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December 26, 2011 • Issue 11:12:02

Outside forces impinge on payments in 2011

Peering into the rearview mirror, one can't help but notice many influences sweeping across the payments panorama. Trends spotted in 2010 gained momentum in 2011 and are on course to reconfigure the industry as we know it today.

This year positive signs in the economy were revealed in the *U.S. Economic Indicators Q3 2011 Report*, by The Strawhecker Group and the Electronic Transactions Association. The report showed strong demand in the retail sector, despite a declining consumer sentiment index. Total retail and food service sales, seasonally adjusted, rose 7.8 percent to more than $395 billion from September 2010 to September 2011, as compared to 7.4 percent over the same period one year previously.

"One interesting thing we noticed was the change in retained account volume followed the overall trend in the economy for those points in time, as far as what was happening in GDP and personal consumption figures or consumer spending," said Bob Loewens, TSG Junior Associate. Loewens noted a decline in net revenue attrition loss from the second quarter of 2010 to the second quarter of 2011; he added that retained merchant volume grew by 3 percent, which is positive news for merchant portfolio valuation.

Another positive indicator was the increase in average ticket size. "At the height of the recession in late 2008, I can remember reading and writing about the shrinking average ticket size, and that people were retrenching and not spending as much on their cards," said Thomas Goldsmith, ETA Director of Communications and Public Relations.

For Visa Inc., debit card average ticket size rose 1.6 percent to $36.9, while MasterCard Worldwide saw the average debit increase 1.3 percent to $39 in the third quarter of 2011 as compared to third quarter 2010. Additionally, over the same period, U.S. credit card average ticket size rose by 2.5 percent and 0.5 percent for MasterCard and Visa, respectively.

"Certainly from ETA's point of view, with all of the changes that are going on in the industry, the arrival of mobile, the various different technology improvements, this is both an opportunity for growth for card-based transactions as well as for non-card-based transactions," Goldsmith said. "The fact that the nonstore retailers are growing faster than just about anything other than food and beverage and motor vehicles tells me there are a lot of new retailers coming into the market, and they're not putting up brick-and-mortar stores. Chances are that bodes well for mobile acceptance."

Technology push-ups

New applications and card readers for smart phones and mobile tablet devices

The Green Sheet Inc.

NotableQuote

Consultants don't make decisions; they help other people make decisions.

See story on page 32

Inside this issue:
CONTINUED

Forum

How much does the processor affect portfolio value?

I was wondering if you could help answer a question. I thought you may be able to offer an independent, objective opinion. Assuming the merchants within a merchant portfolio are of the same quality and number, would there be a difference in pricing a merchant portfolio if the merchant lies with First Data versus Elavon or any other acquiring bank?

I plan to make a move. One gentleman said that Elavon portfolios price better than First Data. It is hard to find evidence. Could you let me know when you have a moment?

Lee Hall
Independent Sales Rep

Lee,

Since we are not involved in portfolio valuation, we referred your question to Adam Hark, Principal and Managing Partner at MerchantPortfolios.com. He graciously provided the following answer:

> *The short answer is absolutely yes, processors affect portfolio pricing! (But the reason is probably counterintuitive.)*
>
> *For example, does a First Data portfolio, with the exact same internal attributes as a portfolio from another processor – in terms of account composition (card present versus card not present), industry concentration (SIC/MCC), revenue concentration (a subset of the account contributes an inordinate amount of revenue to the total monthly revenue), risk concentration (the number of merchant accounts in the portfolio), merchant contract length, cancellation fee, basis point mark-up, sales channel (direct, agent or referral), and revenue attrition – command the same valuation in the marketplace as a portfolio from another processor? Answer: no, it's higher.*
>
> *I assume that doesn't help you out much. But what you need is the explanation as to why. Well, if we're making the assumption that all the internal attributes of both portfolios above are the same (and we are), what accounts for the higher valuation? Answer: portability and market demand. There are very few processors domestically from which an ISO or member service provider (MSP) can procure true portability. The operational definition for true portability which I'm using is this:*
>
> > *The ISO or MSP owner has an ownership interest in the merchant contracts themselves and can therefore migrate, "port," those merchants over to another processor of that owner's choice, or port them over to a buyer's contract with the same processor. Either of these options allows the buyer to accomplish two strategic value ads – the ability (the right) to sell the*

> > *portfolio's purchaser's products and/or services into that particular book of business and the ability for that portfolio's purchaser to benefit from a better buy rate (as buy rates are often a function of the number of transactions a given portfolio produces a month), as once the merchant contracts are ported over to the buyer's contract, the transactions from the acquired portfolio are additive.*
>
> *The second component is simply market demand. Relatively speaking, in the United States, First Data ISOs are orders of magnitude greater in frequency than ISOs of other processors. Therefore, probability theory dictates (and this bears out in reality) that there are far more First Data portfolio buyers out there than buyers for portfolios from any other processors. The larger market therefore creates greater demand for these types of opportunities.*

Thank you for sending in the question, Lee. And thank you, Adam, for this informative answer.

Editor

Squaring off with Biff

Biff Matthews' letter, "Thoughts on Visa and Square," in *The Green Sheet*'s Nov. 14, 2011, issue was over the top. Visa Inc. is a strategic, not a financial investor. Of course, Visa has "a Square agenda beyond their investment." It's a commercial retail payment card network. Visa aims to expand network acceptance by facilitating millions of small and casual merchants accepting payment cards on mobile phones, increasing network value for all participants, and thereby Visa's enterprise value, which is what management is supposed to do. Square, Intuit's GoPayment and other mobile-phone card-acceptance services further that end.

