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July 11, 2011 • Issue 11:07:01

# Industry self-policing: A lofty goal?

By Patti Murphy

*ProScribes Inc.*

**W**ith government scrutiny of financial services intensifying and prospects of new regulatory oversight looming, talk of industry self-policing has assumed an added sense of urgency. But what is self-policing? How does it work? And can it work in merchant acquiring?

"Self-policing is something anybody can do," said Mark Dunn of Field Guide Enterprises LLC. People can craft best practices, for example, and hope that everyone plays by those voluntary rules. Enforcement is different. "When you start talking about policing others, that's where it really gets dicey," he added.

During a recent interview, attorney Adam Atlas said, "Generally speaking, it's a good idea to have some self-regulation, but there are pitfalls. For example, you would want to be careful about barriers to entry." Licensing, for instance, could create barriers, he noted.

Today, anyone with the wherewithal and gumption to sell merchant services can find an ISO to work with and have a go at it, including individuals of questionable character. Anyone who has spent time on GS Online's MLS Forum has read about some of these.

"What would you do?" asked **CCGUY** in a recent post. "Salesperson from XYZ ... walks into a merchant location ... tells merchant that they have been redlined by XYZ ... that their account has been taken over by XYZ company and if [they] do not sign these [contract] papers [they] will not be processing in 24 hours. ... I am so sick of sales reps doing this to merchants."

A series of posts regarding "erroneous" charges assessed merchants using terminals that have not been confirmed as compliant with the Payment Card Industry Data Security Standard, as well as new tax reporting requirements, and the associated fee schedules some ISOs have instituted in response, seem to have fueled the debate about the need for policing.

Industry consultant Paul Martaus offered this potential scenario: a retailer provides the ISO its federal tax ID number, as required, but someone misplaces the form, and the retailer gets hit with a monthly noncompliance fee. "Where's the burden of proof?" he asked. "Stuff like this happens."

## Few self-policing examples

Only a handful of professions have established self-policing mechanisms. The

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## Notable Quote

**Appropriate training and education can help ISOs become business consultants to their customers and ultimately foster connections that promote merchant retention.**

See story on page 73



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# Forum

## Thoughts on smart phone security

I read the cover story about mobile security in your June 13, 2011, issue with interest, but this article seems already outdated in its information. Mark Rasch seems to be repeating what he's heard in blogs, mostly, and has not done a lot of real-world exploring on his own. *The Green Sheet* readers need to have better information if they want to knowledgeably compete in the mobile commerce markets.

The assertion that there are no antivirus or malware programs for mobile devices is simply wrong. Well-established PC antivirus vendors are all venturing into the mobile markets. Currently, titles from companies like ESET, Kaspersky, AVG and Lookout are available, many for free, and there are others of less notoriety.

As with all AV products, their effectiveness is debatable. The issue with mobile devices plugged into the same Internet our home and work computers are using has been, and will always be, more about careful use of the device itself than whether or not it can be properly armored using software – a dodgy proposition, but the point is that mobile security will come down to human behavior more than software protections that might be in place, just like in the PC/Mac world (read about Mac Guard malware to see further illustration of this point; believing any vendor's device to be invulnerable is a classic mistake).

The assertion that "someone can just take my phone and run transactions" does not appear to be based on any real-world testing of mobile payment applications. ROAM Data, for example, is a password protected app, does not allow you to save or store the password and automatically log in, etc., and that makes it more secure than most brick-and-mortar credit card machines, which rarely use password protection at all.

The assertion that "these are open systems," would be hotly debated by any iOS (Apple) developer. Apple audits apps sold in their App Store and wields total control over what may be sold there. Their decision to exclude apps has been famously arbitrary and could be by no means called "open." Perhaps the author had the Android OS in mind, but the article did not include that kind of detail.

The points about Square are made very late in the game, and I can't understand how this article is being published in June, when most of what was said has already been laid to rest by the announcement on April 27, 2011, that Visa had invested millions of dollars in Square, but is going to require them to use an encrypting stripe reader. This happened within days of Square announcing a deal to be sold in the Apple retail stores.

The article would have rung true if it were in the March issue, perhaps, but by time of publication, much of the information, and the opinions formed around it, have lost a great deal of value.

Tim McDonald  
Elmhurst Financial Services

Tim,

*Thank you for your response to "Wising up about smart phone security," published in The Green Sheet, June 13, 2011, issue 11:06:01. We do want our readers to have accurate, timely information to help them engage in mobile commerce, and your input will contribute to this, as well as stimulate healthy debate.*

*Regarding your point about anti-virus and malware programs, the article did not assert that there are no anti-virus or malware programs; it stated that mobile devices lack them, meaning they are not being employed, which serves to reinforce the excellent point you made about how security has been and will always be "more about careful use of the device itself than whether or not it can be properly armored using software."*

*Also, the quote from Mark Rasch's blog article stating that "somebody could just pick up my phone, use it to make a payment or make a transfer, put the phone back, and I wouldn't know that anything had happened," was intended to express a fear on people's minds, not to convey research data. People often leave their phones out on their desks and tables because they use them frequently for multiple purposes, whereas bank cards are usually tucked away until needed to make a payment. The more mobile devices are used for making payments, the more people will have to treat them with the same care as the cards in their wallets, which is a new burden for consumers – as well as for merchants, whose standard POS devices are typically not as easy to carry away as mobile devices.*

*As far as the term "open" goes, we were using it to mean that the specifications and source code are shared with parties outside of the companies creating devices so that outsiders can develop apps.*

*And you are correct that we should have mentioned Visa's investment in Square Inc. We do want to point out, however, that as of early July, Square is not yet encrypting transaction data.*

*Thanks again for your helpful feedback.*

Editor



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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

## Industry self-policing: A lofty goal?

A sense of urgency about regulation has gripped the payments industry. Either the industry polices itself, or the federal government will. ISOs, merchant level salespeople (MLSs) and other payment professionals can look to other industries that have successfully regulated themselves, including the medical, legal and accounting industries.

News

28

## Fraudsters nailed, proactive security initiatives needed

With cyber-crime accelerating globally, the fight against it seems to be picking up speed as well. Two Latvian fraudsters were busted and a member of an Internet hacking ring pled guilty to hacking the AT&T servers. Meanwhile, IronKey Inc. Chief Executive Officer Arthur Wong urged security professionals to be proactive rather than reactive to cyber threats.

News

24

## Federal Reserve sets debit interchange at 21 cents

After a long process, the Federal Reserve Board of Governors issued its final ruling on how much debit card interchange banks can charge merchants. The initially proposed cap of 12 cents was raised to 21 cents, plus 5 basis points on the cost of every transaction to pay for fraud losses.

View

32

## Are you ready for the NFC paradigm shift?

Near field communication encompasses contactless payment technology. But it does much more than enable electronic transactions. That's why industry giants from varied segments – Internet, banking, telecom, mobile phones – are suddenly jockeying for position to cash in on a new era of payment-enabled capabilities at the POS.

News

28

## More regs, requirements from FFIEC, PCI council

The Federal Financial Institutions Examination Council and the PCI Security Standards Council both issued regulations concerning data security. The FFIEC released a document that details security protocols for banks; the PCI SSC published a list that clarifies Payment Application Data Security Standard requirements.

Feature

40

## Is the new AmEx prepaid card a game changer?

American Express Co. launched a new, low-fee prepaid card that the card brand believes is a game changer for the industry. A counter perspective by a member of the consumer advocacy group Consumers Union is less enthusiastic but praises AmEx for moving in the right direction.



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*- Rhoda Steward, Director of Strategic Partnerships and Marketing*



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Feature

43

### Case study: Prepaid electricity metering

Governments around the world are recognizing the benefits of prepaid electricity metering to save energy. Leading the way is Arizona's Salt River Project with its M-Power program. Going on 18 years in operation, it shares expertise in how governments and power companies can make prepaid metering successful.

Education

62

### Street Smarts<sup>SM</sup>: Networking groups and referral marketing - Part 1

An interview with referral marketing expert Dr. Ivan Misner produced insights into the business of networking for the purpose of gaining merchant referrals. During the interview, Misner discusses his VCP stages of networking: visibility, credibility and profitability.

Feature

44

### The three R's of text message marketing

The value of text message marketing for merchants lies in the immediacy and targeted nature of the communications. But there are complications to providing the service: authorities to answer to, regulations to comply with and practices to avoid.

Education

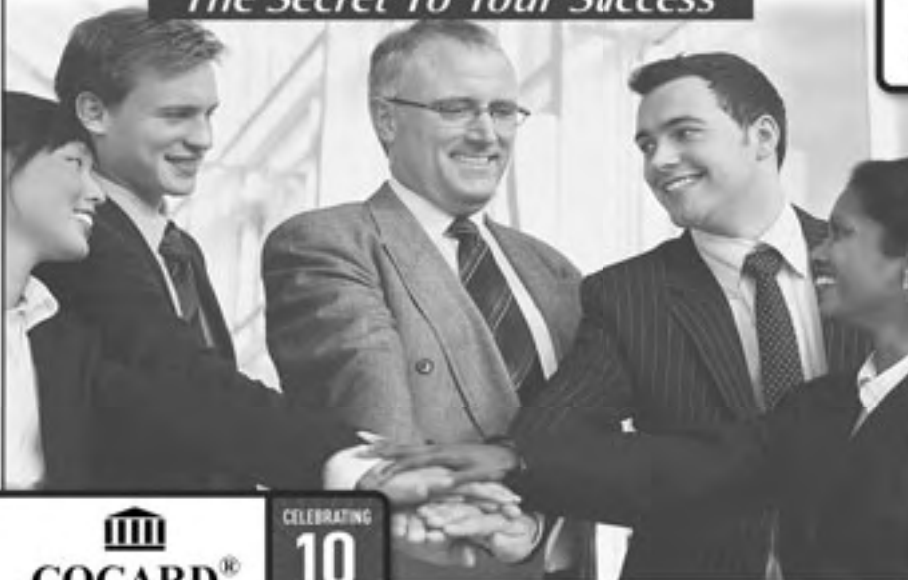
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### Use communication to cut merchant attrition

Merchants often do not study their processing statements. The result is that they get angry when they realize a new charge has been added to their statements, even if that charge was properly disclosed in previous communications. The solution is to be proactive and never assume your communication job is done.

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Education

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### **Finding the right payment processor**

One of the most important decisions an ISO makes is choosing a processing partner. When shopping for processors, ISOs should seek out partners that can satisfy such criteria as flexibility, compensation strategies, training and customer support.

Education

79

### **What is my portfolio worth anyway?**

There are seven essential considerations for ISOs and MLSs to take into account when contemplating the sale of merchant portfolios. By going through the list, sellers can evaluate how much their portfolios are worth and eliminate that unknown when it comes time to cash in on all that hard work.

Education

74

### **Social media: Putting your company's best face forward**

The use of social media as a marketing tool is so prevalent today that the 2011 Electronic Transactions Association's Annual Meeting & Expo devoted a session to tweeting, posting and networking. The secret to taking advantage of social media is having patience and a plan.

Inspiration

89

### **Make children your business**

Even though summer vacation is upon us and children are out of school, the business of teaching the next generation does not stop. This is a good time for payment professionals to take their children to work, hire teens for summer internships and volunteer at summer camps and day schools.

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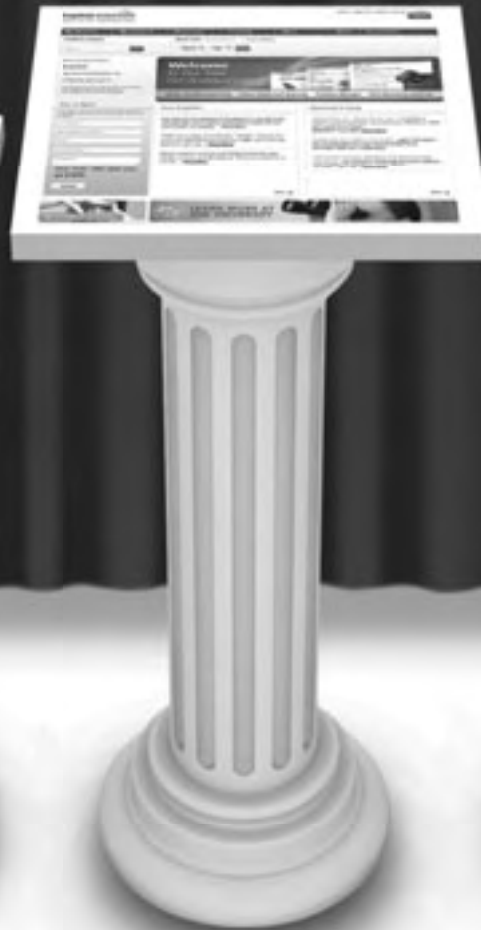


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# Industry Update

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## NEWS

### Fifth Third Processing now Vantiv

**Fifth Third Processing Solutions LLC** changed its name to **Vantiv LLC**. The renaming follows Boston-based Advent International's \$2.25 billion purchase of a 51 percent majority ownership in Cincinnati's Fifth Third Processing Solutions in the spring of 2009.

Advent's majority stake made the 40-year-old Fifth Third Processing the fourth largest acquirer in the United States, processing more than \$292 billion.

The renamed company will continue to leverage Fifth Third Processing's partner relationships, system platform, and array of products and services while emphasizing new investment in e-commerce, mobile payment technology, prepaid debit, fraud prevention and data security.

"The word 'Vantiv' comes out of the word 'advantage,' which is evocative of where we want to be in our market," Adam Coyle, President of the Vantiv-owned National Processing Co., said.

"We are tremendously proud of our heritage with Fifth Third Bank, but now that we have spun out of the bank we need to establish our own identity. We are a business of multiple channels. The name Vantiv is new and unique. This was just a natural evolution."

Though known as Vantiv in most markets, the branding will be tied to meet the company's needs in its different business areas. Some parts of Vantiv's business will be branded "Fifth Third Processing Solutions, Powered by Vantiv." Others will carry the name "NPC, a Vantiv company."

### Citi invests in Billing Revolution

**Citi Ventures Capital International**, a division of Citigroup Inc., invested in June in **Billing Revolution**, a mobile payment provider. This investment follows Citi Ventures' backing last year of Billing Revolution's Single-Click Checkout mobile billing service. The deal follows Billing Revolution's announcement that it had secured \$6.6 million in funding from DCM and SK Telecom Ventures.

"There is a lot of activity in the mobile payments space, but Billing Revolution's platform and approach are truly innovative, and the company has the potential to be a game changer," said Dickson Chu, Managing Director, Global Enterprise Payments at Citi. "That is one of the reasons why Citi decided to become both a sponsor and investor."

Christopher Kay, Citi Ventures Managing Director, said, "We look to invest in startups with great teams and unique, defensible IP that solve global challenges. Billing Revolution fits that bill, and we are pleased to be able to join DCM and SK Telecom Ventures in this latest round of financing."

Billing Revolution founder and Chief Executive Officer Andy Kleitsch said, "Besides the industry validation that Citi Ventures' investment represents, we are excited to leverage Citi's global payments knowledge and infrastructure to really move the needle. Citi more than just 'gets it'. They share our vision, and we will clearly benefit from this relationship."

### SmartMetric promises to protect patent

After a favorable ruling from the U.S. District Court for the Central District of California regarding its patent related to contactless payment technology,

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- Online purchases of consumer packaged goods are projected to more than double to \$25 billion by 2014, according to **Nielsen Holdings NV**. Online shoppers today spend an estimated \$12 billion on packaged goods, which is about 2 percent of total sales in that category.
- A **Harris Interactive Inc.** poll revealed six in 10 U.S. adults expect to cut spending on dining out (61 percent) and entertainment (59 percent) through the fall of 2011.
- **Rice University** research indicated 19.9 percent of those who redeem online daily-deal bargains return to pay full price at restaurants, bars, salons and other retailers. Fifty-five percent of businesses surveyed reported a profit, 26.6 percent lost money and 17.9 percent broke even on such offers.

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## Industry Update

**SmartMetric Inc.** President and CEO C. Hendrick promised to vigorously defend its patent against major U.S. banks, **Visa Inc.** and **MasterCard Worldwide**. The district court in May 2011 upheld six of seven of SmartMetric's patent definitions.

The one definition still in dispute has to do with the use of contactless chip cards. Hendrick said in late June his company is appealing the adverse ruling so it can continue to pursue its infringement claims.

Hendrick declared victory with the favorable ruling on the other six definitions saying the court's ruling indisputably leaves the issuers of contact chip cards and Visa/MasterCard liable to infringement claims.

SmartMetric assured issuers, Visa and MasterCard it will enforce its rights and demand either a license fee or court ordered relief to stop the defendants from issuing the contactless cards.

The company promised to appeal the court's adverse ruling; it maintains the court's definition is wrong and places unwarranted limitations on the SmartMetric patent. The company believes the court's definition and restriction will be overturned on appeal.

## PaySaber Clip sold out

By mid-June 2011, **USA ePay** had sold out its initial offering of its new PaySaber Clip, a mobile POS device compatible with iPad, iPhone and the iPod Touch devices. New orders were back-ordered, but the company expected to be able to fill all back orders by the end of June.

USA ePay Vice President for Development Martin Drake said the company is happy with the market response to its new Apple compatible POS device. "The Clip will provide our reseller partners with a simple low-cost hardware solution that will work universally with most Apple mobile devices," he said.

