance on risk management instead.

This approach demands better tools and analytics at the portfolio-owner level. It no longer makes sense to treat your merchants as a single group. Instead, learn to "slice and dice" your portfolio in intelligent ways and treat the different subgroups with different strategies.

With the right tools and analytics, you can make your overall portfolio safer, while at the same time making your PCI program more efficient and cost-effective. 

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

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## Evaluating the value (and cost) of training

By Jeff Fortney

Clearent LLC

**T**he most difficult thing to do as a salesperson is to set time aside to gain knowledge. Time costs money, and time taken away from selling is very expensive. Yet the complexity of the payments world creates a Catch-22: there is much to learn, but the cost of your time spent learning can seem too great.

The question then is how does a successful merchant level salesperson (MLS) balance the need to sell and the need to learn? To become a successful MLS, you must understand what you need to learn and the true value of the training.

Knowledge is not always king. Indeed, some knowledge can be truly dangerous, as in cases where information is adapted to address a specific question or need for which it was not intended. As a result, the adapted information

often worsens the situation, rather than resolving it. It's like trying to put a round peg into a square hole.

Before scheduling any training, ask these questions:

### How will this knowledge benefit me?

Benefits come in many forms. It can be a direct benefit, like a new product that will add to your sales toolbox. This new product may open more doors. It may also create a direct benefit if it adds to your knowledge of the key component of your sales approach.

For example, you may want to lead with gift cards in your presentation. Learning the specifics about how gift card customers tend to be loyal customers can add to that lead-in.

Training may create an indirect benefit. One such indirect benefit is gaining knowledge in an area that affects all merchants in your merchant base. For example, learning the basics behind interchange qualifications can help your merchants avoid unnecessary downgrades or surcharges.

### What does it apply to and is it too specific?

Many training classes sound general in nature and seem beneficial, but turn out to be nothing more than concealed sales pitches.

Instead of learning something new, you are being taught how to sell the sponsoring company's specific product. You may go into the training hoping to learn about multiple terminals but soon discover you are only being taught about one terminal and how it is better than others.

Other times, training may only be on how a processor does something, and not training on the topic as a whole.

A prime example is Payment Card Industry (PCI) Data Security Standard (DSS) compliance. The processor may be training you on how to explain what it does, not the details on why merchants should care and what they can do to become PCI compliant.

Make sure you fully understand the topics to be covered – and exactly how they will be covered – before committing your time to any training session.

### Will I use the knowledge I gain from the session every day?

There is much to learn in the industry, but much of that knowledge is used only in certain situations.

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Instead of benefiting you globally, it may only benefit you in a specific situation.

If something is not used, often it is quickly lost. You may want to know about the topic, but you may not really need to know it. Unless you can justify the loss of sales time for the knowledge gained, it's best to wait until it is truly needed.

**Must I master this topic or do I have a resource to refer to when and if the need arises?**

Everyone must obtain a basic level of knowledge to be successful. However, everyone does not need to become expert in all aspects of his or her chosen sphere. For example, a general practice physician will seek a specialist for certain needs.

The same applies to you, as ISOs and MLSs: seek specialists when needed. Know and have the ability to discuss the basics of payment processing. But also have a partner or mentor who can answer the questions you don't need to know on a daily basis – the ones that may arise only on occasion.

**Will this knowledge make me money?**

This is one of the most important questions that should be answered before scheduling any training on the topic.

We all know people who have been professional students, people who never seem to graduate. Instead, they are constantly attending another class or chasing another degree.

They may have a lot of knowledge, but they never put it to use. Additionally, the cost of obtaining that knowledge is never recovered.

The same applies to training opportunities. Hundreds of opportunities are available, and

many may seem of value. But remember, it's possible to spend all your time learning and little time putting that knowledge to use.

Now, even if you have just answered all the primary questions in a positive way, you must justify the expense of the training and the cost of your time spent.