Visa's paramount objective is not – and shouldn't be – eliminating or minimizing fraud, but rather, taking a holistic view to maximize total network value delivered. That entails balancing fraud-reduction efforts with cardholder and merchant convenience and expanding network reach. Matthews' outrageous, hyperbolic comment that Visa "turns a blind eye to the rape of the merchant much like the Catholic Church turned a blind eye to the Holocaust" … is [an unfit comparison that constitutes an inappropriate line of] discussion for *The Green Sheet*.

As for the contention merchants are being raped, merchants choose to accept Visa through Square or more traditional providers of card acceptance because they believe it enhances their profitability. Nobody is holding a knife to their throats. Voluntary commercial transactions occur when both parties by their compass are getting value.

Best regards,

Eric Grover
Intrepid Ventures

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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.

You Have a Goal.
We Have a Plan.

Customized Partnership

Merchant Benefits:
1. Wide variety of payment products
2. 24/7 customer support
3. Online reporting
4. PCI-compliant equipment

Capital for Growth

Comprehensive Consultation

Customizable Programs

Partnership Stability

Full-Service Support

No two ISOs are alike, as they work to reach their unique business goals. At First American, we understand this. We'll work with you to build a plan that will maximize your success, adjusting revenue share, bonus structures and support levels as needed. Creating customized programs is second nature to us. When it comes to choosing a processor that will treat you like a valued partner, it pays to do business with First American.

- Shawn Dillon, Director of Sales

FIRST AMERICAN PAYMENT SYSTEMS

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64

Education

Crisis management as opportunity

Instant communication is a key driver of growth for the economy. The downside is that if a business should slip up in any way, that news can travel the globe almost instantaneously, damaging reputations and undermining brands. Today, proper damage control is critical and involves leadership, transparency and knowing when to say, "I'm sorry."

70

Education

Parlay tradeshow costs into social media bonanza

Exhibiting at tradeshows can be expensive and taxing. However, the benefits can far outweigh the costs with appropriate planning, execution and follow-up. Tradeshows might only last a few days a year, but tradeshow exhibiting combined with savvy use of social media can elevate business profiles and generate revenues long after each show.

66

Education

ISOs welcome in the POS waters

Once upon a time, the ISO and POS worlds functioned like parallel universes. But no longer. POS dealers are adopting the ISO residual model, and ISOs are recognizing the value of boarding merchants with feature-rich, low-cost, even free POS systems. But there is no need for fighting over territory. There is enough room for everybody, even when worlds collide.

81

Inspiration

Use your human gifts

The setting of long-term goals is decidedly a human characteristic. Once the new year rolls around, many of us have already planned 2012 down to the month and even day. *The Green Sheet* is not short of advice on how to go about developing, and following through on, goals and resolutions.

Industry**Update**

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THE WAY TO PAY

NEWS

AmEx leads with payment SDKs

American Express Co. said it is the first payment network to offer global processing services with payment software development kits (SDKs). Payment SDKs are designed to allow merchants, third-party processors, gateway operators and POS manufacturers to connect to the AmEx payment ecosystem.

AmEx explained SDKs as offering "a full complement of authorization and submission solutions for vendors and merchants across the globe looking to process transactions directly with AmEx." The card brand said SDKs will reduce development time, enhance certification efficiency, and ease access to AmEx solutions such as SafeKey and Enhanced Authorization.

The company believes payment SDKs will integrate merchants faster and more efficiently, while driving innovation among digital partners and speeding payment solutions to market.

Consumers see no savings from Durbin

Consumers are apparently not only not seeing savings from implementation of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, but prices are actually on the rise. That is the finding of new research from the **Electronic Payments Coalition**, a consortium of credit unions, banks and payment card networks.

The Federal Reserve Board, at the direction of the Durbin Amendment, capped the interchange fee paid by merchants for debit card transactions at 21 cents plus a small amount for fraud prevention – about half what it was before Durbin went into effect in October 2011.

To test whether Durbin savings were passed on to consumers, the EPC took 84 shopping trips to 21 stores across the country. In each case the same products were purchased during the four trips to each retailer – one trip prior to Durbin going into effect and three trips following the Durbin implementation.

The study found 16 of 21 retailers, about 76 percent, either raised prices or kept them the same after Durbin went into effect. Overall, the study found customers paid an average of 1.7 percent more for their purchases after Durbin. The study cited Heartland Payment Systems Inc. as having passed on $33 million in savings to merchants after Durbin's implementation.

Mobile payments going mainstream

A new study from **Fiserv Inc.**, a provider of financial services technology solutions, demonstrated consumers are adopting mobile payments. The *2011 Billing Household Survey* found consumers use different bill payment methods every month, with nearly one out of five households changing the way they pay bills monthly.

More than 6 million Americans chose to use smart phones to pay bills in the past year, the study said.

BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

THANK YOU, PLEASE READ AGAIN!
TRANS ID:460465 EMP:120400

- A **Zmags** survey of mobile tablet owners showed 87 percent are using the tablets to research and purchase holiday gifts this year, spending an average $325 via the devices to purchase electronics, clothing, toys and jewelry.

- In **National Retail Federation**'s *2011 Holiday Consumer Intentions and Actions Survey*, 61.9 percent of holiday shoppers surveyed said they provide a gift receipt most or some of the time, while only 35.5 percent admitted to returning a gift last holiday season.

- **ComScore** reported online holiday sales reached $24.6 billion by mid-December 2011, with four holiday shopping days exceeding $1 billion in spending, an increase of 15 percent over last year for the same period.

Electronic billing is also on the increase. Furthermore, bill payers, particularly those needing to immediately pay utility, telecommunication and insurance bills, visited service provider websites for last minute and one-time billing needs.