## ANNOUNCEMENTS

### ARTS releases new digital receipts standards

The National Retail Federation's **Association for Retail Technology Standards** released Version 2 of its Digital Receipts standard June 27, 2011. Digital receipts are a hot topic in the retail and payments industries because many consumers are using electronic receipts for returns and exchanges, as well as for coupon redemption.

Version 2 reportedly presents substantial improvements to the schema, including a full alignment with the widely adopted retail transaction log standard, support for multiple recipients, delivery types and receipt formats, and introduction of a unique receipt identifier to address data integrity across multiple applications including mobile devices.

### Dejavoo does a move

**Dejavoo Systems**, a manufacturer of desktop and mobile POS devices, moved its headquarters from Syosset, N.Y., to Manhasset, N.Y., which is just outside New York City. The company phone number remains the same: 877-358-6797.

### Payfirma launches mobile payment app

In response to the growing demand for mobile payment technologies in Canada, Vancouver, B.C.-based **Payfirma Corp.** launched its proprietary iPhone Mobile Payment app, which is also compatible with the iPod Touch and iPad. Payfirma said the app is available as a free download from Apple Inc.'s iTunes App Store and can be activated remotely by any Payfirma merchant account customer; the optional card swiper can be purchased directly from the company.

### SPVA sets POS standards, welcomes ControlScan

In June 2011, the **Secure POS Vendor Alliance** issued


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new standards for the post manufacturing stage of secure payment devices. The SPVA is a nonprofit industry organization founded by Hypercom Corp., Ingenico S.A. and VeriFone Inc.

The objective for the new guidelines is to build POS devices that are properly handled from the moment they are produced to the moment they go to work for the merchant. The SPVA said the new regulations are intended to increase accountability for POS vendors, manufacturers, providers, acquirers and security audit firms responsible for initial loading of payment devices.

In addition, **ControlScan Inc.**, a developer of Payment Card Industry Data Security Standard compliance software for small- to mid-sized merchants, joined the SPVA.

SPVA membership is for vendors that develop secure POS payment systems or businesses, such as retailers, acquirers and banks, that offer products or solutions that interact with secure POS payment devices.

### SignalPay supports after-school programs

Texas-based ISO **SignalPay Ltd.** will donate 20 percent of its processing revenues from participating merchants to support after-school programs in communities across

the country. The initiative, **BoosterPay**, is run in conjunction with SignalPay ISO partners and provides ISOs with presentations they can take to their local schools and booster clubs. SignalPay works to draw local business support with a "meet or beat" rate guarantee, plus marketing incentives that advertise merchant participation in the program.

### Trustwave offers cloud-based solution, presents at conference, wins award

**Trustwave**, a maker of information security and compliance software, released a cloud-based file integrity monitoring (FIM) system. Such a system looks for additions, modifications or deletions of sensitive files or other stored data. Trustwave reported that FIM can tell businesses if there has been unauthorized system or application access and detect malware or other malicious activity.

All the system configuration, monitoring and reporting is performed by Trustwave, guaranteeing there is nothing for companies to manage or maintain on their own, the company added.

In other company news, attendees of **Gartner Inc.**'s Security & Risk Management Summit in June 2011 heard a discussion of cyber crime trends with Trustwave Senior

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Vice President Nicholas Percoco. He runs Trustwave's ethical hacking and investigations group, SpiderLabs. Percoco was joined by U.S. Secret Service agent Ronald Smalley. The two men analyzed details from Trustwave's 2011 *Global Security Report* to which the Secret Service contributed cyber crime data and analysis. They also talked about recent security breaches and pointed out where companies can best focus their security resources.

In addition, Trustwave Chairman, President and CEO **Robert J. McCullen** won the Ernst & Young Entrepreneur of the Year 2011 Award for technology in the Midwest region. McCullen was selected by an independent judging panel made up of previous winners of the award, leading CEOs, private capital investors and other regional business leaders

## PARTNERSHIPS

### Alibaba group, Yahoo!, Softbank negotiations

China's **Alibaba Group Holding Ltd.**, the U.S.-based **Yahoo! Inc.**, and Japan's **Softbank Mobile Corp.** issued the following statement June 21, 2011, on their ongoing discussions over Alibaba's decision to take **Alipay**, the company's payment processing arm, private:

"Alibaba Group and its major shareholders, Yahoo! Inc. and Softbank Corp., continue to be engaged in constructive negotiations, and we have made substantive and encouraging progress toward an agreement regarding Alipay.

"Our objective is to reach an agreement in a timely manner that serves the interests of all stakeholders. The companies will not comment in further detail until it is appropriate to do so."

### AmEx, Foursquare partner

A national rollout of the partnership between **American Express Co.** and **Foursquare Labs Inc.** began in June 2011 as a challenge to Google Wallet.

The partnership allows AmEx cardholders to use their smart phones to link Foursquare profiles to their cards, allowing customers to load and redeem merchant specials. The system uses the AmEx Smart Offer application program interface to connect with Foursquare.

### Newtek partners with Forbes.com

**Newtek Business Services Inc.**, The Small Business Authority, is partnering in a publishing venture with **Forbes.com**. The Small Business blog, published by The Small Business Authority, provides help to independent business owners to expand their businesses, make money and resolve problems. The blog features the monthly SB Authority Index and the SB Authority Market Sentiment Survey.

### Planet Payment, International Checkout expand agreement

**Planet Payment Inc.** and **International Checkout** are expanding their multicurrency pricing agreement. Planet Payment's multicurrency pricing software, iPay, is designed to help merchants more effectively target international markets online with pricing and payment transparency in any supported currency through a single U.S.-based merchant account.

International Checkout reportedly brings an additional 20 cardholder acceptance currencies to the table, including the Turkish lira, the Egyptian pound, the Icelandic krona and the Belize dollar. The companies now offer processing in more than 65 currencies.

### ViVotech in Singapore

Near field communication (NFC) software and systems manufacturer **ViVotech Inc.** contracted with Singapore's **Infocomm Development Authority** to develop and implement a showcase for rich mobile NFC services.

The demonstration took place at the imbX, the Infocomm Media Business Exchange, June 21 to June 24, 2011.

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ImbX is reportedly Asia's biggest infocomm and media business event for business leaders, government officials and industry professionals.

## ACQUISITIONS

### Cardtronics acquires ATM business

Cardtronics USA Inc. has an agreement to acquire EDC ATM LLC, a subsidiary of Efarmk Deployment I Inc. Cardtronics USA, a wholly-owned subsidiary of Cardtronics Inc., will pay approximately \$145 million for the ATM business.

The deal will add 3,700 ATMs to the Cardtronics ATM network and is expected to raise Cardtronic's profile in the Midwest and Great Lakes regions of the United States.

The deal also gives Cardtronics ATM branding relationships with eight of the 15 largest U.S. banks.

## APPOINTMENTS

### Alpha Card selects Heinrich, Swaby

Robert Heinrich is Alpha Card Services' new Vice President of Sales. Heinrich heads the company's new West Coast regional office in Roseville, Calif.


The western regional office supports new and existing merchants and ISO partners with sales and support options. The company believes the new Alpha Card West office, with its on-site warehouse, will reduce shipping times and lower freight costs.

Alejandro Swaby was named to the newly created position of National POS Sales Manager by Alpha Card. Swaby will supervise POS product development, day to day operations, sales, as well as support and services.

Before moving to Alpha Card, Swaby founded the technology firm Innovative Network Administrators where he led a sales force and developed an in-house channel partner program for software vendors, resellers, ISOs and other vertical markets.

### Payfone appoints Tucker

Payfone, a mobile payment processing business backed by AmEx and Verizon Wireless, appointed Matthew Tucker as its Chief Operating Officer.

Tucker is expected to drive the company's global expansion and mobile payments adoption worldwide. He was most recently the President of Recyclebank, which was ranked by the *Wall Street Journal* as the No. 4 "Next Big Thing" venture-backed company. 

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## Federal Reserve sets debit interchange at 21 cents

**A** reasonable and proportional interchange transaction fee is 21 cents, plus a multiplier of 0.05 percentage points on the cost of every transaction to pay for fraud losses, according to a June 29, 2011, unanimous vote of the Federal Reserve Board of Governors. Also, an "interim rule" allows issuers to charge an additional 1-cent fee if they can "certify" they took measures over and above what would be expected to prevent fraud.

Twenty-one cents is a dramatic turn around for financial institutions that fought vigorously against the proposed new transaction fee cap.

The industry recently came within six Senate votes of halting the fee cap, but now it will settle for fees 9 cents higher than the 12-cent cap the Fed initially proposed in December 2010. In this sense, the final rule is a victory for

card issuers and financial institutions. The new 21-cent cap is still just half the 44 cents issuers are receiving on average now on debit card transactions. Under the new and final rule, issuers will receive about 24 cents from the average \$38 debit card transaction. The new transaction fee will go into effect Oct. 1, 2011, after final public comment is complete.

The new rule was developed at the direction of Congress through the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Durbin Amendment directs the Federal Reserve to develop standards for debit interchange fees that would cap the fees at a rate "reasonable and proportional" to the cost of the card issuer. The amendment also called on the Federal Reserve to prohibit issuers and networks from restricting the number of networks the merchant can use to route a debit card transaction.

### Staff recommendation

The Board of Governors accepted the staff recommendation for a stand-alone cap on the interchange fee, arguing it was the easiest way to implement and monitor the Dodd Amendment. The staff said a higher fee than the one in the original proposed rule was needed to cover legitimate transaction costs of issuers, including network connectivity costs, hardware, software and labor costs of transactions, network processing fees and transaction monitoring costs.

The Fed also accepted a fraud-prevention adjustment of 1 cent per transaction for issuers to pay for effective fraud prevention policies and procedures. Finally, the board will require that issuers allow at least two unaffiliated debit card networks access to POS transactions while, at the same time, allowing merchants to choose to send their transactions to any processing network that can handle the transaction.

### Help for small issuers

The board, though unanimous in its support for the staff recommendation, still has concerns about the impact of the debit fee transaction cap on small banks. The Durbin Amendment only applies to issuers with assets of more than \$10 billion. There is a concern that a two-tier system will bias merchants against small issuers that still recover debit transaction costs through higher interchange fees in favor of larger issuers that not only have to, but can afford to offer lower interchange fees. The staff noted that despite industry pressure to institute a two-tier system of fee structures to address the disparity between small and large issuers, the board does not have the authority to force two-tier fee structures on networks.

The board decided instead to shore up the exemption for small issuers by publishing every year a list of issuers that fall above and below the \$10 billion exemption. This list, to be published by mid-July 2011, will help payment card



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**Federal Reserve Chairman Ben Bernanke said the new rule was one of the most difficult the Fed has ever written, and he reiterated his concern over the effect of the small issuer exemption on community banks and credit unions.**

networks determine which of their issuers are subject to the new interchange fee rule.

The board also, acting on staff recommendation, will publish an annual list of average network interchange transaction fees for issuers. This will give small issuers the ability to assess the interchange revenue they would receive from each network. The board voted to carefully monitor the exemption to assess its impact on small issuers. Those reports will be issued 6 months and 18 months after the new rule goes into effect.

Federal Reserve Chairman Ben Bernanke said the new rule was one of the most difficult the Fed has ever written, and he reiterated his concern over the effect of the small issuer exemption on community banks and credit unions. "Congress has directed the board to accomplish a very difficult task," Bernanke said in opening remarks. "I believe the final rule gives careful consideration to the statutory language, the cost data available to us, and the complexities of the debit interchange payment system.

"The board plans to monitor developments in the debit card market, that monitoring will include collecting and publishing data related to debit card costs and interchange fees. These data will help the board, as well as issuers (both large and small), merchants, networks, consumers and Congress assess whether the statute and the rule are effectively accomplishing their intended goals."

### Industry reaction

Reaction from the financial industry was swift with a general sense of relief expressed that the final rule was receptive to industry comments and fears about the 75 percent cut in fees the Fed originally proposed with its 12-cent cap on fees.

"The Durbin Amendment of Dodd-Frank [is] less of a train wreck – but still very destructive – for community banks, credit unions and consumers," Competitive

Enterprise Institute's Director of the Center for Investors and Entrepreneurs John Berlau commented. "Though this [21-cent cap on fees] still would be a significant reduction in fees for banks and credit unions, it still may be enough for a 'modest rally' in financial stocks. And it hopefully will be enough to avert a warning by Federal Reserve Chairman Ben Bernanke that as written, the proposed rule may cause some community banks to fail."

*Credit Union Times* quoted National Credit Union Administration Chairwoman Debbie Matz saying the new interchange fee amounts "are a step in the right direction." ■

## Visa to update forecast after Fed sets debit interchange

Visa Inc. said it will update its 2011 financial forecast on July 6, one week after the Federal Reserve Board discloses its final determination of debit interchange rate limits. The Wall Street Reform and Consumer Protection Act of 2010 carries in it an amendment promoted by Sen. Dick Durbin, D-Ill., that requires the Federal Reserve to set interchange rates that are "reasonable and proportional" to costs.

After grappling with the requirement for the last year, the Fed revealed its final rule for the debit card interchange rate June 29. (See "Federal Reserve sets debit interchange at 21 cents" in this issue's news section – July 11, 2011, issue 11:07:01). Currently, issuers charge an average of 44 cents per debit transaction. The Fed initially proposed cutting the rate to as little as 12 cents – a 75 percent cut.

### Fed bends, banks still to lose income

Experts expected the final interchange rate to be higher than 12 cents to allow for investment in fraud prevention initiatives and to account for processing costs, but the industry could still lose as much as \$20 billion in fees as a result of the Durbin Amendment. The final rule will take effect Oct. 1. The financial update will fulfill a promise Visa management made in its last earnings update to reassess its 2011 financial outlook after the Fed rule on debit interchange is announced.

"Visa's business foundation remains solid and we will continue to be a growth company," Visa said in a statement. "Our global network, strong client relationships, product and service offerings, and global brand underpin our ongoing success. As we have done throughout our history, we will continue to adapt our strategies to ensure our long-term success including aggressive investments



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## News

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## More regs, requirements from FFIEC, PCI council

**F**ederal regulators updated their take on Internet security, and put bankers on notice that greater scrutiny of online banking security will begin with 2012 examinations. The Federal Financial Institutions Examination Council is an umbrella group that develops uniform examination practices and standards that span different types of financial institutions.

FFIEC members include the Federal Reserve, Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, National Credit Union Administration, Office of Thrift Supervision and a committee of five state bank regulators.

On June 28, 2011, the FFIEC released a supplement to a guidance document issued originally in October 2005 – *Authentication in an Internet Banking Environment*. The

supplement updates that document, describing "supervisory expectation regarding customer authentication, layered security, and other controls in the increasingly hostile online environment," the FFIEC wrote.

The supplement emphasizes the need for regular risk assessments, effective strategies for mitigating risks and raising customer awareness of potential risks. The FFIEC expects examiners to begin using the new guidelines in January 2012. Download the enhanced guidelines at [www.ffiec.gov/press/pr062811.htm](http://www.ffiec.gov/press/pr062811.htm).

### PCI SSC releases list of secure payment app requirements

A list of requirements for payment applications to meet payment industry data security requirements was recently released by the PCI Security Standards Council (PCI SSC). The list clarifies what standards payment applications must meet to be eligible for Payment Application Data Security Standard (PA DSS) validation and listing. The list includes information on how the PA DSS applies to mobile payments.

The PCI SSC manages the Payment Card Industry Data (PCI) Data Security Standard (DSS), PIN Transaction Security (PTS) and the PA DSS. Only payment applications that store, process or transmit cardholder data as part of the transaction and are sold, distributed or licensed to third parties are eligible for the PA DSS program.

Complete information on how to comply with the PA DSS can be found at [www.pcisecuritystandards.org/security\\_standards/documents.php?association=PA-DSS](http://www.pcisecuritystandards.org/security_standards/documents.php?association=PA-DSS).

The PCI SSC is evaluating mobile communication devices and payment applications to determine the risks involved in validating mobile payment acceptance applications to the PA DSS 2.0 standard. In late June, the council issued its position concerning mobile payment security, "Which Applications are Eligible for PA-DSS Validation? A Guiding Checklist." The council plans to release further guidance by year's end. ■

## Fraudsters nailed, proactive security initiatives needed

**I**n the wake of the failure of the Global Cyber-Crime Summit in London to agree on solutions to the growing seriousness of data theft, the secure data and online access security company IronKey Inc. is urging security professionals to immediately address the accelerating cyber-crime attacks around the world.

IronKey Chief Executive Officer Arthur Wong called for a new direction for protecting data to get away from a

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system that only detects threats after they occur. "The industry needs to be proactive, not reactive, and this was the missing message" from the summit, Wong said. He added that the industry needs to develop a software security package that assumes a system is already infected and gives the user "a hardened virtual operating system and browser, built-in malware protection and a trusted network" that together create a separate, protected computer system.

### DOJ nails cyber fraud rings

Meanwhile, two Latvians were indicted, and the U.S. Department of Justice and the FBI seized more than 40 computers, servers and bank accounts disrupting two Latvian cyber crime rings that stole more than \$74 million from more than 1 million consumers. The criminals allegedly sold customers by telling them they were protecting their computers when, in fact, consumers were buying fake computer security systems.

The law enforcement action, known as Operation Trident Tribunal, puts a halt on two criminal rings operating throughout the United States and Western Europe. In the first action, investigators discovered criminals aggressively marketing and selling fake security software by first getting customers to download a malicious program known as "scareware."