Time is often difficult to measure in terms of value, especially in the sales world. You can measure your time by the number of calls you could make during that time frame or by the number of sales generated by those calls. Even this approach can be difficult because every minute truly has a different value.

The simplest way to justify the time is to schedule your training during times when you cannot make sales to your customer base. For example, if you target restaurants, you would want to schedule your training during their lunch rush, a time when they are typically least receptive to sales calls. If your portfolio includes retail stores, you would want to schedule your training before 10:30 a.m.

You could have used the recent holiday season – a very busy time for most retailers – to best advantage by scheduling a relevant and valuable training session that would benefit you in 2011. But again, when considering any training, make sure it's knowledge you actually need and will use frequently. ☑

*Jeff Fortney is Director of Business Development with Clearent LLC. He has more than 12 years' experience in the payments industry. Contact him at [jeff@clearent.com](mailto:jeff@clearent.com) or 972-618-7340.*

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# Marketing resolutions for the New Year

By Peggy Bekavac Olson

*Strategic Marketing*

As each year passes, time flies by faster, and last year was no exception. As the dawn breaks on 2011, I've been reflecting and working on making personal and business New Year's resolutions, as well as helping some of my clients make marketing resolutions for their businesses. All this thinking piqued my curiosity about the origins of New Year's resolutions, so I fired up my computer and googled to search for an answer.

## History of the holiday

*Encyclopedia Britannica* and the *International World History Project* recognize New Year's as the oldest of all holidays. The first recorded evidence of its celebration was found inscribed in cuneiform on ancient Babylonian clay tablets dating back to around 2000 B.C. – yes, that's four thousand years ago. The Babylonians believed that what a person does on the first day of a new year will affect what he or she does throughout the year.

According to the *Encyclopedia Mythica* and *Roman Colosseum* websites, the tradition of making New Year's resolutions originated in 153 B.C., when the early Romans named the first calendar month after Janus and declared January 1 as the start of the year. In Roman mythology, Janus is the god of beginnings and endings and the guardian of entrances and exits. With two faces, one on the front of his head and the other on the back, Janus could look both forward and backward simultaneously.

Early Romans who worshiped Janus believed that with his help, they could look back on the events of the past and receive forgiveness, while at the same time look forward to the New Year and pledge to better themselves. Janus represents transitions: balancing hopes for tomorrow with a keen awareness of what happened yesterday. This evolved over time into Janus becoming a symbol for New Year's resolutions.

## New Year's resolutions today

Making New Year's resolutions today is an annual ritual of deep, honest assessment and a desire to do better, which is often combined with goal setting. People typically make personal New Year's resolutions like spending more time with family, getting fit, losing weight, quitting smoking or drinking, and finding a better job.

Companies like yours and mine commonly use the annual business planning process to make resolutions and set quantifiable goals. These resolutions frequently revolve around revenue generation, product development, employee number growth, investor return and more, with the hopes of moving closer to achieving corporate missions and objectives.

## Making marketing resolutions

Since this article began to take shape while I was working on New Year's marketing resolutions for some clients, I'd like to offer a few resolutions for you to consider that can help propel your business. These resolutions encompass some of the basic building blocks of marketing. Even though they may sound intuitive and somewhat trivial, you'd be surprised at how many companies don't have them solidly in place.

**Resolution 1:** Develop a strong brand strategy with a concise and compelling promise-of-value statement, as well as supporting messages that articulate who you are, what you do, what you stand for, the value you deliver to customers and how you're different from the competition.

**Resolution 2:** Build a strong, professional corporate identity (logo mark and color scheme) that properly reflects your brand visually.

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**Resolution 3:** Create corporate identity and brand messaging guidelines so your marketing team, employees, freelancers and outside agencies can deliver consistently across all marketing channels and tactics employed.

**Resolution 4:** Align sales and marketing teams and activities so they are harmoniously integrated and pursuing common revenue goals and growth objectives.