Fiserv suggested billers pay close attention to mobile bill payers as 30 percent of online consumers used smart devices to visit biller sites and access monthly bills. The survey discovered two-thirds of consumers visited biller sites – mostly for billing and to make payments. Fiserv also found increasing consumer interest in electronic billing in 2011 – 22 percent of those surveyed said they were interested, up from 17 percent last year.

Dwolla drops fee for micropayments

Social media payment provider **Dwolla Corp.**, a company supported by financial institution payment processor The Members Group, said it will no longer charge a 25 cent transaction fee for purchases of less than $10. The company promises no change in product or service after the fee drop. Merchants will receive the same benefits at no cost on small transactions.

Brian Day, Dwolla Product Leader at TMG, explained the new strategy, saying, "Financial institutions are adding Dwolla to their product mix to attract young, tech-

savvy customers who want to make everyday financial transactions quickly and inexpensively. Waiving the fee on micropayments will ultimately attract more merchants to Dwolla."

Merchants were willing to pay the quarter on small transactions because they believe they get value for their money, according to Day. "A customer buys a coffee with Dwolla and instantly 150 of his Facebook friends are exposed to the name of the coffee shop," he said.

November SpendTrend hinges on Black Friday

First Data Corp. released its *SpendTrend* analysis for November 2011. It found year-over-year dollar volume growth in same-store consumer spending was up 7.3 percent compared to November 2010. But it was down from October 2011, where dollar volume growth stood at 9.4 percent.

First Data reported that November 2011 had "tough comparables" because November 2010 was a particularly strong month last year, with dollar volume growth up 8.1 percent. Meanwhile, November 2011 transaction growth was 6.1 percent, according to the analysis.

The findings were attributed to consumers who restrained spending earlier in November in anticipation of Black Friday deals. Additionally, retailers were reluctant to slash prices in November until planned Black Friday promotions began.

Overall year-over-year average ticket growth was 1.1 percent for the month, down from October's growth of 1.8 percent and the smallest increase since July 2011, First Data said. The company believes inflation contributed to the slowdown.

Checks are falling out of favor, however. Check transaction growth was down 10.8 percent and check volume growth was down 7.6 percent in November 2011, First Data found. Regardless, transaction and dollar volume growth was strong in credit, signature debit and PIN debit during the month.

"Despite a good Thanksgiving/Black Friday, year-over-year spending growth was only moderate for the full month of November," said Silvio Tavares, Senior Vice President and Division Manager of First Data Global Information and Analytics Solutions, which publishes *SpendTrend*.

ANNOUNCEMENTS

Charge Anywhere supports Bluetooth

Mobile payment provider **Charge Anywhere LLC**

released its Mobile Payment Application for Apple Inc. iOS devices. The application supports card reading and receipt printing through a Bluetooth card reader and receipt printer. The company said the product is an all-inclusive, secure, mobile POS solution.

DPT raises heat with parking revenues

Digital Payment Technologies Corp., a designer, manufacturer and distributor of electronic self-service pay stations, management software and online services for the parking industry, said the 29 solar-powered, multi-space parking pay stations it deployed in the village of Port Chester, N.Y., resulted in a 40 percent increase in parking revenues for the village.

EP on Technology Fast 500

Payment processor **Electronic Payments Inc.** made the Deloitte 2011 Technology Fast 500 list for the second straight year, coming in 69th on the index. Rankings are based on the percentage of revenue growth from 2006 to 2010. EP's revenue grew 1,749 percent during that period.

FTNI adds module

Receivables management solutions company **Financial**

Transmission Network Inc. is marketing a cash processing module for its ETran Receivables Management Platform. FTNI primarily supports check, automated clearing house and credit card processing. It will now be able to offer merchants the ability to reconcile all receipts regardless of payment type or channel.

FrontStream introduces new payment platform

FrontStream Payments Inc. introduced the fasttransact payment management platform, a self-service, enterprise-level payment system. The platform is designed to manage multiple payment input channels, gather and track customer and consumer activity, and stream consumer and financial data to core, client-side business applications.

JetPay among fastest growing in Dallas

Payment processing company **JetPay LLC** captured the 62nd place in the Southern Methodist University Cox Caruth Institute for Entrepreneurship Dallas 100 list of fastest growing companies in the Dallas area.

Kalemis honored

Alpha Card Services' Chief Executive Officer **Lazaros Kalemis** was inducted into the Philadelphia 100: 2011 CEO Hall of Fame in conjunction with Alpha Card Services' entry into the Philadelphia 100: 2011 Company Hall of Fame. The awards are the result of Alpha Card Services making the Philadelphia 100 fastest growing companies list for five consecutive years.

Kight gets lifetime achievement award

CheckFree Corp. founder and former chairman **Peter J. (Pete) Kight** received a lifetime achievement award from TAG FinTech, a society of the Technology Association of Georgia. Kight was given the award for his pioneering work in financial services technology, specifically in electronic funds transfer, online banking, and electronic billing and payment.

Paymetric seeks nominations

Integrated and secure enterprise payment acceptance solutions provider **Paymetric Inc.** opened the nomination window for the 2012 Paymetric Customer Innovation Awards. The awards honor exceptional and innovative achievements made by companies using Paymetric solutions. Nominations are being accepted at *www.paymetric.com/customers/customer-innovation-awards.*

SafetyPay expands

Online payment provider **SafetyPay Inc.** is entering the U.S. airline and travel industry. SafetyPay, which recently partnered with Universal Air Travel Plan Inc. to allow customers to make online payments from bank

accounts, will leverage UATP's airline industry reach to offer customers another payment option when buying airline tickets online.