Scareware falsely tells computer users it has done a computer scan and found a variety of viruses, trojans and other forms of malware infecting the computer. A series of pop-up advertisements are then launched that continuously warn users they must buy fraudulent security software in order to repair the non-existent problems. The pop-ups continue to aggressively appear on the screen until the user either manages to end the communication or until the user buys the phony anti-virus software at a cost of up to \$129.

The FBI believes more than 960,000 consumers were victims of the scareware fraud. Operation Trident Tribunal successfully located computers, servers and bank accounts for this operation causing a major disruption in the scam.

Operation Trident Tribunal also broke up a second online advertising scheme to sell scareware products. This fraud was run by two Latvian citizens, Peteris Sahurovs, 22, and Marina Maslobojeva, 23, who were arrested in their home country on a warrant from the U.S. District Court of Minnesota.

Sahurovs and Maslobojeva are accused of creating a phony advertising agency and convincing the *Minneapolis Star Tribune* they represented a hotel chain that wanted to buy online advertising on the paper's website. After the electronic advertisement began running on the website the defendants allegedly changed the code in the ad to infect visitors' computers with

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## News

a malicious software program that bombarded users with scareware. The FBI estimates the Latvians got away with at least \$2 million. Sahurovs and Maslobojeva face at least 10 years in prison and a \$250,000 fine for each of the two counts against them. They will also be asked for restitution and to forfeit any profits from their scam if they are found guilty.

### Hacker pleads guilty to AT&T hack

In addition, a 26-year-old San Francisco man pled guilty to writing a malicious code that breached AT&T servers and stole personal information from its iPad subscribers. Daniel Spitler was indicted by the U.S. Attorney's office in Newark, N.J., on one count of conspiracy to gain unauthorized access to computers connected to the Internet and one count of identity theft.

Spitler admitted to being a member of an anarchistic group of Internet hackers and "trolls" (people who intentionally disrupt Internet content and services) calling themselves Goatse Security.

AT&T automatically linked each iPad 3G user's email address to a unique iPad number belonging to the registered user. Spitler and Goatse Security were able to write a program that collected this information by imitating the behavior of the iPad 3G.

The hackers then passed on the email addresses and iPad numbers to the Gawker website where they were published in redacted form.

Spitler was arrested with a co-defendant Andrew Auernheimer, 25, of Fayetteville, Ark. Spitler faces five years in prison and a \$250,000 fine. He is scheduled to be sentenced in September 2011. Auernheimer is still awaiting trial.

"In the wake of other recent hacking attacks by loose-knit organizations like Anonymous and LulzSec, Daniel Spitler's guilty plea is a timely reminder of the consequences of treating criminal activity as a competitive sport," U.S. Attorney Paul Fishman said. ■

## The 25 most dangerous software errors in 2011

**D**epartment of Homeland Security officials joined the Systems Administration, Networking and Security Institute and the MITRE Corp's. Common Weakness Enumeration to release the 2011 list of most widespread,

critical errors found in software, which itemizes the 25 most common programming errors that are used to breach critical stored data.

SANS Institute Director of Research Alan Paller called the report "the major first step to protecting" personal information stored by small and medium-sized organizations. The list developers claim software vulnerabilities are easily located, easily exploited and dangerous because they often allow attackers to take over a system, steal data or disrupt software completely.

The goal of the list is to help software manufacturers identify and prevent common vulnerabilities, educate consumers and help researchers focus on aspects of security weaknesses. Software executives can use the list to assess their progress in securing their products.

The report is a collaboration among the SANS Institute, MITRE and security experts in the United States and Europe. MITRE built and maintains the CWE website with funding from the U.S. Department of Homeland Security's National Cyber Security Division. The top 25 list is prioritized using the findings from more than 20 organizations that evaluated the weaknesses according to prevalence, importance and likelihood of the weakness to be exploited. This evaluation is called the common weakness scoring system (CWSS).

### SQL attacks top the list

Number one on the top 25 list is attacks on the search and query language (SQL) of software systems. "If you use SQL queries in security controls such as authentication, attackers could alter the logic of those queries to bypass security," the authors noted.

"They could modify the queries to steal, corrupt or otherwise change your underlying data. They'll even steal data one byte at a time if they have to, and they have the patience and know-how to do so. In 2011, SQL injection was responsible for the compromises of many high-profile organizations, including Sony Pictures, PBS, MySQL.com, security company HBGary and many others."

To prevent or mitigate these attacks the authors recommend using a vetted library or framework that blocks this weakness or makes the weakness easier to avoid.

They also recommend structured mechanisms that automatically separate data and code and running code using the lowest privileges required to accomplish the needed tasks.

The entire list of vulnerabilities and fixes can be seen at <http://cwe.mitre.org/top25/>. The collaboration also produced two other new tools in the fight against cyber crime: the CWSS (<http://cwe.mitre.org/cwss/>) and the common weakness risk analysis framework (<http://cwe.mitre.org/cwraf/>). ■

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## Are you ready for the NFC paradigm shift?

By Scott Henry

VeriFone Inc.

**N**ear field communication (NFC) encompasses contactless payment technology. But it does much more than enable electronic transactions. That's why industry giants from varied segments – Internet, banking, telecom, mobile phones – are suddenly jockeying for position to cash in on a new era of payment-enabled capabilities at the POS. NFC's broader functionality makes it more likely to succeed where contactless stumbled.

Early implementations of contactless payment began well over a decade ago. A key advantage of implementing those solutions is the technology's ability to adapt to current payment systems. Existing POS terminals can be easily modified with an interface to a contactless radio frequency reader, giving retailers a future-proofed solution to support full-scale contactless rollouts.

The major card brands tried to foster card issuer and merchant adoption of contactless payments – MasterCard Worldwide with PayPass and Visa Inc. with payWave. American Express Co. and Discover Financial Services offered their own contactless technologies, while financial institutions Citigroup Inc. and JP Morgan Chase & Co. in the United States and Barclays Bank in the U.K. began issuing cards to consumers.

But consumers and retailers barely responded to the pitch that contactless would provide greater speed and convenience at the checkout. In general, highly publicized pilots seemed to wither on the vine or fail to evolve into full-scale implementations.

The technology didn't match expectations largely because the promise of speedier checkout was not enough incentive for either merchants or consumers. The difference between a contactless and a swipe payment is marginal to the average consumer and insufficient to convince merchants to upgrade their acceptance devices.

NFC, however, builds on the speed and convenience factor of contactless by offering substantial incentives to both merchants and consumers. Merchants gain from the prospect of combining brick-and-mortar checkout with online promotions and electronic coupons. And consumers will be enticed by the convenience of storing electronic wallets on mobile phones that allow them to easily cash in rewards and discounts electronically while leveraging the capabilities of social media apps.

### What's changed

NFC uses the same radio transmission frequency (13.56 megahertz) as contactless smart cards. But cards are passive objects that respond in the presence of contactless-equipped readers. NFC, on the other hand, is a more interactive, multi-use technology that makes it possible to integrate contactless payment with intelligence embodied in a smart phone or other device.

While NFC has a range of potential applications, its use as a reader and writer in a mobile phone generates the most excitement. Embedded NFC chips allow smart phones to operate as either cards or readers.

So, while an NFC-enabled phone can emulate an existing contactless card, it can also read tags embedded in other devices, such as NFC posters or kiosks, and engage in two-way communication with other NFC chip-enabled devices. Because it operates in passive mode, the NFC chip conserves battery power, but the user can easily put the phone into active mode.

### How NFC works at the POS

NFC-enabled smart phones are about to change everything. From mobile payment and electronic ticketing to in-store couponing and loyalty programs, NFC technology is here now and ready to transform how we live, work and play.

Merchants and retailers of all kinds can leverage NFC to turn their POSs into much more valuable points of interaction that give customers intelligent checkout capabilities. Some NFC-enabled functions at the POS include:

- Easier use of virtual e-gift cards and participation in loyalty and rewards programs
- Two-way communication (peer-to-peer) between the handset and POS device to transmit coupons, rewards, payments and promotional messages
- Payment convenience and the transfer of links for social media fan favorites and group discount offers
- Acquisition of customer data from NFC-enabled devices for improved consumer analytics
- Enabling of alternative payments such as peer-to-peer

With NFC, new media technology converges with new payment solutions. This shift is much more than just payment merging with media. It's the integration of offline and online marketing and promotions.





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## View

**Until retailers are assured of receiving real value from mobile commerce, service providers who stand to gain from carrier fees, ad revenue and transaction charges must be willing to bear the costs of this highly disruptive paradigm shift.**

In addition to payment capabilities, NFC provides presence, which connects location-based social media online services and capabilities to the store, the lane and the checkout. Consumer tapping of NFC phones alerts merchants to their presence and automates their intentions. This capability enables online discount providers to integrate electronic coupons, promotions, discounts and rewards with the consumer's physical checkout transaction, so there's no need to fumble for printed coupons.

### What needs to change

But the POS is far from ready: In the United States today, most estimates peg the number of installed contactless readers at less than 200,000, which is just a smidgen of the total number of installed POS devices.

To get ready, millions of payment devices in the field need to be retrofitted or replaced with NFC capabilities. In early 2011, VeriFone Chief Executive Officer Douglas Bergeron urged would-be NFC service providers not to be

complacent about the challenge. "This isn't just an issue of adding an NFC reader," he said. "It requires deep software richness at the point of sale to interact with the smart phone and manage a services-based model encompassing new applications and deployments without disrupting operation of existing card systems."

Deployment and management of complex NFC technologies will require significant ongoing services from payment systems providers. Until retailers are assured of receiving real value from mobile commerce, service providers who stand to gain from carrier fees, ad revenue and transaction charges must be willing to bear the costs of this highly disruptive paradigm shift.

Mobile commerce must go from zero to 90 mph in five seconds. Consumers will not embrace mobile commerce unless it is widely accepted.

In the past, various players assumed that if they could create a few high-profile pilots for a new payment paradigm – for example, smart cards or contactless – the rest of the merchant universe would follow rather than risk falling behind. But history shows merchants are conservative when it comes to investing at the POS; they want to be assured of net gains before buying new technology.

For that reason, we as an industry also need to evolve our sales paradigm. The new era will be focused on services, not devices. Because the mobile payments world will continue to evolve, the industry can no longer expect new terminals to run unaltered for five, seven or 10 years.

Enabling NFC payments and nonpayment applications requires acceptance devices for a variety of environments and secure gateway services that provide integration of payment with value-added online services. We must also ensure that merchants large and small migrate easily to this new era with the confidence that their investments today will be viable as new capabilities and payment services tomorrow.

As this future develops – and we think it will happen rapidly – you'll increasingly be selling services rather than terminals. The devices themselves will be offered in a bundled service package with few or no upfront fees, but a continuing month-to-month revenue stream and almost unlimited potential for adding new revenue-generating services that provide merchants with greater possibilities to engage their customers. ■

Scott Henry is Director, North America Product Marketing, for VeriFone Inc. He can be contacted at [scott\\_henry@verifone.com](mailto:scott_henry@verifone.com).

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For more information, contact:

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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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# Selling Prepaid



## Prepaid in brief

### NEWS

#### Prepaid industry loses leader

The Prepaid International Forum Chairman and cofounder **Christopher Reddish** died on June 17, 2011, while competing in the Morgan Cup yacht race across the English Channel. The 46-year-old Reddish, a crew member on one of the 72 yachts that participated in the race, fell overboard and drowned approximately 17 miles southeast of the Isle of Wight.

The Prepaid International Forum, a U.K.-based international trade association for the prepaid card industry, lamented the loss of Reddish, an industry pioneer who combined strong leadership skills with industry knowledge and a personable manner.

#### Lawsuit tossed over prepaid card fiasco

A superior court judge in Fresno, Calif., threw out a \$75 million breach of contract lawsuit filed against the Kardashian sisters for pulling their support from the infamous prepaid **Kardashian Kard**. Superior Court Judge Jeff Hamilton said attorneys for Revenue Resource Group LLC failed to prove they could win their case against the reality TV celebrities.

The MasterCard Worldwide-branded loyalty card was launched Nov. 9, 2010, and terminated less than a month later when Dash Dolls LLC, the company run by Kim, Khloe and Kourtney Kardashian, backed out of the endorsement deal it inked with RRG following public criticism of the fees charged on the Kardashian Kard.

#### Prepaid wristbands rock at U.K. festival

Research conducted at the 2011 Isle of Wight Festival held June 10 to June 12, concluded that **MasterCard** prepaid contactless wristbands were popular with festival goers. Survey respondents overwhelmingly agreed the wristbands, rendered contactless by MasterCard's near field communication scheme called PayPass, were quicker and easier to use for concessions purchases than credit or debit cards.

Ninety-six percent of respondents said the wristbands allowed them to make payments quicker than with traditional bankcards; and 98 percent agreed the wristbands were easier to use than plastic.

Additionally, 100 percent of survey respondents indicated they wanted to use the wristbands for future entertainment events.

### ANNOUNCEMENTS

#### Lowe's joins Blackhawk's gift card mall

Safeway Inc. subsidiary **Blackhawk Network** added home improvement chain store **Lowe's Companies Inc.** to the gift card mall purveyor's gift card lineup. The Lowe's gift card will be available through gift card malls located in 1,750 stores across the United States.

#### Mexican pop star to sing prepaid's praises

Popular Mexican singer-songwriter **Paty Cantu** became a spokeswoman for the Univision MasterCard Prepaid Card. The advertising campaign highlights how Cantu uses the card to pay for everyday purchases.

#### 'Mega Bundle' now in GameStop

Online game publisher **KingsIsle Entertainment Inc.** reported its Mega Bundle prepaid game card is now available at GameStop stores in the United States.

The InComm-distributed card is already available at over 45,000 stores in the United States, Australia and New Zealand, the game publisher said.

#### PrepaYd opens PCI compliant call center

**PrepaYd Inc.**, which had been outsourcing customer support, opened an in-house Level 1 Payment Card Industry Data Security Standard compliant call center. Bruce Berman, Chief Executive Officer of PrepaYd, expects to use the call center as a new avenue to upsell PrepaYd card products.

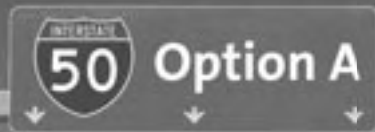
#### Peru gets Western Union

**The Western Union Co.** launched its international business payments service in Peru. The Western Union Business Solutions provides cross-border business payments and foreign exchange solutions to small and medium-sized businesses.

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## PARTNERSHIPS

### Continental Prison Systems expands Canteen deal

Continental Prison Systems Inc., doing business as EZ Card and Kiosk, expanded its partnership with commissary services provider **Canteen Services Inc.**, allowing EZ Card and Kiosk to deploy its prepaid card solutions in county jail facilities throughout Michigan.

### FIS expands processing

Fidelity National Information Services Inc. (FIS) inked a deal to manage the new Travel Money Card Plus program for the U.K. Post Office. The card will be available at over 3,000 postal branches across the United Kingdom, as well as online.

Additionally, FIS contracted with the **Tyburn Group Inc.** to process the program manager's TrustCard payments on behalf of U.S. military personnel and signed a multi-year agreement to provide prepaid card transaction processing, risk management and call center services for Hong Kong-based **Transact24 Ltd.**

### SelectCore renews with HBC

Phone card provider **SelectCore Ltd.** renewed its contract with **Hudson's Bay Co.** to continue to provide POS activation and processing services for HBC's prepaid gift cards for another three years.

## ACQUISITIONS

### ZPrepay buys Precomm

ZPrepay Inc. completed the acquisition of **Precommunications Inc.** to expand its customer base for prepaid products, including bill payments and phone cards.

## APPOINTMENTS

### NetSpend appoints Coleman

NetSpend Holdings Inc. named **Steven Coleman** as its Executive Vice President, General Counsel and Secretary. Coleman previously served as Chief Legal Officer and Secretary of business-to-business payment provider Syncada LLC.

### MoneyGram taps Lim

As part of MoneyGram International's opening of its first office in Manila, Philippines, the money transfer specialist hired **Alex Chan Lim** to manage the operation and grow MoneyGram's network in the Asian country. 📍



## Features

## Is the new AmEx prepaid card a game changer?

**T**he new American Express Prepaid Card is being touted by the card brand as a game changer for the industry. With ever increasing scrutiny on the business practices of prepaid card companies, especially when it comes to the fees they charge consumers, the new offering from American Express Co. simplifies the fee structure and provides what the card brand believes is an unbeatable value proposition.

For the new card, AmEx does not charge online purchasing, monthly maintenance, activation, balance inquiry, alert, card replacement, foreign currency conversion and loading (via bank account) fees. Additionally, the funds loaded on the card never expire. The first monthly cash withdrawal using the card is also free, with a \$2.00 fee for each withdrawal thereafter, along with applicable bank ATM surcharges.

Stefan Happ, General Manager and Vice President, U.S. Gift Cards for AmEx's prepaid card business, said the card represents a brand new category for the company.

"We've been working on this for a considerable amount of time," he said. "We've been watching the marketplace. We've been listening to the consumers. ... We've talked at length and over a sustained period of time to consumer advocates, all with the aim to bring out a product and a payment vehicle that is a game changer for this category."

Happ noted AmEx is able to be profitable with the cards without charging fees other companies rely on because of the card brand's unique business model. "Unlike really any other prepaid card player in this space, we manage and facilitate the end-to-end consumer experience," he said. "So we are the merchant acquirer, the merchant processor, the transaction processor and we are the card issuer. And that closed loop provides the efficiencies that are generally not available in the marketplace."