**Resolution 5:** Create an integrated marketing and communications plan with a deliverables calendar for 2011. Specify all the channels, initiatives, tactics and activities you will use to support your business goals and sales objectives. Assign responsibilities for completion of the actual work.

**Resolution 6:** Develop a budget and secure funding for your marketing plan.

**Resolution 7:** Execute, execute, execute. Be disciplined. Make the time and exert the effort.

**Resolution 8:** Measure your marketing results at least once a quarter and make adjustments accordingly.

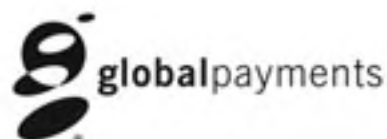
We're already a couple of weeks into 2011, but that doesn't mean it's too late to make resolutions. There's no need to start worshipping the mythological god Janus, but some serious reflection on past marketing efforts and consideration of the list provided will shine a brighter light on the New Year's resolutions that will give you the edge to start the year off right.

Mark my words: these resolutions, when committed to, will help your marketing efforts to deliver better than ever and produce top notch results.

Your success is too important to be left to chance. Businesses that make meaningful resolutions are more likely to achieve their goals than those that make no such commitment whatsoever.

Here's hoping you make some New Year's marketing resolutions and that you have a fantastic 2011. 🍀

*Peggy Bekavac Olson is the founder of Strategic Marketing, a full-service marketing and communications firm specializing in financial services and electronic payments companies, after serving as Vice President of Marketing and Communications for TSYS Acquiring Solutions for more than five years. She can be reached at 480-706-0816 or peggyolson@smktg.com. Information about Strategic Marketing can be found at [www.smktg.com](http://www.smktg.com).*



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# Research Rundown

## EMV gathers steam

**E**uropay/MasterCard/Visa (EMV) has gained new steam, according to *The Global Payments Standards – Is Your FI Ready?* In this white paper, Aris Jerahian, Vice President of Client Relations for The Members Group, examined the driving factors behind possible U.S. adoption of chip-and-PIN technology to support EMV.

Among the indicators discussed were the Federal Reserve's recent formation of a forum to examine EMV and the development of mag stripe bridging technologies. Jerahian also explained how American financial institutions can learn from early U.S. adopters, like TMG client United Nations Federal Credit Union, and outlined the four questions he believes every financial institution should ask of its processing partner before following suit.

The report can be downloaded at [www.themembersgroup.com/EMVglobal](http://www.themembersgroup.com/EMVglobal).

## NFC to redefine smart phone services?

**G**lobal Sweep: *NFC Technology to Redefine Smartphone Services*, a report by Mercator Advisory Group, examined recent developments in the handset market, forecasted

the handset market out to 2015 under different scenarios and provided an economic analysis of the business model of near field communication (NFC) mobile payments for mobile network operators. The report also presented a survey of key markets most likely to see the first wave of NFC payments. Other highlights of the report include:

- After years of delay, the NFC market appears to be heating up as industry players work out plans to best position themselves for the expected arrival of NFC in 2011.
- Mercator predicts that a total of 116 million smart phones equipped with NFC will be shipped in 2011, barring a major setback; the number will more than double in 2012 to reach about 260 million; and the annual shipment of NFC smart phones will reach more than 510 million in 2015.
- Consumer adoption of NFC-based services will likely lag behind the penetration of NFC devices. Most consumers probably won't see the value of NFC until 2012, when related services and infrastructures are in place, along with ample applications.

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

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## SMBs hampered by technology challenges

Lack of adequate network bandwidth is a challenge for 40 percent of small to midsize business (SMB) retailers, according to the Aberdeen Group's report, *The Roadmap from Multi-Channel to Cross-Channel Retailing: The True ROI of Unified Customer Experience*. The report indicates that without adequate network capabilities, retailers are unable to use web-based POS tools, such as web order management, order look-up and other enterprise-level applications that can be accessed from POS registers.