Trustwave's MyIdentity authenticates users

Security and compliance firm **Trustwave** introduced MyIdentity, a two-factor authentication solution to help users securely connect to network systems and applications.

The cloud-based MyIdentity uses two components to verify identities – user name/password and one of the following options: digital certificates, short message service-based codes, voice call-back, MyIdentity push with confirmation screen or a one-time passcode.

Western Union Small Business Payments

Global payments firm **The Western Union Co.** released its Western Union Small Business Payments, an online payment acceptance and accounts receivable service built for small-to-midsized businesses. The solution includes payment processing, automated invoicing, recurring billing, and customer management and reporting.

In other news, Western Union launched an electronic affidavit that allows customers who meet government requirements to send money to individuals in Cuba from Western Union outlets in the United States.

PARTNERSHIPS

Alaric, ISN partner in Latin America

U.K.-based fraud prevention specialist **Alaric Systems Ltd.** teamed with Chile-based **Integradores de Soluciones de Negocio S.A.** to sell Alaric's payment and fraud solutions to ISN international retail and financial clients. Alaric will also distribute its electronic funds transfer authorization and switching system through ISN.

ControlScan teams with Paradigm Merchant Services

ControlScan Inc. and St. Paul, Minn.- based ISO **Paradigm Merchant Services** will provide Paradigm merchants with tools to achieve Payment Card Industry (PCI) Data Security Standard (DSS) requirements. The partnership is expected to reduce merchant compliance costs.

ExoIS and NetBenefit partner for compliance

U.K.-based managed hosting provider **NetBenefit Ltd.** and California-based PCI compliant software-as-a-service provider **ExoIS Inc.** formed a PCI compliance services partnership for Level 1 to Level 4 merchants. The service operates on the ExoIS PeepSafe software. NetBenefit provides the infrastructure layer for PeepSafe in the U.K. and Europe. PeepSafe is said to be a fully managed, fully customizable, secure portal environment for processing.

Genpact, PreCash agree to work together

Business process and technology management firm **Genpact Ltd.** agreed to work with **PreCash Inc.**, a processor specializing in expedited payments. Genpact will help PreCash to meet the increasing processing demands that have accompanied accelerated growth, PreCash said. PreCash will also have access to Genpact's data analytics to help PreCash broaden its products and services.

Ingenico, MasterCard collaborate in Turkey

POS manufacturer **Ingenico SA** is collaborating with **MasterCard Worldwide** to introduce a new card payment system for public transportation in Eskisehir, Turkey. The new product utilizes MasterCard M/Chip Advance to start the Esparacard project, a first-of- its-kind payment card system, the companies said.

Lo-Q, MasterCard help theme parks

Lo-Q Plc, a provider of virtual queuing systems for theme parks, signed an agreement with **MasterCard** to

IndustryUpdate

develop a new contactless payment solution for theme parks that combines MasterCard's Tap & Go PayPass payments technology with Lo-Q's queuing software.

Open Solutions, TNS multiyear agreement

Open Solutions Inc., a provider of integrated technologies for financial institutions, agreed to a pact with **Transaction Network Services Ltd.** The deal calls for TNS to support Open Solutions' Canadian payment transaction processing solutions.

Paymentwall, Mazooma join for '2-click' option

Global payment platform provider **Paymentwall Inc.** joined with micropayment solution provider **Mazooma Inc.** to allow customers using Paymentwall's digital payment platform the option of paying for digital transactions using Mazooma's payment solution. Mazooma's payment service will be integrated directly into Paymentwall's 2-click payment system.

T-Mobile, Square partner

Media sources reported **T-Mobile USA Inc.** is giving a free **Square Inc.** mobile payments credit card reader to business users who opt for a 4G smart phone upgrade.

This is reportedly the first promotion of Square by a mobile carrier.

ACQUISITIONS

Ingenico buys Xiring

Ingenico purchased all outstanding shares of **Xiring**, a security solutions provider for remote transactions in the banking, health care and transportation markets. Xiring manufactures portable smart card readers with embedded software applications, as well as providing secure transaction services.

Fundtech merges with F.T. Israeli Mergerco

Financial institution software services provider **Fundtech Ltd.** merged with **F.T. Israeli Mergerco Ltd.**, a subsidiary of US FT Parent Inc. Both F. T. Israeli Mergerco and US FT Parent were formed by GTCR Fund X/A LP. GTCR paid $388 million for FundTech, which is now a wholly-owned subsidiary of US FT Parent. The combined company has 1,300 employees and estimated 2011 revenues of $200 million.

APPOINTMENTS

Herbert named USA Technologies CEO

Stephen P. Herbert is the new Chairman of the Board and Chief Executive Officer of USA Technologies Inc. Herbert joined USA Technologies in 1996. Prior to his new appointment, he served as President and Chief Operating Officer of the wireless, cashless payment and mobile-to-mobile telemetry solutions company.

In other news, USA Technologies' board of independent directors elected **Steven D. Barnhart** to the post of Lead Independent Director. He is the first person to hold the position, which was created to enhance corporate governance.

Hinderman new VP at Nxgen International

Tim Hinderman became Vice President of Global Marketing and Sales for Nxgen International. Prior to joining Nxgen, Hinderman was the owner/manager of Northwest Holdings LLC and Vice President of Operations for Schweitzer Mountain Resort. Hinderman will be responsible for sales and marketing in his new job.

Rogers to ABC Financial

Cheryl Rogers joined ABC Financial Services Inc. as Regional Sales Director – Canada. Rogers was formerly an acquisitions specialist with digital media software company Roxio, a division of ROVI Corp., for 11 years prior to coming on board at ABC Financial. She will be responsible for leading ABC Financial Services' Canadian expansion.