Happ called feedback AmEx has received on the card "overwhelmingly positive." AmEx is partnering with the consumer advocacy nonprofit Consumer Action to launch an educational program nationally on how to compare, select and use prepaid cards.





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## Selling Prepaid

### Reloading wrinkles

Perhaps the most vocal critic of the prepaid card industry is another nonprofit, Consumers Union. Suzanne Martindale, Staff Attorney at Consumers Union, gives AmEx credit for simplifying the fee schedule.

"It is consumer friendly to the extent that it has a very simple set of terms and conditions," she said. "The fees that could be charged are fairly simple. There's no monthly fees. There's not a lot of these nickel-and-dime fees for ordinary uses of the card, like making a purchase or checking your balance."

However, Martindale is critical of AmEx for one way of recharging the cards – via Green Dot. Corp's MoneyPak. It costs \$4.95 to purchase a MoneyPak card, which can then be used to fund AmEx's card.

With the MoneyPak, "you typically reload online," she said. "You log in and you enter in the card number and you enter in the funds online. Well, if you use that method, it costs you \$4.95 just to put money on your card.

"With the AmEx card, AmEx does not directly charge you very much. But it still costs money to use these prepaid

cards. It's good that they don't have a monthly fee, but it's still going to typically cost you money to get cash out and to put cash on. And that's a real problem."

Martindale also takes issue with what she calls the lack of consumer protections on prepaid cards in general.

"Because of a little wrinkle in how the laws are written, it's exempt from all the guaranteed consumer protections you would get if you had a debit card linked to a bank account," she said. "If your prepaid card is lost or stolen, there is no guarantee under the law that you are going to get your money back."

AmEx is offering its prepaid cardholders a service called Purchase Protection for accidental damage or theft of purchases made using the cards.

### A reduced fee future?

In February 2009, discount retailer Wal-Mart Stores Inc. lowered the activation fee on its MoneyCard to \$3.00. In June of that year, stored-value and prepaid card provider nFinanSe Inc. followed suit.

However, it is not clear how the market will respond to AmEx's reduced fee prepaid card. Happ could not predict



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the outcome, but expects it be profound for the industry. Martindale is more circumspect.

When Wal-Mart lowered the activation fee, other than nFinanSe, the rest of the industry apparently did not follow. "It kind of just didn't happen," Martindale said.

"It's a very strange market. The terms and conditions, the number of fees, the amount of fees vary so widely from one card to the next, that it is hard for a consumer to really know what to do with it – not even when they realize that not all prepaid cards are created equal." 

## Case study: Prepaid electricity metering

**A**s governments around the world wrestle with how to use energy more efficiently, prepaid metering is gaining popularity as a substantial energy saving solution.

Pilot programs have begun in India and Africa. In the United States, Oregon implemented a prepaid metering program in November 2010; Texas started one in June 2011; and the Oklahoma Corporation Commission held a public meeting in May 2011 to discuss the way forward in the Sooner State for energy conservation via prepaid electricity programs.

Governments looking to implement such programs often seek advice from Arizona's Salt River Project, a utility company that serves the Phoenix metropolitan area. Since 1993, SRP has operated M-Power, the largest electricity prepayment program in the United States.

According to Jennifer Collins, Analyst at SRP, M-Power is used by approximately 115,000 customers – over 12 percent of all SRP-served residences. Collins said M-Power customers use about 12 percent less electricity than customers on SRP's basic rate plan.

The in-home portion of the M-Power system consists of a meter installed by an electrician, a user display terminal (UDT) that plugs into the wall and communicates wirelessly with the meter, and a closed-loop, chip-enabled prepaid card that SRP terms a "smart card."

For new customers, the cards come preloaded with \$30 of energy time that can be immediately inputted onto the meter by inserting the card into the UDT.

Users reload the cards via self-service kiosks, called PayCenters, located predominantly in supermarkets in the Phoenix area.

Users can load up to \$500 onto the cards at any one time, while the meter can hold up to \$1,000 of electricity time. The average load value is \$20, which nets the average user three to four days of power, Collins said.

### Growing pains

SRP processes M-Power payments in-house and contracts with U.K.-based AMPY Metering Ltd. (part of Landis+Gyr UK Ltd.) for the meters and UDTs, while Arizona-based engineering firm AllKiosk, a division of GECO Inc., supplies the PayCenters based on SRP's specifications.

Collins said that, as with any program of such length, M-Power has experienced growing pains. Upheaval with previous hardware vendors exiting the business forced SRP to search for new partners. Also, Collins admitted customers have complained about the PayCenters.

Collins said the problems centered on famously hot Arizona summers that resulted in long lines at the PayCenters to purchase power.

"It got to the point where lines were out the door – at grocery stores and our business offices," she noted. "It wasn't pleasant. It wasn't a good experience for customers, nor our partners in the grocery stores or people in the back office trying to figure out how to get these lines down."


When customers reload at PayCenters, the kiosks communicate with two back-office systems, Collins said. SRP engineers have managed to reduce transaction times to a matter of seconds, which has eliminated the long lines, she added.

### Still growing

An October 2010 SRP study, *Paying Upfront: A Review of Salt River Project's M-Power Prepaid Program*, determined that M-Power customers pay \$38 more for electricity annually than users on standard rate plans. But the study also said between 85 percent and 89 percent of M-Power users are satisfied with the service.

Collins said the satisfaction level is high because the program gives users control over their energy usage. The UDT display provides feedback to consumers of usage patterns and beeps when meter time gets low.

The program has been so successful – with an average of 10,000 new customers per year – that SRP hasn't had to market it, as word of mouth has spurred growth, Collins said.

Future generations of M-Power will allow customers to reload cards online and via mobile phones. Collins noted that adding both reload channels will likely take two to three years to implement. 

# The Mobile Buzz

## The three R's of text message marketing

By Pal Flagg

Street Savings

*Editor's note: Welcome to The Mobile Buzz, a new section of The Green Sheet that will appear periodically and is devoted to the mobile payments sphere. If you're interested in contributing to The Mobile Buzz, we'd like to hear from you. Please send an email to editor@greensheet.com.*

**T**he first installment of this three-part series explored the competitive advantages of mobile marketing as a value-added service (for more information, see "Text message marketing, the other mobile," by Pal Flagg, *The Green Sheet*, May 9, 2011, issue 11:05:01).

With text message marketing expected to represent a \$50 billion market by 2014, ISOs and merchant level salespeople (MLSs) need to know about its rules, risks and potential rewards. Therefore, in this second installment, I discuss the benefits of text message marketing for merchants, along with the regulations that text message marketers must comply with and the hazards involved with noncompliant campaigns.

### Rewards

Text message marketing provides merchants with the ability to communicate with customers via short message service (SMS) offers delivered to mobile devices.

It has become an increasingly popular marketing tool for offering digital coupons, advertisements and loyalty programs because consumers rarely leave home without mobile phones, and text messages are universally read within minutes of receipt.

Additionally, mobile marketing removes the necessity of having to clip and carry paper offers, which adds convenience for consumers that encourages mobile coupon redemption.

It's easy for customers to join a merchant's mobile marketing program. Some mobile vendors offer many ways for customers to opt in: via "text to join" on mobile devices, web links and social media, integrated voice response systems, POS systems, quick response codes, or even by entering mobile phone numbers at ATMs.

Mobile marketing offers distinct advantages over traditional advertising and coupons due to the instantaneous nature of text messages, as merchants can quickly react to current market conditions, such as slow sales or dramatic

weather events, by offering customers discounts for shopping at their stores.

Some mobile marketing programs take advantage of the personal nature of the mobile device and its connectivity with credit card terminals. These systems send specific messages to individual shoppers based upon their actual purchasing behavior, a capability that can significantly boost customer satisfaction. The most effective mobile marketing products enable merchants to track coupon redemption and revenue generated by their text message campaigns.

### Rules

The Federal Communications Commission and the mobile carriers have relationships somewhat analogous to the card brands and the banks. The FCC establishes and enforces the rules governing how mobile carriers conduct business, just like Visa Inc. and MasterCard Worldwide enforce the rules for their member banks.

Like banks having authority over ISOs, mobile carriers such as AT&T and Verizon Wireless exercise significant compliance authority over their clients, the text message providers. The technical, structural, content and flow guidelines for mobile marketing messages are available in a consolidated form within the Mobile Marketing Association's best practices document. (For more details, see the resources section at the bottom of this article.)

### Short codes

Wireless carriers deliver commercial mobile marketing text messages through an abbreviated mobile phone number or common short codes (CSC) consisting of a five-, six- or seven-digit mobile number. These CSCs are assigned to specific businesses and allow the carriers to track commercial text messaging. Customers text a keyword (for example, MOVIE) to a merchant's short code (e.g. 31845) to join a recurring service or receive an instant offer.

### Dedicated versus shared short codes

Companies have the option to lease either a dedicated short code or a shared short code through the Common Short Code Administration for three-, six-, or twelve-month renewable terms.

- **Dedicated short code:** The terms, conditions of use and application are all singularly licensed to the enterprise that leased the code. In order to qualify, businesses must file a program brief with the wireless

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## TheMobileBuzz

providers for review and approval. Businesses may choose either a "random" (for example, 28462) code or a "selected" code (for example, 347639 for DISNEY).

- **Shared short code:** As the name suggests, these codes are licensed by one organization and then shared among other brands or companies. To maintain compliance, companies administering shared short codes should submit a program brief for each new service added to the code.

### Risks

There are significant risks for ISOs and their merchants using shared short codes. If formal notification – by way of a program brief – is not submitted to the wireless carriers on behalf of each new program on a shared short code, the new program is in violation of regulations and may be terminated at any time.

Even if a business files a shared code program brief with the wireless carriers, the business is still at risk because it does not know if the other sharing participants have filed program briefs.

It's possible that other sharing participants have not filed such briefs because they are conducting prohibited or "phantom" programs, such as adult content, unlicensed

entertainment (music, etc.) or premium charge cramming (a practice of placing unauthorized charges on a consumer's wireless bill).

There is simply no way for a business to know if prohibited traffic is being sent via its shared code. Of course, having more sharing participants involved with a short code increases the risk that wireless carriers will audit and subsequently terminate that code's connectivity.

### How to avoid risks

Unfortunately, some shared short code resellers are either unaware of the guidelines or choose to ignore them. It is a "buyer beware" marketplace. To reduce the risk of reselling a product that puts merchants' mobile marketing campaigns and your residual-based business in jeopardy, avoid shared short codes altogether. If you are already representing a product that uses a shared short code:

- Request that the vendor provide evidence that he or she submitted a program brief and filing fee on your behalf.
- Decide if the cost of obtaining and provisioning a dedicated short code is economically viable for your business.

If you cannot justify the expense of a dedicated short code and the application to power it, establish a relationship with a company that does not use a shared short code or has filed an approved, certified program brief.

The mobile opportunity is already significant and is growing exponentially. It's important to align yourself with a mobile marketing company that adheres to industry regulations and best practices in order to be in the best position to reap the rewards.

### Resources:

Mobile Marketing Association, U. S. Consumer Best Practices: [www.mmaglobal.com/bestpractices.pdf](http://www.mmaglobal.com/bestpractices.pdf)

"Risks for ISOs, Agents, and SMBs Involved with Non-Compliant Programs": [www.streetsavings.com/pdfs/SS-Risks-White-Paper-10012010.pdf](http://www.streetsavings.com/pdfs/SS-Risks-White-Paper-10012010.pdf)

"5 Step Test to Determine if a Short Code is Shared": [www.streetsavings.com/pdfs/SS-Shared-Short-Code-Test.pdf](http://www.streetsavings.com/pdfs/SS-Shared-Short-Code-Test.pdf)

*Pal Flagg is the Chief Operating Officer at Street Savings. He is responsible for daily operations at the company, including sales, marketing and product development. He brings to Street Savings decades of experience in the advertising, media and wireless industries. As Vice President of Client Services at Comcast Spotlight, Pal oversaw the Client Services group, representing all Comcast advertising opportunities to Fortune 100 clients. Prior to this position, Pal led the client services and new business development efforts for Adlink. You can reach him at [pal.flagg@streetsavings.com](mailto:pal.flagg@streetsavings.com).*

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# FIRST LOOK

## Electronic billing for SMBs

**W**hen Christian Murray joined ePaySpot as President in May 2011, it was to launch a new company. At that point, the core software behind this startup had completed early stage marketing to merchants with encouraging results. The web-based invoicing and billing system was ready to roll out to small and mid-size businesses (SMBs) on a much larger scale through reseller channels.

For Murray, whose payments industry experience has spanned 15 years, most recently as National Director of Business Development for Global eTelecom Inc., the attraction was twofold. First, he saw tremendous growth potential in electronic billing and invoicing. Second, he appreciated the benefits the product brings to SMBs.

"What attracted me to launch this company was the ability to have a wide-open market and be able to bring a product to market that was designed for small and mid-size merchants," he said. "It really gives them the tools and technology to automate their whole billing process.

"That's what really attracted me was the growth of bill pay, in general, and then bringing a product to market that was non-rigid, non-archaic and was very simple to use, and easy for the merchants to improve and streamline their billing methods." The problem with existing electronic billing systems is that most tend to focus on high-volume, larger organizations, he added.

### Selling points

The ePS gateway allows merchants to process single or recurring payments using credit and debit card and automated clearing house (ACH) check payments, which Murray said is a benefit because some electronic billing systems accept credit cards, but not all take ACH.

With ePS, merchants can import or export files into existing software and Intuit Inc.'s QuickBooks. After merchants upload their client lists, they can start generating electronic billings through email, with invoices attached. When customers receive an electronic invoice, they simply click to pay and are directed to log in and authorize payment and accept a convenience fee, which merchants may charge to offset the cost of processing bills online.

Murray said that once a customer has registered and



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entered payment information, ePS supports tokenization, so the same payment option may be selected to pay future invoices without the need to reenter information. "It's more secure, and there is less opportunity for sensitive payment information to be transmitted," he noted.

The consumer-initiated payment component allows customers to initiate payments without an invoice or bill. Nonprofit organizations can use this feature by providing a web link that enables donors to submit individual contributions or schedule them over time.

Murray suggested that for more expensive items, merchants can say to their customers, "You have two options. I can send you an electronic bill and you can click on it, register and pay me. Or, you can go to my website, click on the link that says, 'Sign up for our bill pay,' and literally send me the payment." According to Murray, not a lot of providers have the latter option.

### Reseller advantages

In today's commodity-driven payments sphere, where margins are shrinking, Murray said ePS gives ISOs an opportunity to board higher volume merchants. "Those types of merchants, when they implement this type of software, don't tend to leave very easily," he said. "They're longer term clients."

Murray believes some payment professionals "will find niches in property management or different types of market segments, but they need the technology and tools to get into some of those." He also said ePS "opens up the average agent's opportunity to sell into more verticals and to be more successful and drive more revenues."

Niche markets for ePS include property management, real estate, business-to-business services, maintenance, utilities, nonprofits, universities and schools, local government agencies, to name several. EPS is seeking agents to market its online payment system to merchants who bill their customers. ■

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# Company Profile



## Capital Access Network Inc.

### ISO/MLS contact:

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Head of Business Development

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Email: [dnaczi@capitalaccessnetwork.com](mailto:dnaczi@capitalaccessnetwork.com)

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Scarsdale, NY 10583

Telephone: 914-725-9301

Fax: 914-725-9312

Website: [www.capitalaccessnetwork.com](http://www.capitalaccessnetwork.com)

### ISO/MLS benefits:

- More merchants qualify for cash advances than traditional loans
- Logistics and paperwork significantly easier than with most bank loans
- Advances repaid as percentage of daily receivables to synchronize with volumes
- Extensive data and analytics make it possible to customize merchant programs
- Sales reports, sales monitoring and white papers facilitate SMB growth

## Merchant-specific capital advances

**J**ump-starting the flow of capital in a sluggish economy can seem like an intractable problem. Many businesses struggling to grow and expand have an increased need for upfront capital, but under current economic conditions banks and financial institutions are often reluctant to provide loans.

Capital Access Network Inc. – parent company to two subsidiaries, the merchant cash advance provider AdvanceMe Inc. and alternative loan services provider NewLogic Business Loans Inc. – champions innovative methods for vetting applicants and retrieving (paying back) advances and loans to lift businesses in need of working capital. The company focuses primarily on helping small- to midsize businesses (SMBs), providing most of its services through ISOs and other third-party sales channels.

With CAN, the type of capital infusion and the particulars around retrieval are determined by leading-edge risk scoring models that take into account specifics about an individual business, as well as huge troves of data related to broader merchant sales trends collected and analyzed since the company was founded in 1998. Through this process, each advance and retrieval arrangement can be tailored to suit individual merchants, according to Chief Executive Officer Glenn Goldman.

To date, CAN has advanced business capital to tens of thousands of U.S. merchants, having completed about 80,000 merchant contracts with an estimated 40,000 merchants, according to Goldman, who anticipates delivering \$500 million in working

capital to businesses this year. All told, the company has surpassed \$2 billion in funding, Goldman noted.

He added that the company has 390 employees dispersed in four locations in New York, Massachusetts, Georgia and Costa Rica, and said CAN's international division is currently working to expand the Daily Remittance Platform developed by CAN's Financial Technology Group to financial institutions in 22 nations, so that financial institutions in those countries can provide working capital to local businesses.

### Easier access to funds

According to Goldman, the process behind the company's merchant cash advance platform is somewhat counterintuitive to traditional lending. Traditional loan providers vetting loan applicants tend to focus on their financial histories, while AdvanceMe's scoring model primarily assesses the potential for future opportunities. The company uses a sophisticated, automated computer algorithm to determine both merchant eligibility and the right parameters for retrieval.