Here are some other challenges faced by SMB retailers:

- Large retailers are 1.5 times as likely as SMB retailers to possess multitender payment acceptance capability at traditional POSs, self-checkout counters and mobile POSs.
- Fifty-three percent of SMB retailers do not possess a fully compliant Payment Card Industry Data Security Standard infrastructure to prevent critical customer data access by external entities and fraudulent use of data by internal employees.
- Forty-eight percent of SMB retailers lack adequate integration between the POS and back-office, inventory and cash management applications.


The report includes insights into best practices for customer, business process and technology areas that directly impact SMB retailer sustainability.

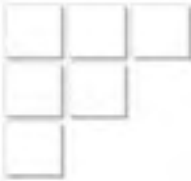
To download the report, go to [www.aberdeen.com/aberdeen-library/6823/RA-multi-channel-retail.aspx](http://www.aberdeen.com/aberdeen-library/6823/RA-multi-channel-retail.aspx).

## Mobile, bad and good for impulse purchases

Two reports published on StorefrontBacktalk.com explored the impact of mobile devices on the nature of impulse purchases. In some cases, mobile devices expedite impulse purchases. The reports cited as an example the ability to immediately buy items promoted within the context of a movie while the movie patron is still in the theater as a way in which mobile promotes impulse buying.

On the other hand, the availability of mobile comparison shopping apps can quash an on-the-spot buy. Shopper motivation, however, is a complicated issue. Impulse consumers don't necessarily enjoy the process of shopping as much if they get bogged down in electronic research, the reports pointed out.

The reports are available at [www.storefrontbacktalk.com/payment-systems/mobile-and-impulse-purchases-perfect-together](http://www.storefrontbacktalk.com/payment-systems/mobile-and-impulse-purchases-perfect-together) and [www.storefrontbacktalk.com/e-commerce/mobile-the-death-of-impulse-purchases](http://www.storefrontbacktalk.com/e-commerce/mobile-the-death-of-impulse-purchases). 



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Do You Remember?

# 10 years ago in The Green Sheet



## Hypercom receives recognition

Hypercom Corp. was awarded Frost & Sullivan's 2000 Market Engineering Product Innovation Award for its leadership role in introducing the ePic ICE 6500, the first stand-alone, POS payment terminal with a color touch graphics display and built-in web browser.

## NDC spawns Global Payments

NDC eCommerce implemented a new name, Global Payments Inc., and was to operate as a subsidiary of National Data Corp. until it spun off as a separate publicly traded company in early 2001.

## DPI makes strategic acquisition

DPI Merchant Services acquired American Bankcard International 2000 Inc. to provide traditional brick-and-mortar retail merchants its proprietary payment solutions, including DPI Secure, USMerchants.com and other e-commerce services.

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# NewProducts

## Robust gateway for e-commerce

**Product: CCS ePay**

*Company: Charge Card Systems Inc.*

**N**ational credit card processing and merchant services provider Charge Card Systems Inc. recently launched CCS ePay, a proprietary e-commerce gateway designed to enable retail and MO/TO merchants to process credit, debit, PIN debit and ACH check transactions securely online.

"From a standard perspective, it's a virtual terminal and a payment gateway," said Adam Moss, Vice President of Sales, National Sales Manager for CCS. "Someone can sit down at their desk, log onto a website and use it as a virtual terminal to process transactions.

"At the same time, merchants can link their websites to CCS ePay to create a payment platform for online order processing."

### Mobile framework

It's great for mobile businesses, too, Moss added. "We get more and more calls about processing through phones, for laptops, and the gateway does that," he said. "You can process through the BlackBerry and the iPhone. You can take out your laptop and get a wireless connection and process transactions."

Once final testing is complete, the system is expected to offer signature capture on the Apple Inc. iPhone, where the actual signature can be printed on the receipt.

The gateway supports Blue Bamboo's Bluetooth P25-M mobile printer, a wireless, server-based terminal that fits into the palm of the hand. "We can set up the CCS ePay to BlackBerry and sell them this card reader," Moss said. "They swipe the card; they print out a receipt. It's like you're in a store with a POS system."