California Lucky's unfortunate breach

Self-checkout POS terminals in 23 Northern California Lucky Supermarkets stores were tampered with to allow thieves to collect card and PIN number data and steal thousands of dollars from Lucky customers. Save Mart Supermarkets, which owns and operates the Lucky supermarket chain, said that as of Dec. 7, 2011, more than 500 customers had reported fraudulent activity in their accounts as a result of the skimming operation.

Breach time line

According to published reports, a criminally altered terminal was discovered in a Lucky store in Mountain View, Calif., on Nov. 3, 2011. It was reportedly Nov. 11, 2011, before the company started looking for evidence of tampering in other stores.

On Nov. 14, 2011, POS terminal manufacturer VeriFone Inc. was notified and asked to examine a Lucky terminal for signs of tampering. Three days later VeriFone confirmed a problem with the terminal. Lucky then sent technicians to all its 233 Northern California stores to look for other tampered terminals.

By Nov. 22, the chain had found one tampered self-serve checkout terminal in each of 20 stores. The next day, Lucky issued a consumer breach notice to each of the 20 stores affected, stating it had found tampered terminals in those stores.

By Dec. 5, the supermarket chain had disclosed to consumers the number of compromised stores had risen to 23. Local news sources said the devices may have been installed in the Lucky stores as early as Oct. 1.

Petaluma problems

One store included in the Dec. 5 consumer alert was a Lucky store in Petaluma, Calif. Petaluma police said they received at least 140 reports of ATM thefts related to the Lucky breach. Petaluma Police Lt. Tim Lyons told *The Green Sheet* the POS terminals where the thefts occurred apparently contained unauthorized circuit boards inserted to collect card and PIN information.

Lyons also heard that a Bluetooth device may have been used to transmit the card and PIN information to a criminal collecting the information nearby. He said that as a result, some bank accounts were hit from ATMs many miles away before customers even left the Lucky parking lot.

Lyons indicated the lowest amount reportedly stolen in

> *On Nov. 14, 2011, POS terminal manufacturer VeriFone Inc. was notified and asked to examine a Lucky terminal for signs of tampering. Three days later VeriFone confirmed a problem with the terminal.*

the Petaluma breach was $200. The highest amount was $3,000 – six unauthorized withdrawals of $500 in a single day. In some cases, the thieves were able to use the information collected to drain savings in addition to checking accounts, Lyons said.

Expressing concern over delays in notifying the public, one Petaluma customer told *The Green Sheet* that even though he wasn't robbed, he was upset with Lucky Supermarkets because he used the self-checkout four times between Nov. 17 and Dec. 5, 2011 – something he would not have done had the chain alerted him earlier about problems with the self-serve checkout terminals.

Investigation in progress

The investigation is being conducted by the San Francisco Secret Service Electronic Crimes Task Force. Secret Service Agent Andy Adelmann said the Secret Service has been working with Save Mart since at least the beginning of December but, as of Dec. 12, had not completed its forensic examination of the terminals, so he was unable to confirm how information was stolen or transmitted.

He did confirm there have been cases locally of organized criminals running operations similar to the one discovered by Lucky.

Save Mart Supermarkets Chief Financial Officer Stephen Ackerman told customers, "At this time, we strongly recommend that anyone who used our self-checkout terminals in the affected stores during the months of October and November consider closing their bank account and opening a new one."

VeriFone does not comment publicly on security-related situations under investigation, but VeriFone Media Relations spokesman Pete Bartolik said, "Public reports of breaches have not involved more recent generations of VeriFone products.

"The PCI Council proactively urges all merchants and acquirers to continually monitor installed payment devices and to replace older payment systems that no longer meet their published security standards."

Security-side viewpoint

Andrew Brandt, Director of Threat Research for Solera Networks Research Labs, said, "For Lucky to recommend that people close their bank account is outrageously excessive. What people who used a bank debit card (not a credit card) to pay at a Lucky store need to do is call their bank, warn the bank that their ATM card may have been skimmed and ask the bank to issue them a new ATM card with different numbers.

"It also would be good to ask that the maximum daily ATM withdrawal limit be reduced to the lowest possible amount – $100 or less – to reduce the losses." Brandt said "gangs of card skimmers" have been "pulling these kinds of scams" around the United States for at least the past two to three years. In Europe, where chip and PIN technology makes this kind of scam more difficult, the devices are typically altered at the factory to collect and transmit personal information – "a far more difficult-to-detect problem," Brandt said. 🔲

Experts discuss the future of mobile payments

A recent Payments Spotlight podcast from the Federal Reserve Bank of Atlanta discussed the myriad challenges facing the mobile payments industry. The podcast featured economist David Evans, founder of the business consulting firm Market Platform Dynamics and co-author of *Paying with Plastic*, a comprehensive book on the payments industry.

Jennifer Windh, Payments Risk Analyst at the Atlanta Fed, conducted the interview. She began by asking Evans about the viability of Isis, the mobile payment venture created by AT&T Mobility LLC, T-Mobile USA Inc. and Verizon Wireless. Evans was not enthused about Isis' prospects.

"The source of my skepticism is, I think, that the likely role of the carriers in payments is basically being a pipe," Evans said. "It's not clear that they really have any relevant skills needed for running mobile payments, and I think that it's more likely that they're going to turn out to be a very important source of pipes for other people developing mobile payments alternatives." Evans added that attempts by mobile carriers around the world to enter the payments arena have not succeeded.

U.S. adoption

When Windh asked why the United States has been slow to adopt mobile payments, Evans said major barriers to said adoption exist in the United States. The first "is that there is not a very persuasive mobile payments alternative for consumers to use at the point of sale," he said.