Broadly speaking, businesses are more likely to qualify for a merchant cash advance than a traditional bank loan, Goldman said. However, he added that it sometimes works in both directions: merchants with high credit scores may qualify for a traditional loan, but not a cash advance. In such cases, CAN's screening system may determine that, despite a merchant's reliable credit history, the potential for future business growth simply isn't there.

"Standard personal credit scores are a rearview mirror approach, whereas we see ourselves as looking

## Company Profile

***"When you receive a small payment each day, from a risk management perspective, it's better than to rely on your customer to write you a single check."***

- Glenn Goldman  
CEO, Capital Access Network Inc.

through the windshield at the road ahead," Goldman said. "What we've found is that standard credit is not predictive of performance. We've found that the level of cash flow, the number of years [a proprietor] has been in business, how effectively he's managed his business ... all are better predictors [of the company's financial future] than whether he has five credit lines, or two, and how quickly he's paid the bills."

While the use of merchant cash advance has grown in popularity among ISOs, processors and other payments industry players, AdvanceMe pioneered the practice over 12 years ago, Goldman reported. And merchant cash advance offers a variety of advantages over traditional loans. For one, he explained that merchants who might not qualify for traditional loans often do qualify for merchant cash advance. Second, the process of receiving a cash advance is much simpler and requires far less paperwork than would a traditional loan.

"I've been working with [CAN] for four or five years, and they are the easiest in terms of getting a deal funded and the simplicity of underwriting around paperwork, time and communication," said Matthew Gibb, Director of Sales for the Philadelphia-based Victory Capital Group. "They are willing to lend to more customer-friendly programs and to a broader spectrum [of merchants]."

### **An affordable solution**

Another advantage is that cash advances are repaid as a small percentage of a merchant's daily credit and debit card receivables, rather than through a fixed payment, meaning payments ebb and flow in line with a merchant's card sale fluctuations. But for merchants that prefer the structure of a loan, CAN offers capital loans through its NewLogic subsidiary, where maturity dates are predetermined and repayment occurs as a percentage or fixed amount of daily receivables.

"When you receive a small payment each day, from a risk

management perspective, it's better than to rely on your customer to write you a single check," Goldman said. He said the percentage-based reimbursement can be particularly important for seasonal merchants who may need capital during slower business cycles and are looking to pay back the bulk of their advances during peak periods.

The cash advance process is predicated on what is known as a "split" of merchant receivables. This means merchants who receive upfront capital from a cash advance provider agree to redirect a percentage of their credit and debit sales, via their card processor, to the cash advance provider until their obligation is complete.

That percentage and the period over which the advance is retrieved vary from merchant to merchant, based on sophisticated algorithms that take into account a broad spectrum of factors, according to Goldman, who noted that with CAN's advanced technology the scoring models are constantly updated.

"When we underwrite businesses for cash advance, there is a vetting process, and the goal is to make it as easy as possible for a business owner to complete their obligation," Goldman said. He added that, as a rule, AdvanceMe's retrieval ceiling is typically 9 percent of a merchant's total sales, but rates even that high are generally relegated to businesses with high-volume receivables. The number can also be as low as 2 or 3 percent.

### **Striking the right balance**

Advances are generally retrieved within 12 months, and loans range from \$50,000 to \$500,000. Goldman said the aim is to allow merchants to grow their businesses without straining them.

"Often, small businesses will look for more capital than their business can support," Goldman said. "Others will be able to support those higher levels. For example, pizza restaurants have significant margins and their costs tend to be low. In this case, we might be willing to provide more capital."

Indeed, doing the delicate balancing act of helping merchants in the short term without harming them in the long term is the cornerstone of CAN's capital infusion platform. Among other things, that goal is driven and realized by the interconnectedness of its various divisions.

In particular the storing, sharing and analysis of an ever-evolving cache of data forms the bedrock for the company's product suite. According to Goldman, the company has compiled and stored data from every merchant it has ever boarded, and continues to do so. At the end of each day, the computerized algorithm used to evaluate the eligibility and proper parameters of each and every merchant customer is updated, based on transaction data from that day's credit and debit card processing batches.

Among other things, the algorithm takes into account a given merchant's transaction history, trends or fluctuations in that history, trends in the industry to which a given merchant belongs, trends driven by location and other geographic information, and how long the merchant's business has been in operation.

### Value-added services

The predictive analytics provided by CAN's Data Services Division help ISOs and merchants stay abreast of industry trends. The company's quarterly Small Business Credit Sales Report examines same store trends related to credit and debit card sales among SMBs, as opposed to most other reports that focus on big-box and national retail chains.


CAN's Small Business Barometer captures and reports data on topics that reflect SMB perceptions and experiences that support the growth of Main Street businesses. Its Merchant Credit Sales Monitor analyzes merchants' year-over-year monthly credit and debit transactions and provides a comparative analysis of competing businesses for monitoring trends and making informed decisions.

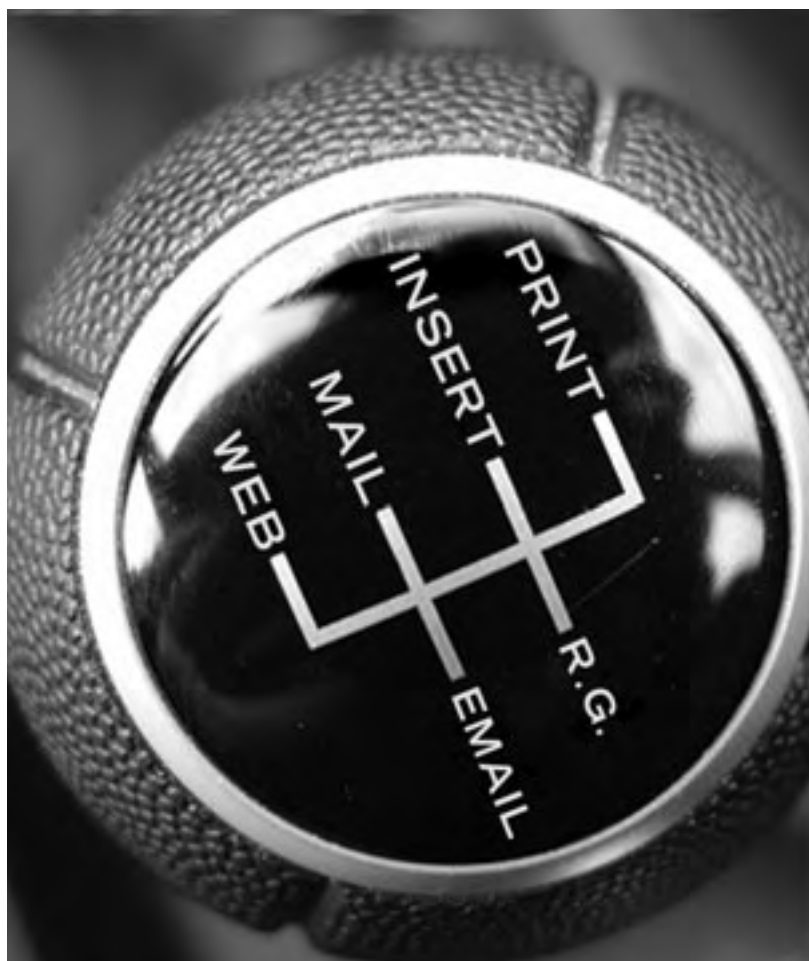
CAN offers white papers on a range of topics. Recent topics have included the growth of merchant cash advance in South America, the correlation between scarce credit

opportunities and an increased reliance among small businesses on alternative capital sources, and how to conduct small business advances without putting an undue burden on the recipient.

"There's a lot of good information there," Victory Capital's Gibb said. "They'll say, 'We're now lending in this industry,' or 'we're rolling out this promotional program for seasonal merchants.' A big white paper just came out putting some [unofficial] rules on an industry that needed some. ... It sent [a message] to the rest of the industry not to take too much money [from a merchant] or stack one deal on top of another."

According to Goldman, one bonus of merchant cash advance is that it's rarely a self-contained, one-off product, but rather a driver of long-term growth that can deliver compounding benefits. Seventy percent of merchants who receive advances from AdvanceMe take out a second one at some point, he said.

The infusion of capital trickles out to merchant providers, who also benefit from merchant growth and increased sales. Goldman said, "In providing capital to small business, it drives value because they use that to expand their business, which increases their processing value to acquiring and processing partners." 



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## Self-policing from page 1

most obvious include doctors, lawyers, accountants and securities dealers.

The Financial Industry Regulatory Authority (FINRA) serves as a watchdog over investment firms and brokers. It has come down hard on those deemed acting in bad faith. In May 2011, for example, FINRA filed formal proceedings against a brokerage house (David Lerner Associates Inc.) accused of selling shares in illiquid real estate investment trusts to unsophisticated and elderly clients. And in June, the watchdog agency levied a \$600,000 fine against Northern Trust Securities Inc. for failing to properly oversee retail sales of collateralized securities; the problem was rooted in a faulty reporting system at Northern Trust, the agency said.

FINRA also supports an arbitration process for disgruntled investors. All told, FINRA oversees more than 4,500 brokerage firms and more than 630,000 brokers. It accomplishes this with a staff of about 3,000 working from headquarters in Washington, D.C., and 20 regional offices. Brokers pay annual registration fees and fees to be fingerprinted by FINRA, and brokerage firms pay annual membership fees, which together generate about \$75 million in annual revenue.

FINRA also offers extensive educational resources for investors online and offline. Since 2003, FINRA has reported spending at least \$50 million on investor educational initiatives.

### Professional certification explained

Professional certification is a process undertaken in many lines of business. A professional certification or designation recognizes an individual has met certain requirements (including passing grades on standardized exams) that vouch for his or her professional credibility.

The Association for Financial Professionals, a Bethesda, Md.-based association of corporate treasury professionals, has been administering a certification program since 1986. About 2,500 treasury and cash managers are registered annually, based on results of a "rigorous" exam, according to the AFP.

To qualify for the Certified Treasury Professional (CTP) exam, an applicant needs two years' full-time experience in a corporate treasurer's office or finance shop; one year's experience is sufficient for applicants with graduate degrees in business or finance. CTPs must also agree to abide by a professional code of ethics published by the AFP.

NACHA – The Electronic Payments Association administers what it calls the Accredited ACH Professional (AAP) program. More than 4,000 professionals (primarily bankers) have earned the AAP designation since the first exam was given in 1993, according to NACHA.

Here's how NACHA describes the designation: "An AAP is an individual who has a comprehensive knowledge of all areas of ACH, a deep understanding of and experience in one or more specific ACH subjects, and a broad knowledge of concepts that relate to the payments system as a whole." An AAP is someone "who has taken the extra step to become an expert in the field."

Certified Fraud Examiner (CFE) is a globally recognized designation that "sets the standard for excellence in the fight against fraud," according to the Association of Certified Fraud Examiners, which administers the 22-year-old program.

A professional development association with international reach, the ACFE offers extensive study tools and other educational resources in addition to administering exams and issuing the CFE credential. The CFE exam tests knowledge and expertise in four areas: fraudulent financial transactions, legal elements of fraud, investigation methods and fraud deterrence.

### Mounting regulatory pressures

Merchant acquiring is regulated by virtue of the industry's involvement of banks; ISOs and MLs, after all, are agents of banks. Additionally, the Federal Trade Commission has direct jurisdiction over ISOs, merchant level salespeople (MLs), processors and others in cases of unfair and deceptive business practices involving consumer loans, debt collection and telemarketing sales.

Historically, however, there's never been much focus from Washington on merchant acquiring. But that changed a few years ago when revenue-hungry lawmakers and the Internal Revenue Service decided to go after merchants for under-reporting sales, and the IRS tasked merchant acquirers, processors and ISOs with helping to keep the agency abreast of sales tallies by reporting merchants' card transaction totals.

More recently, statements from the Federal Reserve Board and the Consumer Financial Protection Bureau have put ISOs, MLs and acquirers on notice that they are very much in the regulatory cross hairs.

The Federal Reserve has just voted on rules for implementing the Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). The Durbin Amendment put the Fed in the unenviable position of establishing price controls on debit interchange.

The Fed's initial proposal, capping debit interchange at 12 cents per transaction, elicited over 11,000 comment letters, the Fed said.

By the Fed's own reckoning, the proposal amounted to a 70 percent reduction in the prevailing debit interchange average of 44 cents. A last-ditch effort by some

## CoverStory

members of Congress to stall implementation of the Durbin Amendment failed in June, and on June 29, the Fed raised the cap to 21 cents, plus 5 basis points per transaction for fraud losses. (For more details, see this issue's news story, "Federal Reserve sets debit interchange at 21 cents," July 11, 2011, issue 11:07:01.)

Also, July 21 is the official first day of business for the Consumer Financial Protection Bureau created by the Dodd-Frank Act to ensure that both banks and nonbank providers of financial services abide by federal consumer financial protection laws.

The CFPB has been one of the most controversial components of the Dodd-Frank Act, because of questions about the bureau's acting chief, Elizabeth Warren, and efforts by House Republicans to rein in the CFPB's authority. In June, the CFPB identified six categories of nonbank financial services providers that potentially could fall under its regulatory umbrella.

Included were firms providing money transmitting, check cashing and related activities, as well as prepaid card companies.

"Consumers deserve the peace of mind that financial companies – both banks and nonbanks – are following the

rules," said Warren, whose official title is Special Advisor to the Secretary of the Treasury on the CFPB. "

The CFPB will be able to examine companies that have never been subject to federal oversight to ensure that no one is gaining an unfair advantage by breaking the law. This will ultimately create fair competition, better product offerings and more transparent markets for consumers."

Although ISOs and MLSs do not deal with consumers directly, merchants, especially small town mom-and-pop shops, can be very vocal, as the ongoing debate over interchange has shown. "They carry a lot of political clout," Atlas said.

### Certification, not licensing

One likely reason retailers have such clout is longevity. The National Association of Convenience Stores, the Washington-based group that coined the phrase "swipe fee" and helped push the Durbin Amendment through Congress, celebrates its 50th anniversary this year.

Thousands of merchants are dues-paying members. Eight years after moving to Washington and staffing up, The Electronic Transactions Association is a newcomer by comparison. About 500 companies are ETA members.

Unlike the NACS, which spends significant time lobbying Congress, the ETA is primarily focused on education and professional stewardship. The Certified Payments Professional (CPP) designation is a voluntary program launched in 2011 by the ETA.

Passing the CPP exam attests to an individual's skills and knowledge involving the sale and distribution of electronic payment products to merchants. Candidates for the exam are required to have at least one year of industry experience.

"We tapped all available resources, from a wide range of industry experts to certification program specialists in order to ensure that those who earn the CPP credential are truly qualified to receive the designation," said ETA Chief Executive Officer Carla Balakgie.

On its website, the ETA points to several benefits that can be expected from the CPP, including that it, "Demonstrates the ability to self-regulate." ETA staffers are quick to note, however, that they not angling to police the industry.

"The Certified Payments Professional program is not an attempt by ETA at industry self-regulation," said Rori Ferensic, the ETA's Director of Education and Professional Development.

"In any industry, a professional certification program validates that a practitioner in that field has been tested and demonstrated a certain level of knowledge, skills and abilities." Ferensic added that the ETA's goal is "that the

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CPP designation signify competent practitioners and provide merchants with a way to identify sales representatives who are knowledgeable about the work they do and committed to their profession."

### Feedback from payment pros

News of the CPP program has unleashed a torrent of industry chatter, including on the MLS Forum.

"My only question is, will the ETA do enough advertising and merchant informing to create a value to this program?" wrote forum member **CLEARANT**. "Until the merchant sees the value they have a very high hill to climb."

Many forum members also complained about the cost: \$325 for ETA members; \$425 for nonmembers. "I see this program gaining about zero traction at the quoted price levels," wrote **MTY MSI**.

"I still think this is a good start, but without some type of mandatory registration, licensing, etc., for all entities selling acquiring services, this really won't change much," posted **SCAINE**. "The unethical ISOs will continue unabated while the ethical folks get certified."

But mandatory registration would demand major investments of time, money and resources, Dunn pointed out.

"It would require a grievance process, as well as policing authority. That could get pretty messy."

A spokesman for the ETA said, "It's not something we have the capacity to do. It would require a much larger organization."

Licensing presents similar obstacles, Atlas noted. "You'd want to be sure that any licensing regimen was administered by a variety of interested parties," he said – not just the ETA or the card companies.

In the end it seems the best defense for the industry against outside regulation may just be a good offense, and not letting a few bad apples sully the industry's reputation.

Atlas pointed out that there are always good and bad people in every line of business. And while the CPP may not rid the industry of dishonest folks, he is hoping it will provide "a valuable tool for the salesperson who wants to learn more and be better at what they do." ■

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



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## Networking groups and referral marketing - Part 1

By **Bill Pirtle**

*MPCT Publishing Co.*

**A**s I began planning this column, my intent was to interview Dr. Ivan Misner, the founder of Business Networking International and the Referral Institute, to show merchant level salespeople (MLSs) reasons to get involved with or start referral groups.

The interview was recorded live and broadcast on BlogTalkRadio.com. The discussion focused on why MLSs and ISOs should consider networking groups. I belong to two Michigan-based business networking groups but knew that BNI, being an international organization, would be a better group for discussion, as all readers of this article can find local BNI chapters in their respective areas.