The wireless card reader helps prevent chargebacks because it can convert offsite card-not-present transactions into swipe card transactions, Moss noted.

### Tracking progress

For business owners, one of the system's strengths is the ability to monitor the progress of employees. "You're back in the home office and you want to see how your staff is doing," Moss said. "You can log into the portal and see what's been processed." For example, a plumber could swipe a credit card through the wireless terminal at a job site, and the transaction would register through the gateway for tracking and reporting.

### Features of CCS ePay include:

- Competitive pricing
- Seamless integration with QuickBooks
- Ability to process PIN debit transactions
- Back-end for Blue Bamboo wireless terminal
- Wireless applications

"On a terminal, you batch out your system; you can't run reports," Moss said. "You can't find out what you just did because it's no longer in your terminal.

"Now in a payment gateway, you can go back at least six months, if not longer, and find transactions. It's really a very powerful back-end reporting tool."

### Strong features

What's more, installment billing and recurring billing are built-in features. "The installment billing, I think, is somewhat of a unique feature in that if you want to give somebody the opportunity to make a payment over three months, we can do that," Moss said.

With the recurring billing option, merchants can search a transaction and, given authorization, charge the same card again at a future date.

Moss pointed out that merchants using CCS ePay enjoy seamless integration with Intuit Inc. QuickBooks. "What's really nice about the product is there's a QuickBooks sidebar," he said. "The sidebar rests and resides on your computer.

"Let's say QuickBooks is closed, but you want to run a transaction. You could run a transaction through the sidebar and process it. As soon as you open QuickBooks, that transaction will be reconciled into QuickBooks."

The company offers an entry-level HioPos POS system that connects merchants directly to the CCS ePay gateway, allowing small to midsize merchants to create a more advanced processing station, Moss said.

He added that the gateway itself is Payment Card Industry Data Security Standard compliant, but merchants still need to ensure their connections are compliant. ■

### Charge Card Systems Inc.

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# DateBook

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## ATM Industry Association

ATMIA 12th Annual Conference & Expo

**Highlights:** This three-day gathering is billed as the only dedicated ATM industry conference slated for the United States in 2011. In addition to boasting the largest ATM-focused exhibit hall in the United States, this 12th annual conference promises to center on networking, industry issues and regulatory updates, as well as knowledge and insights shared by industry experts and peers.

Offerings will include a keynote address by Jimmy Sawyers, author of the book *Top Trends Impacting Bank Technology for 2010*; international payments workshop; panel discussion on U.S. legislative and regulatory issues; presentations on prepaid opportunities and data security; the 2010 Global ATM Industry Awards; and several breakout sessions on specific ATM business tactics and conditions affecting the industry.

**When:** Feb. 22 – 24, 2011

**Where:** Doral Golf Resort & Spa, Miami

**Registration:** [www.atmiaconferences.com/events/atmiausaconference/registration/index.cfm](http://www.atmiaconferences.com/events/atmiausaconference/registration/index.cfm)



## Southeast Acquirers Association

2011 SEAA Annual Conference

**Highlights:** The Southeast Acquirers Association's Annual Conference provides information on current issues of concern to merchant level salespeople (MLSs) and ISOs in the electronic payments industry. Each year, the meeting brings industry leaders to the Southeast region of the United States for the purpose of helping the feet on the street become more successful.

This year's event will include a variety of networking opportunities with vendors and attendees. The exhibit hall will feature many of the leading payment processors, equipment manufacturers, leasing companies and other third-party vendors in the industry. Breakout sessions will provide a small forum in which attendees can learn and share information. Panel discussions, which have been some of the most heavily attended sessions in previous years, will be led by industry leaders.