He added that another barrier is most merchants haven't acquired the technology needed to process mobile payments and that consumer demand will pique merchant interest in adopting mobile technology.

"I think a fundamental problem at the moment is no one has really come up with a great way to use the mobile phone at the point of sale that is really compelling for consumers," he said, noting that this a barrier to adoption for both merchants and consumers.

He mentioned another significant barrier to mobile payment adoption: creating something better than the current system which, from merchant and consumer points of view, works just fine. "In order to persuade consumers or merchants to do something different, someone's going to have to come up with a really great alternative that adds value to the merchant and adds value to the consumers to make both of them want to do something different than they are currently doing," he said.

Mobile payments are taking hold in other world markets, but Evans doesn't foresee the reasons for adoption in less developed countries applying here.

"I think that where we are going to see mobile payments take off around the world is primarily in countries that

News

do not already have a very well-developed payment card industry with acceptance at the point of sale and that have very well-developed mobile phone systems," Evans said.

The future

Evans believes the United States will eventually have a standardized mobile payment system – whether it is based on NFC technology, bar codes or some technology that hasn't been introduced yet. "I think in order for mobile payments to really take off, there's probably going to need to be a particular kind of technology that consumers become used to using and that merchants become used to accepting," he said. "So, I do think that there will be a winning technology. I think that it is very difficult at this point to predict what that winning technology is going to be."

While NFC is a leading contender in the mobile payments sphere, Evans feels it is too early to declare NFC the winner. "I think anyone who is confident NFC is going to be the winner is deluding themselves," he said.

Evans predicted the company that develops a "killer solution" consumers and merchants want to use will take the prize. "I think it's really the solution that is going to drive the adoption of a particular acceptance technology at the point of sale rather than the acceptance technology

driving the solution," he said. He added it could be a decade before the champion in the mobile payment competition emerges.

NRF sues Fed over Durbin regs

A coalition of merchant groups led by the National Retail Federation went to Federal Court in Washington, D.C., in mid-November 2011 to challenge the Federal Reserve Board's final rule on debit card interchange fees.

The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 directed the Federal Reserve Board to limit debit card interchange fees to "reasonable and proportional" issuer costs. The Federal Reserve's final rule, which went into effect Oct. 1, 2011, limits the debit card interchange fee to 21 cents plus a small allowance for fraud prevention.

The complaint

While the NRF was one of the groups heavily invested in the adoption of the Durbin Amendment, the NRF complaint claims the Federal Reserve exceeded its authority on a few fronts when the Fed issued its final rule for enactment of the amendment. First, the retailers claim the board adopted an "unreasonable interpretation" of the Durbin Amendment. The NRF contends the Federal Reserve Board did not distinguish between allowable incremental costs and other costs. The NRF believes the board instead "invented a third category of costs not mentioned in the statute."

Next, the NRF alleges the final rule adopted by the FRB should not allow for fraud losses as it does because the Durbin Amendment limits fraud-related costs to fraud prevention. "The Board's fraud loss adjustment permits recovery of fraud losses without regard to any measurers by an issuer to prevent fraud," the complaint alleges.

The retailers also accuse the Fed of attempting to get around the amendment's prohibition of network or issuer exclusivity agreements. The complaint states, "The Final Rule circumvents this provision by providing only one personal identification-number ('PIN') network provider and one 'signature' debit network provider per debit card, and not allowing those networks to provide network services for all transactions performed on the card. "This outcome means that there will not be a competitive choice among networks on many (and potentially all) debit transactions as the statutory language plainly requires."

Relief wanted

The NRF noted interchange fees are the second-highest

operating cost for merchants, behind only labor costs, and that interchange fees are rising faster than health care costs. The retailers asked the court for a declaratory judgment setting aside portions of the final rule that create standards for assessing whether interchange fees are "'reasonable and proportional' to the issuer's cost."

The Durbin Amendment directs the Fed to distinguish between incremental costs of an issuer – authorization, clearance and settlement costs – and other costs not specific to the transaction. The retailers allege the final rule went beyond the scope of allowable issuer costs to include processing costs, chargebacks, network fees and transaction monitoring costs – a standard the NRF asked the court to void.

The NRF also asked the court to rule that the networks necessary for routing debit transactions "are arbitrary, capricious, an abuse of discretion and otherwise not in accordance with the law." The retailers claim the Fed exceeded its authority when it included network fees in the allowable recoverable costs.

The NRF stated the law limits the Fed's authority over network fees to ensuring that a network fee isn't used to compensate an issuer for a debit transaction or to get around restrictions in the law. It said, the Board has no authority to include network fees in Durbin Amendment calculations.

Legal perspective

Adam Atlas, a Canadian payment attorney who represents a large contingent of ISOs in the United States, said from an ISO perspective the NRF complaint has little bearing on the ISO community. "ISOs are kind of bemused as they watch while this thing unfolds," he said. "More than anyone they know how to charge merchants for payment services.

"Ironically Durbin increased ISO [profits]. This complaint is the flip side of Durbin. Merchant agreements give processors a lot of latitude on pricing. That's the marketplace we are in.

"What we're seeing here is that a government directed economy doesn't work. It neither serves the interests of government regulators regulating pricing nor does it serve the interest of the merchant it is supposed to serve."

Atlas believes regulating merchant processing "is more complicated than how many pennies the merchant pays for a transaction." He said if debit card interchange fees could be uncoupled from other line items in a transaction, perhaps it could be regulated, but he sees no way to avoid conflicting with state, local and antitrust laws if there was an attempt to do so.