The Misner interview came as a result of a referral. I told a member of one of my networking groups that I wanted to send a list of questions to Dr. Misner that I thought could help my readers. The gentleman talked to Misner, and Misner contacted me to request a phone interview. I then signed up with BlogTalkRadio and created the radio show so I could record the interview and get a transcript.

### Attitudes on mornings

**GMARTIN** was considering a BNI group but has difficulty with the group's 7:30 a.m. meeting time, as well as the 25-minute one-way commute it requires, "[I] never was a morning person," he wrote. "I know a lot [of people] in the group, and they've been asking quite often for me to join them. This info [will] help [me to] make a final decision."

Misner replied, "Well, first of all let me say, I hate early

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mornings.' I am not an early morning person – never have been an early morning person. When I started BNI, I was not an early morning person, so I feel the pain of all of the people who go, 'Oh, my goodness, 7 or 7:30 in the morning, that's so early!'"

But Misner started a morning group anyway. "So, I put together a group," he said. "And I did it in the morning because I didn't have any customers. I didn't have any clients that were crazy enough to want to meet me at 7 in the morning.

So I knew I'd be free. And now, 26 years later, most of our groups meet in the morning because it doesn't compete with where you're making your money, which is your clients.

"And that's why I did it in the morning. And you know what, this guy who hated early mornings was more than happy to get up in the morning to get referrals. That's why now we have 136,000 members in almost 50 countries. And the overwhelming majority of them meet in the mornings and they're okay with that."

### The VCP process

I next asked Misner if there were any way for a processing agent to predict success with BNI, or another networking

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***"Whatever you feel comfortable saying is honest enough. And you say, 'I know this person. I can highly recommend him. Would you like to talk to him? Would you like me to introduce you? Here's his card. Can I give him your card?' And when the barber says, 'Yes, would you do that because I'm not happy.' That's a referral.***

group, since several on the forum said they did not find success with it.

"I think some of it is expectations," Misner said. "People join a networking group and they think that they're going to start getting referrals the next week, the next month. And it takes time.

What I try to teach people is what I call the VCP process of networking. VCP stands for visibility, credibility, profitability. It's a chronological process. You have to go from visibility to creditability to profitability.

"So you meet people. You get to know them. They know who you are and what you do when you're at visibility. But then you have to go to credibility, and credibility is where people know who you are, they know what you do and they know you're good at it.

Now they may know you're good at it because they've used you; they may know you're good at it because they've been around other people who have used you.

"But you've established a level of credibility that exists. That takes time. But then it takes even more time to get to profitability where people know who you are, they know what you do, they know you're good at it, and they are willing to pass you referrals on an ongoing, reciprocal basis.

"The secret to predict success is for people to come in understanding that networking is more about farming than it is about hunting, that it's about cultivating relationships with other people and that you have to move through the VCP process."

### **Barbers and business**

**JDECKARD** stated that from his experience, "Most of the referrals were a waste of time. The ones that pop to mind include, 'My barber has been in business for 25 years, and he doesn't take credit cards, never has. ... Here's his number.'" Others in the forum believe that the pressure to deliver referrals contributes to the proliferation of bad ones.

"Is there pressure to bring referrals?" Misner asked. "Well, we definitely want people to refer people. I mean that's

what BNI is all about. But the last thing we want is for people to get bad referrals, such as, your example, 'Here's my barber. He may need credit card processing.' I'm not sure that's even a legitimate referral. In order to make it work, you have to make sure it's legitimate.

"A referral is the opportunity to do business with somebody who is in the market to buy your product or service. They know and are expecting your call. Otherwise, it's a lead. So, if you haven't talked to the barber and the barber hasn't specifically said, 'I'm looking for a credit card processing company,' then that's not a referral.

That's a lead, and we would prefer you not give leads. We're pretty assertive about that. A legitimate referral would come from you talking to somebody.

"OK, so you're talking to your barber and the barber complains about the credit card rates or the old machine he has or whatever it is. And you say, 'I know a great credit card processing rep, and I've worked with him [or I know people who've worked with him or I see him every week].'

"Whatever you feel comfortable saying is honest enough. And you say, 'I know this person. I can highly recommend him. Would you like to talk to him? Would you like me to introduce you? Here's his card. Can I give him your card?' And when the barber says, 'Yes, would you do that because I'm not happy.' That's a referral.

"Now if he says, 'I'll take his card, but I don't think I'm quite ready.' That's not a referral. And if you haven't even told the barber, or if you just hear that and then you go tell the credit card person, that's definitely not a referral. That's a lead, and we don't recommend leads. We recommend referrals.

"So, is there pressure? No, I wouldn't say there is pressure. There's an expectation that if you're going to join, that you're there to help each other.

And if you're going to call that pressure, then OK. I can live with that. But if by pressure you mean, 'Look if you don't give a referral, we're going to kick [you] out of here.' Then, no, I don't believe in that either, because what that does is to force bad referrals."



**"What happens is people try to say everything that they do in 60 seconds. They're not going deep in explaining the benefits of their products – the benefits of their services. So, for example, with credit card processing, there are many different things to talk about. You can stand up and say, 'I can save you money.' That might be one.**

### Truth or delusion

I then commented, "So, if you're looking for good referrals, you have to get into the practice of giving the type of referrals you'd like to receive."

Misner added, "Yes, that's a very good way of putting it. But it's also about educating people. When I find that people aren't getting good referrals, I start going deep with them and find that they're not asking for them appropriately. They're going to a meeting and saying, 'Hey, I can help anybody with credit card processing. You know, just keep me in mind.'

"I'm sorry, but that's not good enough. And in one of the books I wrote, called *Truth or Delusion*, I speak to the com-

mon thinking that if you're not getting referrals from your networking partners, it's their fault. This is the 'delusion.' It's all your fault. "If you're not getting referrals from the people you are networking with, it's not everybody else's fault; it's yours. And one of the reasons it's your fault is you're not training them. You've got to teach people how to refer you. So the more specific you can be, the better.

"What happens is people try to say everything that they do in 60 seconds. They're not going deep in explaining the benefits of their products – the benefits of their services. So, for example, with credit card processing, there are many different things to talk about. You can stand up and say, 'I can save you money.' That might be one.

"But that's all you should talk about, that one. You



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continue, 'And you know, the standard rate is  $x$  percent but we can do  $y$  percent, and you may not have known that, but it's possible to do that. This is how we do it ...' And so this week you just talk about this one facet.

"Next week your talk might be about ease of operation. 'Do you have this problem or that problem with your credit card processing company? You know, if you work with me, you're not going to have any of that. And here is why ...' "The following week the talk might be, 'You might want to consider one of these mobile credit card units. We picked up one at BNI. We can be anywhere with Internet access; we just swipe it, boom, it's done. People want cards, they want books, they want educational materials. Now we don't have to fill

out the little form, bring it back to the office and hope that everything is written down right. We can swipe it right there.' That's a presentation.

"So, my point is it's incumbent upon you as the member ... the person who is the member of any networking group, to adequately train people on what good referrals for you are and to go deep in explaining them in detail.


"At BNI you can talk every single week. So rather than just go, 'Blah, blah, blah. I'm a full service whatever or I can do whatever you need.' This really doesn't teach anybody anything. Try presenting credit card business 101 [or] credit card processing 101.

You create a curriculum to teach people about your business. That way, when they're out there talking to people, they can refer you more effectively. Make sense?"

### The point

When I first heard Misner say, "It's all your fault," I was resistant. But he has a point. I know of many people who are successful with networking groups – and just as many who are not. It is not the group; it is how the individual uses the group.

The entire BlogTalkRadio interview I did with Misner can be heard here: [www.blogtalkradio.com/mpctpublishing/2011/05/25/dr-ivan-misner-on-business-networking](http://www.blogtalkradio.com/mpctpublishing/2011/05/25/dr-ivan-misner-on-business-networking).

The next part of this interview will include further insight from Misner on how to make networking groups and referral marketing work for ISOs and merchant level salespeople. 

*Bill Pirtle is the President of MPCT Publishing Co. and author of Navigating Through the Risks of Credit Card Processing. He is also a merchant level salesperson for Clearent LLC, Electronic Payments Inc. and Electronic Merchant Systems Inc. Bill's website is [www.creditcardprocessingbook.com](http://www.creditcardprocessingbook.com), and his email address is [billpirtle@yahoo.com](mailto:billpirtle@yahoo.com). He welcomes all connections on Facebook and LinkedIn.*



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## Use communication to cut merchant attrition

By Jeff Fortney

Clarent LLC

**T**he call came in July several years ago. The merchant was very upset. The first thing he said was, "Why did you raise my rate? You can't do that. I'll sue!"

After I identified the merchant, I confirmed what I had immediately suspected was the source of his frustration: his rates had gone up, but not in July; they'd gone up in May. And the increase was in direct response to the card companies' (which were formerly associations) increases in interchange.

I explained that the notice about the increase had been on his statement the month before it took effect and that all merchant agreements allow for adjustments when the card brands raise their rates. I then added, "We had a similar increase a year ago, too."

It was clear he hadn't noticed the announcement about

that one either. He obviously didn't spend much time looking at his statements or the messages they contain.

It is increasingly evident that most merchants ignore statement messages, letters they receive and even emails.

### Accept complaints as a fact of business

This type of situation was not uncommon in the 1990s when card company rates changed every six months, and the changes were too large to absorb into discount rates. Processors would notify merchants 30 to 60 days in advance through merchant statements and then prepare for the onslaught of calls that would come three months after the adjustments.

Granted, the card brands are not making changes as often today, nor are the changes as significant as they once were. However, with the advent of IRS fees, Payment Card Industry Data Security Standard compliance fees and other specific items being added to merchants' processing-related costs, it's no wonder processors are receiving numerous calls from angry merchants.

However, identifying merchants' reasons for being upset does not negate the fact that an irate merchant is at risk of leaving. For every call you receive from an angry merchant, you can be sure 10 others are also upset but won't take the time to call – they'll just leave.

### Nip merchant dissatisfaction in the bud

Unless you become aware of your merchants' dissatisfaction early on and take the appropriate, proactive steps, your portfolio will be in serious danger of shrinkage. Following are suggestion for preventive actions to take at three key times:

1. **Post close:** Many merchant level salespeople still consider a deal closed at the time it's signed by the merchant or when the terminal is downloaded. In truth, the contract may have been signed, but your efforts to grow the relationship and prevent attrition are just beginning.

Along with training a merchant on use of the terminal, take the time to educate them on the statement. Show them what they will see by providing a sample statement. Explain each section and emphasize any area where messages may be posted.

After completing the training, close with something along the lines of, "Can I share one of my biggest fears? Sometime in the future, something



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## Education

will happen and an important notice will be posted on your statement. Somehow you will miss it and not realize the importance of it until it's too late. Do you think that could happen?"

The merchant may ask for examples of what could happen, and it's best to use past situations. Explain how many instances were one-time situations where a merchant had the opportunity to address the issue, but by not reading the message he or she lost the opportunity to take any necessary action.

Be sure to stress that in all cases if the merchant had read the message, questions could have been answered in advance, before there were any negative repercussions.

This will help reiterate the importance on reading the statement every month. Don't avoid this step because it feels like a negative. In almost every case, the merchant will appreciate the heads up, and you will gain added trust.

2. **After message postings:** Should a situation arise in which a change is being made, contact your merchant base and encourage them to read the statement message when it arrives. You don't have to reiterate the message completely, but you do need to provide them with a heads up. This can be done via e-mail or a phone call – the latter is better for your most important clients.

Some may ask what the change entails. Explain any change in layman's

terms, and be prepared to discuss the key details. Don't read the message verbatim, as that can be confusing. Remember, you are their trusted adviser, so act like one. Tell them the facts and how the change will affect them. Be proactive. Call your merchants rather than wait for them to translate the statement message and call you, possibly in confusion and anger.

3. **Between changes in rates:** One key component in attrition management is an effective plan for ongoing communication. This plan isn't just communicating when an issue arises, but consistently reaching out to your merchant base. This can take various forms ranging from newsletters that can be sent monthly or quarterly to regular e-mails and even letters.

In at least one communication a year, emphasize the importance of statements and any messages they contain. Remind your merchants that these messages could have a monetary impact and should be read each month.



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*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 or 972-618-7340.*




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## Education (continued)

# Finding the right payment processor

By John Barrett

First Data Corp.

**D**etermining which payment processor to work with is one of the most important business decisions an ISO makes. "We took our processing partner decision very seriously, as our plan was to transition our company into a true 'super ISO' platform company," said Todd Linden, Executive Vice President and Chief Operating Officer of Merchants' Choice Payment Solutions, based in The Woodlands, Texas.

"That type of transition is dependent upon making the right processor choice," he added. "We rely on our processor to stay ahead of the marketplace and help keep our sales groups competitive and relevant."

***ISOs should look for processors that can offer a one-stop shop to help serve their target customers as profitably as possible. Merchants who purchase multiple products and solutions are less likely to leave when a competitor walks in the door and offers a lower price.***

Whether an ISO is looking for its first partner or reviewing opportunities after many years in business, it's critical to pick a partner that can grow and adapt with the ISO's business. This can include arrangements for who assumes the risk in the relationship, the technology options the processor provides, and training assistance and merchant customer support.

### Compatible business models

When selecting a payment processing partner, it's important that the ISO be clear about its own operating model – including the ISO's capabilities and where it may need help. Critical questions to ask include:

- Do the processor's offerings fit into your business model? Are there options to adapt as your ISO and the market change?
- Who will assume the merchant underwriting risk?
- How would the processor's compensation strategy affect your business?

- Do you already have financial institution relationships, or do you need the processor to bring that relationship to the table?
- What does the relationship with the processor mean for your ISO's ability to buy and sell merchant portfolios?

Ideally, payment processing partnerships are long-term arrangements, so it's important to find a processor that suits the ISO's needs today and has options that will allow for making adjustments as the company and industry change.

For instance, an ISO in startup mode might want a payment processor to bring the financial institution to the relationship and assume the merchant underwriting risk. After a few years in the business, the ISO may want to own the bank relationship or assume the risk. Limited options may hinder future growth.

It's also essential to consider the importance of buying and selling merchant portfolios. ISOs may find that the ability to buy a portfolio from another ISO that works with the same processor makes for an easier (and less expensive) transition. Those looking to sell portfolios may find they can get a higher price when selling to ISOs who work with the same processor.

### Technology and innovation

ISOs should look for processors that can offer a one-stop shop to help serve their target customers as profitably as possible. Merchants who purchase multiple products and solutions are less likely to leave when a competitor walks in the door and offers a lower price. Many ISOs also find a profitable niche in a specific industry – health care, for instance – in which they can become experts and take on a more consultative role with customers.

Processors that offer a menu of options ranging from credit and debit processing to gift card programs to remote deposit capture give ISOs the greatest amount of flexibility in determining the best approach to building value with merchant customers.

"It's important to us to have a processing partner that does it all for us," said Henry Helgeson, President of Boston-based Merchant Warehouse. "Working with a partner that offers so many types of products and solutions allows us to go after a lot of potential customers, and they know that we're going to be able to service any of their needs. It really comes down to the question, can this processor handle any type of merchant and any needs we may have?"

For example, one place where ISOs can provide value to



their merchant customers is assisting with Payment Card Industry (PCI) Data Security Standard (DSS) compliance. While 66 percent of the small to midsize businesses participating in a 2010 research study by First Data and the National Retail Federation claimed awareness of the PCI DSS, only 49 percent had completed a self-assessment at the time of the survey.

Processors should provide options for merchant customers to achieve and maintain PCI DSS compliance – and perhaps even go beyond. Assisting with this can mean recommending vendors to provide questionnaires and perform scans.

It can also mean offering solutions that use technology such as encryption and tokenization to significantly reduce the scope, risk and costs associated with compliance without requiring new hardware or extensive changes to existing business processes.

Some important questions to ask include:

- How can a processor help increase the value you provide to your customers?
- Is the partner innovative? Can it help your company find new opportunities and meet changing demands?
- How is the processor getting ready for the future – are there new opportunities?

Working with a payment partner that supports a wide variety of products and services can help ISOs win new business, build value with existing customers and increase cross-selling opportunities.

### Sales training and customer service

As ISOs narrow down their processing choices, it's important to remember to address two important items: sales training and merchant customer service.

Appropriate training and education can help ISOs become business consultants to their customers and ultimately foster connections that promote merchant retention. Look for a processor with an established training program to keep your sales force updated about important trends and technologies and ways to increase effectiveness.

ISOs also should consider their ability to handle customer service for their merchants and whether they will need support from the processor.

"Our customers are primarily gas stations, and many operate 24 hours a day, seven days a week," said Marwan Shihadeh, President of Miami-based Orion Merchant Solutions. "They want to know they can call someone to solve a problem no matter what time it is. If you want to be successful in this business, you need to be ready to answer those calls."

Ideally, the processor should allow the ISO to choose from a menu of service options. For instance, the ISO may want to field service calls from 7 a.m. to 7 p.m. but have its payment processing partner handle overnight service calls. If an ISO will need this type of support, it's important to discuss this with prospective processors to understand the options available.

### Support for ISOs

There are many factors to consider when weighing processing relationships, but so much boils down to one question: How can this processor support your business now and over the long term?