**When:** March 21 – 23, 2011

**Where:** Hyatt Regency Bonaventure Hyatt Conference Center and Resort, Weston, Fla.

**Registration:** [www.southeastacquirers.com/conference](http://www.southeastacquirers.com/conference)

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# Inspiration

## WaterCoolerWisdom:

## Bring in the year with steely resolve

**A**s another year begins to unfold, you are probably formulating a fresh set of resolutions. And if you are serious about following through to make this year the best it can possibly be, now may be the time to rethink how you think.

One of the most powerful actions you can take in this regard is to banish the negative from your mind. If you find yourself feeling and acting like a curmudgeon, ask yourself why. Is it the economy? Is it the bad news in the media? If so, change your habits.

Nobody is forcing you to watch the evening news, read bitterly partisan websites or listen to incendiary radio programs.

### Change to believe in

Numerous activities can uplift and inspire you. Play ball or take a yoga class in the evening instead of watching TV. Volunteer at a local senior center. Build something with your hands.

The point is by changing your mind, and thus your actions, you can gain control over your mood. It only takes the proper inclination and a little push to move you in a profoundly positive direction.

## Resolve and thou art free.

- Henry Wadsworth Longfellow

The same can be said for business. If your ISO is in the doldrums, you probably know better than anyone what needs to be done.

Maybe you see the potential in mobile payments and need to carve a space in that niche. Perhaps you should add a gift card program or a consultant to help your merchant base with Payment Card Industry Data Security Standard compliance.

So how can you implement the changes your business needs? The answer will be different for each entrepreneur, and it's worth taking the time to figure it out. The businesses that change as the economy and consumer preferences change are the ones that survive.

### Rules to replace

Another area to review is rules. There are laws we must abide by or we could go to prison, but there are rules we live by that are merely what we buy into. In the ISO arena, what arbitrary and damaging rules do you live by?

The bottom line takes precedence over ethics? If you're not your company's top seller in your company, you're nobody? Reaching that sales quota is worth it even if the constant pressure is affecting your health?

Unhealthy rules can be replaced with better ones, including:

- Adhering to best practices
- Recognizing that your value as a human being is not tied to your production at work
- Trusting that taking it slower will likely help you live longer and make you more money in the end

A list of resolutions will help you attain your dreams in 2011 if – and only if – you remain positive and back them with resolve.

The beauty of this is that you can start showing resolve any time. Like today.

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Paul H. Green, President and CEO



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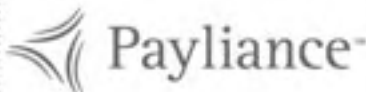
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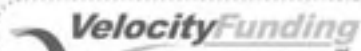
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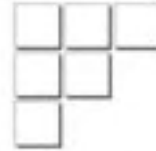
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- ▶ New business program (for merchants in business less than 1 year)

### Alternative Programs for Businesses that Don't Process Credit Cards:

- ▶ StockUp Inventory Purchasing Program
- ▶ Alternative Funding

For more information visit [www.amerimerchant.com](http://www.amerimerchant.com)  
or contact David Goldberg, Director of Business Development,  
[dgoldberg@amerimerchant.com](mailto:dgoldberg@amerimerchant.com) Telephone: 800-267-3790 x113

## CCS Funds Its Agents

# WORKING CAPITAL

## To Build Their Business



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

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

**Plus, CCS gives your merchants the working capital to bankroll their business!**

*(See Reverse Side For Details)*



For more information on our Line of Credit Program,  
contact Adam Moss at **888.505.2273 ext. 207**

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



**CCS Provides Merchants**

# **WORKING CAPITAL**

**To Build Their Business**

In today's economy, many merchants need working capital to build their business - whether it be for renovations, expansion, inventory, marketing, taxes or more. CCS' Merchant Cash Advance Program provides your clients with access to the cash they need to grow and succeed - with no limitations or restrictions on how the money is used.