"There is a price matrix of line items that go into transaction pricing," Atlas noted. "The matrix includes things

> *The NRF noted interchange fees are the second-highest operating cost for merchants, behind only labor costs, and that interchange fees are rising faster than health care costs.*

like batch fees, PCI fees and IRS fees – a whole basket of items. Durbin put a box around one line item. What did not occur was a box around every line item."

He noted that processors, ISOs and gateways that charge transaction fees are not subject to Durbin Amendment regulations. "They don't answer to the Fed," Atlas said. "The Fed can't regulate any of them except the banks."

Atlas said the fact that banks decided to take the highest allowable transaction fee on every debit card purchase, a decision that made previously less expensive transactions more expensive, is something "the retailers should have seen coming."

SMBs: Security must become serious

By Bill Farmer
Mako Networks

It's been nearly a year since the second version of the Payment Card Industry (PCI) Data Security Standard (DSS) came into force, and small and medium-sized businesses (SMBs) still need to take action to step up compliance measures. Larger businesses, cognizant of the impact a data breach may have on trade and customer loyalty, have largely embarked on the PCI DSS journey to improve their overall security procedures.

This trend must filter further down the ranks into SMBs – most of which remain unprepared, vulnerable to data breaches and unable to take the steps needed to meet the PCI DSS requirements.

The threat of data theft is ever present

It's been impossible to ignore the continually emerging headlines this year about corporate data breaches and lost customer data. But a number of these stories may actually be doing more to fuel apathy toward the PCI DSS among the SMB community.

On the surface, the spotlight is on big businesses – Level 1 merchants with deep pockets and rich deposits of customer data. In reality, however, lower level fraud crime is just as prevalent at smaller Level 2 through 4 merchants, and on the increase.

As more Level 1 merchants shore up their corporate networks and security, fraudsters are shifting their crosshairs to smaller businesses, the "soft targets."

For example, consider the recent arrest of a German engineer who modified payment terminals for criminal gangs targeting retail outlets across the United Kingdom. SMB crime is a very real and present threat for small businesses.

PCI applies equally to merchants large and small

Any business that stores, processes or transmits

cardholder data must be compliant with the PCI DSS. Whether a retailer processes 100 or 100,000 transactions per month, PCI requirements apply equally to both.

Even if a breach has not yet taken place but a merchant is found to be noncompliant, there could be a number of implications depending on their contract, situation and relationship with the bank.

Alongside automatically deducted noncompliance fees, merchants can be forced to pay additional fines passed on from the credit card scheme holders via the bank. Noncompliant merchants often incur higher fees per-transaction and large monthly fees, increasing business overheads and siphoning revenue from their pockets.

While the PCI DSS is often overlooked, one area that is particularly troublesome is the requirement surrounding the storage of cardholder data. The standard outlines what elements of cardholder data may be stored, how it can be stored and what type of protections to apply to specific combinations of data.

Consequences of a breach can be catastrophic

It's often a misconception that this just applies to digital storage, but if a retailer writes down or stores card information on paper, then the PCI DSS applies, too.

This includes organizations that have recurring billing data on computers, credit card machines or readers and/or filed documents with credit card or bank numbers.

SMBs want to leverage technology in order to improve customer footfall and drive efficiency in their businesses. The near ubiquitous availability of broadband offers the potential to achieve this but throws up its own unique set of challenges in respect to the PCI DSS.

Smaller merchants need help; shoehorning enterprise solutions and using corporate language merely confuse the issue.

If the worst does happen and a retailer suffers a security breach where cardholder data is lost or stolen, then the resulting fines, forensic investigation cost and reputational damage can very easily put an SMB out of business.

Often the pillars of the community, SMBs provide convenience products and services essential to daily life. To be destroyed simply because of the implications of noncompliance could be devastating to both the business owner and the surrounding area.

SMBs need help with compliance

It's essential that retailers understand PCI DSS and receive the right support to ensure compliance. Now is the time to

educate and prepare SMBs, ensuring these businesses are protected in the future.

The PCI Security Standards Council (PCI SSC) is currently evaluating a proposal for a Special Interest Group early next year to specifically examine the issues of SMBs and compliance with all PCI data security standards.

PCI SSC Participating Organizations were able to vote before Nov. 4, 2011, on the proposal, and if sufficient interest is shown, the PCI SSC may form a committee to more fully explore this important issue. It is my belief that this issue is a serious one, worthy of further exploration and debate.

I hope other Participating Organizations joined me in voting for the SMB Special Interest Group during the open voting period, as it was the first step toward solving this growing issue.

Bill Farmer is Chief Executive Officer of Mako Networks, an international cloud-based network management company headquartered in Auckland, New Zealand, that provides services and managed appliances to connect businesses to the Internet and protect them from the threats it contains. For more information about Mako, a Payment Card Industry Data Security Standard-certified business, please visit www.makonetworks.com. *To contact Farmer, email* billf@makonetworks.com.

Thinking outside the bank

By Patti Murphy

ProScribes Inc.

It seems almost unfathomable that today – when electronic payments are burgeoning with the help of new form factors like mobile telephones – dependence on cash is on the upswing in certain pockets of the economy. I'm not referring to the underground economy, but rather to the poor.

The Pew Charitable Trusts, a nonprofit group that tracks social issues, reported that in Los Angeles, more low-income consumers closed out bank accounts than opened accounts between 2009 and 2010.

The Pew Health Trust began following a group of 2,000 low-income households in Los Angeles in 2009, when half the group had bank accounts and half were unbanked. A year later, when researchers returned to query the group, 13 percent of households that reported having bank accounts in 2009 had closed those accounts; just 8 percent of those who were unbanked had since opened bank accounts.