ISOs should feel comfortable contacting their processors for assistance and education. They should seek processing partners that reward them for high achievements and can help them prepare for the future of payments. Having these pieces in place allows ISOs to focus on winning business and building value with their merchant customers, which is critical to growing their companies over the long term. ■

*John Barrett is Senior Vice President of Independent Sales Services at First Data, where he leads sales and service for ISOs, agents, agent banks and full service processors. Reach him at john.barrett@firstdata.com.*

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## Social media: Putting your company's best face forward

By Peggy Bekavac Olson

Strategic Marketing

**N**ot a day goes by without a new hot topic du jour from the world of social media. It's a popular subject in many business circles. While most people have dabbled in social media in their personal lives, using these new tools to your company's best advantage is even more important.

As a member of the Electronic Transactions Association's Program Planning Committee, I can tell you social media was a "must have" topic on the agenda for this past May's ETA Annual Meeting & Expo. I was fortunate to join in planning and participating in the session "Tweets, Posts and Networking – Social Media in Payments," working alongside talented professionals who are putting social media to work for their payment businesses in innovative ways.

Joining me were panelists Scott Goldthwaite, Vice President of Product Management and Marketing for

Planet Payment Inc.; Rhoda Steward, Director of Strategic Partnerships and Marketing at First American Payment Systems LP; and Kathy Tuite, Senior Vice President of Marketing for TransFirst LLC.

### Brand can't be built in a day

For a payments industry perspective, we assigned high value to new twists in social media for brand building, customer service, e-commerce, merchant acquisition, recruitment and reputation management. I will recap the session's topics for you here.

As I've said before, brand is the value your business promises and delivers to the marketplace day in and day out. The role social media play in building your brand is to help create awareness, communicate your company's key messages, develop credibility and instill trust. They also may be used to propagate information about who you are, what you do, how you're different, and why people should care and want to do business with you.

Among social media, Facebook, LinkedIn, MySpace, Twitter, Digg, YouTube, SlideShare, Flickr, Blogger, WordPress.com and others can all be effectively employed in the brand building process.

### Follow your customers and they'll follow you

Kathy Tuite recommends going where your customers are to offer them customer service. She demonstrated the importance of leveraging social media for customer service by highlighting interesting statistics from eMarketer.com and SocialMedia B2B:

- The top business-to-business (B2B) social media focus is customer feedback (45.7 percent).
- 46 percent of customers search out social media information to solve problems.
- 40 percent of customers want to give feedback regarding their experiences.
- 78 percent of online consumers trust recommendations from other customers, versus 14 percent who trust company recommendations.
- 86 percent of consumers quit doing business with a company due to poor customer service.

Tuite said you'll want to develop an outlet where your customers can proactively talk to you and others via message boards, blogs and help pages with live attendant engagement. You should also make available product

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Century Payments was ranked number 11 in the Inc. Magazine's 2010 list of fastest growing privately held companies in the United States.



## Education (continued)

and service related content such as overviews, frequently asked questions, tutorials, video demonstrations and downloadable instructions for customer self-service.

Tuite suggested soliciting and sharing customer feedback through testimonials, ratings and reviews. She also reminded us to take the opportunity to increase customer communication, test additional offers and concepts, cross-sell and up-sell relevant products and services, and track success.

### Develop social media as a sales channel

In the merging worlds of e-commerce, mobile commerce and social media, Facebook will be the new e-commerce, in the view of Planet Payment's Scott Goldthwaite. He urged merchants to use the emerging tools to reach new markets and expand sales opportunities globally. Merchants large and small can easily create micro shopping sites promoting limited product lines or offering featured specials from their bigger e-commerce websites to a potential audience in excess of 500 million users.

Goldthwaite believes merchants who adopt social media as a sales channel can build deeper relationships with customers by offering special pricing based on wall post "likes" or "shares," plus personalized pricing based on

profile parameters such as currency, language and product options. Merchants can also use social media analytics to drive their target marketing efforts.

Although Facebook e-commerce is in its infancy, the opportunity for growth is explosive. Today, PayPal Inc. has Facebook e-commerce payments all sewn up, but traditional card-based payments are scheduled for roll out later this year. According to Goldthwaite, payment companies should primarily consider how they want to participate in helping existing and new merchants capitalize on this fresh and exciting sales channel.

### Exploit a burgeoning B2B opportunity

Using social media for B2B customer acquisition is growing fast. I shared remarkable statistics from a spring HubSpot report about the percentage of businesses that have acquired business customers through specific social media sites. It indicates LinkedIn is the B2B lead-generation leader: LinkedIn – 61 percent; Company blogs – 55 percent; Facebook – 41 percent; and Twitter – 39 percent

HubSpot's 2011 *State of Inbound Marketing* report is based upon its survey of some 600 marketing professionals. The report also indicates professional communities like



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Facebook, LinkedIn and other niche sites are being used more frequently to develop business strategies, support new product and service introductions, and accelerate decision processes.

Goldthwaite said you must identify decision-makers within your target market to be successful in using social media for merchant acquisition. The key is really networking. Get to know all your Facebook friends and LinkedIn connections through online and offline sales activities and encounters. Actively participate in groups, posts, tweets, etc. Plus, make sure you maintain your website, fan page, company profile, blog and other social outlets as places for fans, friends, connections and unknown prospects to go to for research. Make it easy for them to learn more about you and your company.

I believe sharing high-quality content is a way of exerting influence and affording transparency and credibility, which can have a significant positive impact on merchant acquisition. In my experience, social media enhance the merchant acquisition process when combined with traditional sales and marketing activities like telesales, advertising, events, mailers, emails and sales calls. It's another marketing tactic in the arsenal of tools that payment companies can use effectively to win new business.

### **Reach out and hire someone**

Rhoda Steward believes social media can be a key strategy for recruiting sales agents. While a social media recruiting program is fairly easy to put in place, it takes time and commitment. She touts the benefits of social media recruitment as being cost free, providing information instantly, allowing focused interaction with your target audience and building positive online content about you and your company.

First, define your message when recruiting via social media, Steward said. Be clear and concise, because the audience has a short attention span and needs to learn quickly who you are and why you should matter to them.

Facebook and LinkedIn groups, discussions, questions and answers, fan

pages, blog feeds and direct interaction all can be employed for recruiting. Steward suggested joining groups whose members belong to your target audience and then actively participating. You will educate, influence and establish leadership by posting relevant content, starting or joining discussions, and answering questions.

Steward recommended promoting your company without overdoing it, which could result in losing credibility, getting flagged by others as being inappropriate, or worse, getting kicked out of groups. Although you can take a low-key approach to recruitment by letting candidates come to you, Steward said the best way is through direct interaction. She advised reaching out to active group

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members through private messages and public wall posts to engage and let them know you value them. Steward stated that in an industry of churn-and-burn agents, potential candidates really appreciate personal attention.

### Take control of your 'buzz'

People love to talk. They're out there right now, discussing your company, your people, and your products and services in ways you never before could have imagined. They're doing it across the spectrum of social media – whenever and wherever they want. As such, Kathy Tuite regards search engine reputation management (SERM) as a critical business activity for purposes of brand monitoring as well as understanding customer loyalty and prospect engagement.

Tuite relayed statistics from a November 2010 Meltwater Group study indicating companies need to take online brand monitoring more seriously. Although 84 percent of companies consider it important, only one in five had invested in tools that can leverage good news while proactively addressing the bad.

Tuite recommended payment companies:

- Monitor company sentiment (how you're being described online), visibility and presence (every instance you're mentioned on the Internet), and participation and reach (your engagement).
- Designate an experienced social media and industry resource to monitor the web daily, proactively post content and leverage Search Engine Optimization (SEO) techniques.
- Establish a corporate-wide plan.
- Develop a response policy, private and public, to address negative information and prepare for the worst.
- Utilize tools like Samepoint.com, HowSociable.com, Scout Labs from Lithium Technologies Inc. and Radian6.
- Be patient – SERM takes time and vigilance.

Although these new twists on social media present many opportunities, developing a strategy and tactical plan, as well as focusing on and committing to executing it, should be priority number one. As my fellow panelists cautioned, doing poorly can be worse than doing nothing at all. 📌

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

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# What is my portfolio worth anyway?

**By Adam Atlas***Attorney at Law*

**S**ooner or later, ISOs and merchant level salespeople (MLSs) sell their portfolios or businesses. Long before a sale ever becomes an option, it's useful for payment professionals who are developing merchant portfolios to think about the factors an objective purchaser might take into consideration when preparing an offer to purchase a portfolio.

The purpose of this article is to list a number of criteria that are often used at least as part of the basis for portfolio valuation.

While the criteria I've identified tend to apply for sales at almost any level of our industry, let's assume I am discussing the sale of a portfolio of merchants solicited by a registered ISO that has a direct relationship with a large processor, such as First Data Corp., Global Payments Inc., Chase Paymentech Solutions LLC, TransFirst LLC or First American Payment Systems LP, among many others.

## Seven important considerations

The following list is not necessarily in the order of importance and will not necessarily include all the criteria that might apply to your individual situation.

- 1. Residuals:** How much revenue does the ISO's portfolio bring in per month – total and per merchant? From the outside, this may seem like a simple question.

But in the heat of a purchase negotiation, many issues arise, such as whether annual fees are in or out and whether Payment Card Industry Data Security Standard compliance or IRS reporting fees count.

Then, there are ancillary residuals, such as those for equipment, gift cards and gateways. Also, the ISO has to decide whether it wishes to be paid on the gross amount of residuals that it receives or some lesser amount, such as the gross amount less payouts to agents.

It's safe to say that once the parties agree on an objective method of calculation, the dollar value of monthly residuals will be the greatest single indicator of the purchase price of a merchant portfolio.

- 2. Attrition:** Attrition is the rate at which a given

## Further thoughts on portfolio sales

For more information on portfolio valuation and sales, see prior articles written by Adam Atlas on the topic in *The Green Sheet* archives: "Portfolio sale pitfalls," Feb. 25, 2008, issue 08:02:02, and "Exit portfolio, many offramps," July 14, 2008, issue 08:07:01, respectively.

volume of residual revenue on a portfolio of merchants declines; it is usually measured on an annual basis and represented as a percentage of the loss of revenue based on the revenue of the portfolio one year before the measuring date. Attrition is affected by myriad factors, such as how the sales were made, pricing, standard industrial classification (SIC) codes, service and many others.

Naturally, a buyer will prefer that attrition be low. However, some businesses tolerate a high level of attrition.

For example, if you are an ISO selling in-person to brick-and-mortar merchants and you provide face-to-face service, chances are you will have a lower attrition rate than if your ISO consists of a call center responding to Google Inc. AdWords placements and relying on minimum monthly fees for a large part of your residuals.

Those are two examples to illustrate extremes or, more importantly, illustrate the fact that there is no single attrition rate that fits all ISOs.

- 3. Attrition guarantee:** If only to guard against a dishonest seller, many purchasers will look to sellers to guarantee some or all residuals that are sold for some period of time after closing.

The precise amount, duration and nature of such a guarantee will have an impact on the purchase price. This is an important extension of calculating the attrition rate in the first place.

- 4. Contractual rights:** A great portfolio is not worth much if you have no right to sell it in your underlying agreement. The right of an ISO to dispose of its rights in respect to merchants, as per the ISO's written agreement with its processor, merits an article all of its own, but it will suffice to say here

## Education

that such rights vary greatly from ISO to ISO.

Some ISOs have no express right to sell any of their rights (not even residual rights), while other ISOs have the right to cause the acquiring bank to assign its right and obligations under merchant agreements to another bank.

Where you lie on this spectrum will be dictated by your agreement and will also have an impact on the value of your business.

Think of the difference between selling a new car with wheels and one without them, and you will quickly appreciate the value of having the right to portability spelled out in an ISO agreement.

Let me be clear, whatever portability rights are granted exist because there has been some measure of negotiation and some consideration given by the ISO to the acquirer for the rights it has.

5. **Merchant mix:** There is no right answer to what the right mix of merchants might be in any given portfolio. However, the mix will influence the valuation, especially in the eyes of the purchaser. For example, a conservative, low-risk investor

will be reluctant to invest in a portfolio of high-risk merchants.

Also, some SICs are more attractive than others. For example, on the same volume and revenue, a restaurant is more attractive than a merchant, such as a furniture store, that accepts orders for future delivery, because the right of bankruptcy and heavy chargebacks are very real for the latter type of merchant.

6. **Platform:** Obscure or difficult to use platforms make their hosted portfolios less valuable. If only by narrowing the pool of potential purchasers, the platform on which a portfolio resides is a factor to take into consideration when evaluating a portfolio. Don't forget, a purchaser is also thinking of his or her eventual exit (after the purchaser pays off the loan used to purchase your portfolio).
7. **Ongoing seller involvement:** Portfolio purchasers usually pay more for a portfolio when the seller agrees to solicit merchants for the purchaser after the closing of the purchase. There are a number of reasons for this.

First, this is an indirect way of obtaining an additional measure of guarantee on the seller's non-solicitation agreement (that is, it polices promises made by seller to not re-solicit the business of merchants just sold as part of the portfolio). Second, why buy just an egg when you can get the whole goose?

### The ultimate objective

This list is not comprehensive. Each transaction has unique characteristics that will lead the parties to a deal that is acceptable to both.

As a general rule, if the purchaser explains, on a rational basis, the method by which he or she proposes to evaluate the portfolio, that will relieve a lot of anxiety on the part of the seller, who might otherwise be faced with an abstract price and no discernible basis for understanding how it was calculated or how to proceed with negotiations.

All ISOs and MLSs could benefit by reflecting on how their day-to-day practices contribute to the ultimate value of their businesses. Payment professionals are in this for a profit, after all. 📌

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## Wal-Mart wants to bank the underserved

**J**ust a few years ago, Wal-Mart, the mega-retailer, was hot to own a bank – attempting, unsuccessfully, to purchase a small bank in Utah. The scuttlebutt at the time was that owning a bank would allow Wal-Mart to shave costs, especially those associated with accepting and processing credit and debit cards and checks. Presumably, owning a bank also would create opportunities for Wal-Mart to issue credit and debit cards to its shoppers.

Wal-Mart was forced to shelve its aspirations of bank ownership after bankers and lawmakers balked – but not its aspirations of being a bank. Wal-Mart today offers an array of financial services through staffed MoneyCenters located in about one-third of its U.S. stores. And in June 2011, the company reportedly was slated to begin opening MoneyCenter kiosks in about 1,900 Wal-Mart stores, including 20 in and around Las Vegas, that don't have full-service MoneyCenter counters. Wal-Mart is already a top seller of prepaid debit cards through its MoneyCenters and at store checkouts. The retailer also holds an ownership interest in the prepaid card company Green Dot Corp.

Wal-Mart makes no bones about its desire to become banker to America's unbanked and underserved. Services available at Wal-Mart MoneyCenter counters in addition to prepaid debit cards include check cashing, electronic bill payments, gift cards, money orders and wire transfers. Online, Wal-Mart offers an extensive array of financial education and management tools designed for the underserved.

### Micro-loans, online, through Sam's Club

Further evidencing efforts by Wal-Mart to bank the underserved, the company supports micro-lending through its Sam's Club warehouse chain. Small business owners who are Sam's Club members now have access to Small Business Administration-backed loan amounts ranging from \$5,000 to \$25,000 through a partnership Sam's Club has with Superior Financial Group LLC. One of the enticements Sam's Club offers borrowers is a 20 percent discount on loan fees.

The online micro-loan program was launched last year by Sam's Club after customer surveys indicated that nearly 15 percent of the chain's business members had been denied business loans in November 2009, up from 12 percent seven months earlier, the company said in announcing the program. Sam's Club has for many years been a reseller of credit card processing services. ■

## Microfinance and profits

By Patti Murphy

*ProScribes Inc.*

**A**s the business of microfinance has matured in the United States, two distinct business models have emerged. One targets the ultra-poor: inhabitants of the 9 million American households identified by the Federal Deposit Insurance Corp. as unbanked, and at least some of those living in 21 million other households the FDIC deems to be underbanked.

Another engages individuals – many of whom are micro-entrepreneurs who have been squeezed out of traditional borrowing markets by tightened credit standards. Some are underbanked and have thin credit files. Many are from immigrant families. Also included are increasing numbers of tradesmen and others among the recently unemployed. Serving this latter market are financial services companies that offer the accessibility of check cashing facilities combined with the savvy of 21st century banks – companies like Progreso Financiero, OUR Microlending, Prosper.com, and even Sam's Club, the warehouse chain owned by the mega-retailer Wal-Mart Stores Inc.

The FIELD program at the Aspen Institute studied this trend and produced *A Newly Crowded Marketplace: How For-profit Lenders are Serving Microentrepreneurs*, a report that examines this trend, the pros and cons of different business models employed, and broader market implications. It also provides a look inside the operations of leading for-profit micro-lenders.

### A few highlights of the report follow:

- Nearly two out of three lenders surveyed following the first quarter 2010 reported increased loan demand.
- Just 39 percent reported increased loan originations during the same period.
- "Old school" nonbank lenders – such as merchant cash advance, factoring and purchase order factoring – also saw an uptick in business.
- For the most part, loan pricing is markedly higher than at not-for-profit MFIs.
- Many for-profit providers offer an array of financial services and educational services. ■

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

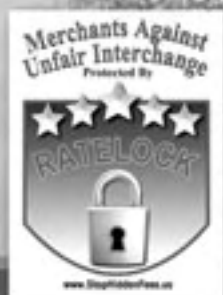
*Editor's Note: "Microfinance and profits" and "Wal-Mart wants to bank the underserved" were published by InsideMicrofinance.com June 15 and 20, 2011, respectively; reprinted with permission. © 2011 InsideMicrofinance.com. All rights reserved.*

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# ISOMetrics

## Breaches across America



Here is a compilation of major data breaches that have occurred since our last report in *The Green Sheet*, Sept. 13, 2010, issue 10:09:01.