**UP TO \$150,000 IN AS LITTLE AS SEVEN DAYS**

**NO PERSONAL GUARANTEE**

**NO COLLATERAL**

**MERCHANTS CHOOSE HOW TO USE THE MONEY**

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

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

- **Up to 70% Residual**
- **Activation & Conversion Bonus** up to \$750
- **Low Transaction Fee** on all Retail, MOTO & Internet Processing; Dial-up & IP
- **12-Hour Funding** on All Card Types
- **Canadian Merchant Processing**
- **HioPos Point of Sale System**
- **Access to Multiple Platforms** including First Data Omaha, Nashville, North, Buypass; PNS, Vital & Global
- **High Risk Merchant Processing Options**
- **Mobile Processing & QuickBooks Integration**
- **Niche Marketing Divisions**
- **Agent Portal to Manage your Business**

**PARTNER WITH US AND WATCH YOUR BUSINESS GROW.  
CALL NOW!**



**CHARGE CARD SYSTEMS, INC.**

For more information on CCS, contact Adam Moss at 888.505.2273 ext. 207  
or visit [chargecardsystems.com/gsadvisoryboard](http://chargecardsystems.com/gsadvisoryboard)

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





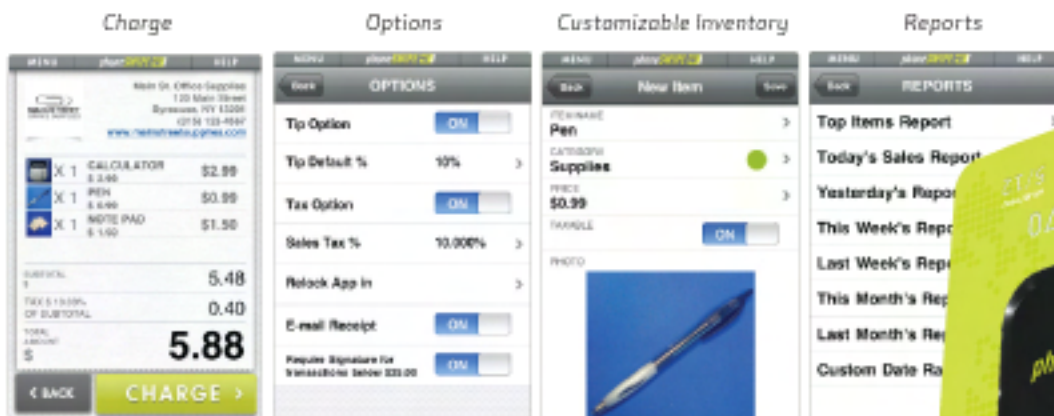
# SMARTPHONE + FREE PHONE SWIPE READER = MORE PROFIT FOR YOU

Your merchants demand up-to-the-minute credit card processing solutions, and that's exactly what North American Bancard is delivering. NAB's Phone Swipe will help you significantly:

**Expand your customer base • Increase your sales • Grow your revenue**

# TURN YOUR MERCHANTS' SMARTPHONES INTO TERMINALS AND START TURNING A HIGHER PROFIT TODAY!

Phone Swipe, exclusively from North American Bancard, lets your merchants accept credit card payments anywhere.



Close the deal by offering your merchants a mobile credit card processing solution with the features they really want:

- **Affordability** - Merchants won't be able to refuse a FREE Software App and Card Reader
- **Usability** - Merchants can accept payments with a user-friendly app and easily manage their business with enhanced features like real-time reporting
- **Flexibility** - With Customizable Inventory, E-mail Receipts with Google Maps™, Tips setting, Geo Tax and more, merchants can customize the app to fit their business needs
- **Reliability and Security** - Merchants can swipe transactions anywhere, anytime and from anyone with confidence, knowing Phone Swipe is backed by North American Bancard

TO PROFIT WITH NAB TODAY, CALL  
**877.765.4118**  
[phoneswipeagents.com/gs](http://phoneswipeagents.com/gs)





# CHANGE FOR THE BETTER.



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

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

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

OR

**70%** Split for the  
Highest Commissions

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

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

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

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

#### NOW IS THE TIME.

Start processing all your accounts with us today!

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

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