### 1 West:

#### California

**San Francisco, March 3, 2011** – Backup tapes containing 300,000 records of names, Social Security numbers (SSNs), driver's licenses and credit card numbers were stolen from the car of a Cord Blood Registry employee.

**Rancho Cordova, March 15, 2011** – Nine data servers that stored sensitive health information went missing from Health Net Inc.'s data center. The servers contained the personal information of 1.9 million current and former policyholders; names, addresses, health information, SSNs and financial information were compromised.

**San Francisco, April 14, 2011** – Blog website WordPress.com experienced a breach that exposed 18 million records, including source code, application protocol interface keys and social media passwords. No customer phone numbers or financial information was reportedly compromised.

#### Washington

**Aberdeen, Jan. 24, 2011** – A backup tape was stolen from the car of a Grays Harbor Pediatrics employee. The device was used to store 12,000 patient records, containing names, SSNs, insurance details, driver's license information, immunization records, medical history forms, previous doctor records and patient medical records.

### 2 Southwest:

#### Texas

**Austin, April 11, 2011** – The Texas Comptroller's Office reported the possible compromise of 3.5 million records from three Texas agencies. The records contained names, SSNs, addresses, dates of birth and driver's license numbers. One of two class-action lawsuits filed on behalf of the 3.5 million victims seeks a \$1,000 statutory penalty for each affected individual.

**Irving, May 11, 2011** – About 90 PIN pads in Michaels Stores Inc. locations across 20 states were found to have been tampered with. It is estimated that the transaction information of tens of thousands of Michaels customers was compromised. Subsequently, two class-action lawsuits were filed against Michaels.

### 3 Midwest:

#### Indiana

**South Bend, Nov. 19, 2010** – 1st Source Bank's third-party payment processor was breached. An unknown number of customer account numbers and expiration dates were exposed.

#### Wisconsin

**Madison, Dec. 10, 2010** – The University of Wisconsin - Madison reported that student identification (ID) information from 60,000 former students was compromised. Hackers got away with student ID

photos embedded with SSNs, ID numbers and cardholder names.

### 4 South:

#### Florida

**Jacksonville, Oct. 15, 2010** – The University of North Florida experienced a breach of 106,884 records, including 52,853 SSNs. The information also included names, ACT and SAT scores, and birth dates.

**Fort Lauderdale, Nov. 10, 2010** – A former employee at a doctor's office at Holy Cross Hospital was convicted of stealing patient files and sentenced to 24 months in prison. From the 44,000 files stolen, there have been 1,500 confirmed victims of identity theft.

#### Louisiana

**New Orleans, Jan. 18, 2011** – A Tulane University-issued laptop was stolen from an employee's car. The laptop contained tax information from 10,000 employees, students and others. The information included names, SSNs, salary information and home addresses.

### 5 Northeast:

#### New York

**New York, Feb. 12, 2011** – Backup tapes containing the health records from 1.7 million patients were stolen from an unsecured and unlocked van that serviced Jacobi Medical Center, North Central Bronx Hospital, Tremont Health Center, and Gunhill Health Center.

#### New York, April 27, 2011

– A breach of several Sony Corp. networks resulted in 101.6 million customer account numbers compromised. Of those account numbers, 12 million were unencrypted credit card account numbers and 10,700 were bank account numbers. The investigation into the breach is ongoing.

#### New York, June 9, 2011

– Hackers managed to access the information of approximately 1 percent of Citibank's 21 million users. Customer names, account numbers and contact information were exposed. Security codes and birth dates were apparently not exposed. The breach occurred sometime in May 2011.

#### Massachusetts

**Randolph, May 20, 2011** – A courier was attacked on May 9. The attacker stole the courier's bag containing the transaction records of 800 HarborOne Credit Union customers. The records included names, addresses, account numbers and other information on checks processed at the credit union.

#### Pennsylvania

**Philadelphia, March 9, 2011** – A former Penn Mutual Life Insurance employee stole an unknown amount of customer information, including names, SSNs, addresses, dates of birth and bank account information. Penn Mutual was unable to determine which customers were affected; the former employee reportedly was part of an identity theft ring.

# NewProducts

## Award winning loyalty technology

**Product: Paycloud**

*Company: SparkBase*

**S**ince the Electronic Transactions Association awarded the 2011 Technology Innovation Award to Paycloud, a smart phone-enabled mobile wallet for merchant loyalty and gift card programs, interest has been brisk for SparkBase, the Cleveland, Ohio-based gift and loyalty processing network.

"We've been adding ISOs at a really rapid clip in the last three to five months," said Doug Hardman, Chief Executive Officer of SparkBase. "For us to be able to add big partners and then get something like this to launch has been gratifying. But at the same time, it showed us we were really onto something."

SparkBase had been looking to create a centralized gift card, where smart-phone users could enroll in multiple loyalty, gift and reward programs through a single app. The impetus for SparkBase in partnering with Naratte, a San Francisco, Calif.-based company with audio-based near field communication technology, was to enable development of a virtual card that could immediately integrate directly with the POS system, Hardman said.

The linking of Naratte's Zoosh software with the terminal integration and processing capabilities of SparkBase allows consumers to conduct mobile-generated loyalty and gift card transactions on SparkBase-integrated terminals "with just one click," Naratte Chief Development Officer and co-founder Byron Alsberg said in a statement.

### Virtual buzz

When a customer is within close proximity of a Paycloud terminal plug-in sensor, Naratte's Zoosh software enables merchants to deliver an encrypted message to the customer's smart phone. The SparkBase platform then processes transactions and reconciles data over a secure network.

"If I'm a merchant, I can send an offer out to 1,000 virtual cardholders, offering them all a 50 percent off coupon that's immediately on their phone, and that coupon expires in an hour and a half," Hardman said. "Now I've alerted people that I've got this special offer on entrees today at lunch. I let the customer come in and use it if they want to. If they don't use it, then it goes away."

Describing the customer experience, Hardman said, "I'll be able to open my Paycloud app. I'll hit the map button. It's going to show me the 20 or 30 merchants in the area, and it's as easy as touching them on screen to enroll in

### Features of Paycloud include:

- Automates customer enrollment, merchant rewards
- Drives traffic with location-based promotional offers
- Provides secure, encrypted messaging and processing
- Integrates with existing POS terminals
- Offers a unique ISO revenue opportunity




their programs. So I'm instantly enrolled in the program for the [nearby] merchant ... and I didn't have to fill out a form."

Paycloud also generates real-time reporting on customer trends. "It's very detailed," Hardman noted. As an example, he said, "It says these 30 people came in today; their average spend was \$200; they saved \$96; you gained this much by doing that type of coupon. If I can show ROI to a merchant on the coupons they gave away, that's something that nobody can do right now."

Hardman said if a customer has a change of address, the system automatically updates all the merchants they're enrolled with.

### The launch

When interviewed in June 2011, Hardman was scouting retail locations in Cleveland and Chicago for the pilot launch of Paycloud in July, prior to its nationwide rollout scheduled for August.

The Paycloud app is free to customers. Merchants will pay a monthly fee for the service and purchase the plug-in sensor, which will be available exclusively through ISOs and merchant acquirers. 

### SparkBase

216-867-0877

[www.sparkbase.com/paycloud](http://www.sparkbase.com/paycloud)

# Less churn, more earn in health care

## Product: Revenue Maximizer

Company: *TransEngen Inc.*

**T**he average medical practice generates about 23 percent of its total revenue from patient payments, with the balance paid through insurance providers, according to TransEngen Inc., whose online transaction technology is used by over 10,000 health care providers in hospitals and medical practices in the United States. TransEngen's payment platform was designed to improve cash flow and reduce bad debt for medical practices, which is estimated to be between 1 and 10 percent of receivables.

To help health care practitioners gain better control of payments and eligibility, TransEngen recently launched the Merchant Healthcare Multiplier Program. At the core of this ISO-driven program is a web-based payment suite called Revenue Maximizer, which shifts collections in real time from the medical back-office to the point of care.

"The idea behind it is to attack the area of what we call patient payment," said Michael Pileggi, Executive Vice President of TransEngen. "Today when you walk into a practice, they collect a co-payment, and then they send you on your way and they send you a bill. We eliminate that. We can actually go into their insurance, calculate what they're going to owe based on the service, and collect their bill upfront." And it accepts all forms of payment, he added.

### Scalable for any size practice

The product can be scaled for smaller practices with less than \$1 million in annual revenue. "On the payments side, you can actually take our solution, just have the payments-only piece and sell it," Pileggi said. As a payments-only engine, the eligibility segment is not included but can be added at any time. According to TransEngen, its platform allows ISOs to expand services to practices where existing POS terminals capture only about 25 percent of patient payment volume.

TransEngen's payment platform integrates with most existing practice management systems. "We're compatible with any system that's HL7 or XML-based, which essentially is 99.9 percent of them," Pileggi said. Another important consideration when selling in the health care market is whether products meet compliance requirements of the Health Insurance Portability and Accountability Act and the Payment Card Industry Data Security Standard. TransEngen reported that Revenue Maximizer satisfies those requirements.

Features include a Patient Responsibility Calculator,

### Features of Revenue Maximizer include:

- Integrates with existing practice management systems
- Provides PCI DSS Level 1 and HIPAA compliance
- Improves cash flow with more patient payment options
- Pays partners 100 percent of processing residuals
- Dedicates personal account managers to assist ISOs



which verifies eligibility, calculates what a patient owes and processes payments at the point of care. Online reporting generates daily reports on transaction activities. Card on File securely stores patient bank account or credit card information for future visits. If unable to pay the amount due at the time of the medical visit, patients can set up automated scheduled payments through the Patient Payment Portal or via traditional channels.

### Why less churn?

Merchant churn is a constant concern for many ISOs. "The average account life on the normal processing side is 11 months, and with us it's at least three years," Pileggi said. "They're not going to care about half a percentage point less rate when they're collecting money they weren't collecting before. That's why all these guys are attracted to it, because they know this is a great opportunity to get into the space and not lose customers.

"From a program standpoint, they keep all the processing. They're increasing their account value because today when they go sell a terminal they don't have any of these features or products. They don't have any way to help collect more money than they normally would. Our product does that."

Pileggi added that Revenue Maximizer is offered as a software-as-a-service product and can be integrated quickly. "They could be processing payments as quickly as tomorrow," he said. ■

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# DateBook

Visit [www.greensheet.com/datebook.php](http://www.greensheet.com/datebook.php) for more events and a year-at-a-glance event chart.



## Midwest Acquirers Association

MWAA 9th Annual Conference

**Highlights:** This year's conference's theme is Rethink, Reinvent, Renew. The event will focus on timely industry topics and will feature the ever-popular educational sessions from Field Guide Seminars, a vendor's exhibit hall, and opportunities to meet payments industry leaders and innovators.

If you want to spend three days developing your merchant services business, learning how to make more money, playing a round of golf on an award-winning golf course, enjoying the company of friends and networking with people from across the bankcard industry, the MWAA's annual conference is the place for you.

**When:** July 26 – 29, 2011

**Where:** The Oak Brook Hills Marriott Resort, Oak Brook, Ill.

**Registration:** [www.midwestacquirers.com/next\\_event.php](http://www.midwestacquirers.com/next_event.php)



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

LINC Texas Networking Meeting;  
Career Development & Leadership Summit

**Highlights:** W.net's LINC Texas will host an evening of networking and special guest speakers at the Farrago World Cuisine restaurant in Houston. Attendees will be able to gain valuable payments industry insights while enjoying a taste of international foods. W.net's LINC meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities.

In September, W.net will hold its 2011 Career & Leadership Summit in Atlanta. The event will kick off with a Diva awards ceremony, followed by an opening session focused on the state of the industry. Breakout sessions will follow.

### LINC Texas

**When:** July 28, 2011

**Where:** Farrago World Cuisine, Houston

**Registration:** [www.w-net.biz](http://www.w-net.biz)

### Career & Leadership Summit

**When:** Sept. 12 – 13, 2011

**Where:** Hyatt Regency Hotel, Atlanta

**Registration:** [www.w-net.biz](http://www.w-net.biz)



## Western States Acquirers Association

WSAA 8th Annual Conference

**Highlights:** WSAA's 2011 Annual Conference for payment professionals will be held in the San Francisco Bay Area region. The event will feature networking opportunities and a chance to participate in breakout sessions and panel discussions on issues pertinent to the payments industry.

WSAA is a self-governing, nonprofit volunteer organization dedicated to creating an independent forum for educating and linking professionals engaged in the payments industry.

Rather than offering memberships, the organization is funded through revenue generated by events it hosts. Online registration for this conference will begin in July 2011.

**When:** Sept. 21 – 22, 2011

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

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



## Western Payments Alliance

Payments Symposium 2011: Payments in Transition,  
Strategies for a Changing Landscape

**Highlights:** This event offers payments industry professionals an opportunity to network with peers and interact with experts to learn about the latest developments shaping the industry.

Daily sessions and workshops will address technological innovations in automated clearing house (ACH) and card networks, as well as mobile and other payment channels.

It will also feature discussions on risk and fraud in addition to changing regulatory and compliance requirements.

Symposium attendees can also earn Accredited ACH Professional (AAP) renewal credits, as well as maintain AAP certification status through participation in this event.

**When:** Sept. 19 – 20, 2011

**Where:** The Westin San Diego, San Diego

**Registration:** [www.wespay.org](http://www.wespay.org)



# Inspiration

## WaterCoolerWisdom:

**Being a child at home alone in the summer is a high-risk occupation. If you call your mother at work thirteen times an hour, she can hurt you.**

- Erma Bombeck

## Make children your business

**S**ummer is in full swing, and for families with children at home, schedules are often more flexible than during the regular school year. This can mean logistical challenges for parents as they help youngsters explore new and novel activities, be they horseback riding, chess, woodworking or extreme sports. But the effort is usually rewarding for parents and children alike.

There are several ways you, as ISOs and merchant level salespeople, can help young people discover the world this summer, too, even if you're not a parent.

Here are some ideas:

### Take a child to work with you

The day federally designated for parents to bring their sons and daughters to work occurred in April. However, it's not too late to set up a day in August when everyone in your office who is interested can bring a youngster to work. This could be a son or daughter – or a niece, nephew or neighbor. Plan a tour for the children so you and your colleagues can explain your company's various departments and job functions to them. Demonstrate some of the equipment and software you use. And be sure to plan a healthy lunch.

### Hire a teenager

Summer jobs for teens are in short supply. Take just a few minutes to make phone calls, and you'll probably come up with several promising youths eager for a chance to learn and earn. You may have a short-term project you've been putting off – entering names and contact information into a new database, for example – that a young person could complete in a few weeks of part-time work. If so, this would be a win-win for your company and the teenager involved.

### Pay attention to merchants' children

While on your sales rounds, you may notice that some

of your mom-and-pop merchant customers are bringing their children to work during the summer months. You've probably got plenty of giveaways – pens, notepads, paperclip holders, flash drives, etc. – leftover from trade-shows that you could offer to these children.

And for a trusted, long-time merchant customer, you could offer to take a teenage son or daughter on a nearby sales call or two. These young people might be running their parents' shops one day, and they will remember the attention you show them now.

### Donate your time

See what programs are available for local children and volunteer your time. You might be able to make the difference between an eager child learning to swim or learning to draw as opposed to

having no enrichment whatsoever over the summer. Or, if you're good at math or language arts, become a tutor for children who need help so they don't fall behind in basic skills during the break from school.

### Raise funds

You could also donate a percentage of your August residuals to a local children's organization, host a neighborhood carnival – perhaps in conjunction with some of your merchant customers – or plan a poker tournament to raise funds for a worthy children's organization. You'll brighten the outlook for local youths while also raising awareness of your company's commitment to the community.

### Enjoy the season

These are just some of the possible ways you can help improve the lives of children in your sphere of influence. You've probably thought of others. Whatever you do, I'm sure you'll find your endeavors will benefit your community, but they will benefit you just as much, if not more.



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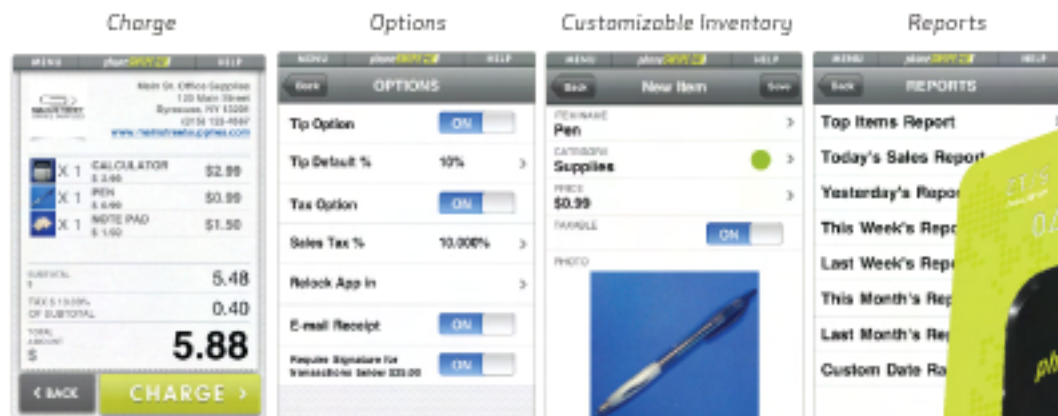
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