According to the Pew report, *Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream*, nearly a third (32 percent) of Los Angeles households that left banks between 2009 and 2010 said unexpected/unexplained fees were the reason for closing accounts.

Among all unbanked households, 50 percent reported being unable to meet minimum deposit requirements; in 2009, only 30 percent said they couldn't meet minimum deposit requirements.

But here's the real kicker: more than half (59 percent) of the newly unbanked in Los Angeles now conduct business entirely by cash; an additional 26 percent use a combination of cash and nonbank financial services providers like check cashing houses.

This is not a trend limited to Los Angeles, or to California. In November 2011, the Center for Financial Services Innovation released data suggesting the number of unbanked and underbanked Americans is significantly larger than the Federal Deposit Insurance Corp. reported in 2009.

CFSI staff identified 60 million underbanked U.S. consumers who together generated $45 billion in fee and interest revenue for financial services providers in 2010, and most of those providers were not banks. Altogether, underbanked Americans are responsible for $455 billion a year in principal borrowed, dollars transacted and deposits, the CFSI reported.

To put this all into perspective, the consultancy Aite Group LLC estimated the first year of debit card interchange rate caps under the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 would result in revenue shortfalls of about $12 billion among all debit card issuing banks in the United States.

Looking forward, 2012 would be a good year for banks and credit unions to start offering products that tap into that revenue stream. I'm not alone in espousing this belief. Arjan Shutte, Managing Partner of Core Innovation Capital, a New York-based venture capital fund that invests in technology companies targeting America's underbanked consumer segment, hopes the CFSI data will prompt banks to do more to serve low-income communities.

"This new data confirms that there is a large opportunity for the financial services industry to create products and services that are both profitable for them and provide much needed solutions for this consumer segment," he said.

Challenging nonbanks

You can bet an army of nonbanks, including retailing giant Wal-Mart Stores Inc., has plans for tapping into that $45 billion revenue stream. Wal-Mart is fast becoming a banker to U.S. consumers who have been left behind by mainstream financial institutions; most recently it obtained ownership interest in Green Dot Corp., which specializes in general purpose prepaid cards and just got the federal government's OK to purchase a small bank in Utah and rename it Green Dot Bank.

Green Dot distributes prepaid debit cards via the Internet and retailers (like Wal-Mart, its biggest client), and contracts with third-party banks for card issuance and settlement. Now that it owns a bank, Green Dot no longer needs to contract out card issuance and related tasks.

In a November 2011 statement about the approval of Green Dot's application, the Federal Reserve Board said, "Green Dot Bank's operations would be substantially focused on the prepaid card business." The underlying question that should be on the minds of bankers: what does it mean to be substantially focused?

Many nonbanks, Wal-Mart in particular, are attracting under/unbanked consumers with transparent pricing, convenient locations and services that banks aren't inclined to offer, including check cashing, small-dollar remittances and micro-loans.

And new technology makes it possible for nonbanks to help just about anyone to accept credit and debit cards.

In fact, Intuit Inc., the accounting software giant, is planning a prepaid card account that unbanked micro-merchants can use to deposit payments accepted using Intuit's GoPayment, a mini-card swiper that plugs into smart phones, according to published reports.

Spending by unbanked Americans on payment services grew by 6 percent between 2009 and 2010, CFSI's data indicates; spending on credit services grew by 2 percent. Nonbank products that CFSI said experienced substantial growth include:

- Internet-based payday loans (35 percent growth)
- Reloadable general purpose prepaid debit cards (33 percent)
- Payroll cards (25 percent)

None of these are products that banks can't support. In fact, several large banks have begun offering short-term (payday) loans, including KeyBank, Wells Fargo & Co., U.S. Bank and Fifth Third Bank. And most of the largest banks, along with hundreds of smaller financial institutions, participate in Bank On programs that offer free or low-cost starter accounts in scores of communities throughout the country.

More to the point, banking is "the cornerstone of financial security," as the Pew report stated. Consumers without bank accounts cannot fully participate in the economy. Instead, they struggle on the fringes, paying cash for overpriced alternatives to banks, without any hope of saving or accumulating assets (like cars and homes).

According to JoinBankOn.org, a resource of the Corporation for Enterprise Development, a Washington think tank, an unbanked worker spends about $1,000 a year cashing checks, paying bills, obtaining short-term credit and accomplishing other financial tasks that banked workers take for granted.

Assuming one-fourth of the 60 million underbanked identified by CFSI are unbanked and employed, that's $15 billion a year nonbanks are earning at the expense of banks.

It's time for banks and other regulated financial institutions to rethink customer acquisition strategies and take a few cues from nonbank financial services providers. Mainstreaming the underserved makes good business sense, and it's good for the economy.

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.*

Pillars of payments

An interview with Marc Abbey

By Ken Musante

Eureka Payments LLC

I first met Marc Abbey, Managing Partner at First Annapolis Consulting, early in my career at Humboldt Merchant Services. When interviewing him recently for this article, I was reminded of just how cerebral he is and how his industry discussions and presentations dig deeper into data than many other presenters.

Q. Describe how you entered the payments industry.

A. I began at a bank consulting firm, and we did a lot of ATM work, including the formation of the Southeast Switch, which was the predecessor to STAR, and then worked for Philadelphia National Bank in the MAC ATM network. The division within the bank was called Electronic Payments. Concord purchased EPS, and later First Data purchased Concord.

ATM consulting was my entry into the payment space. I then went to business school and had some additional experience before being hired into First Annapolis in 1991.

Q. How has your consulting agency changed over the years?

A. We have become much bigger and broader. Originally we only did issuing and acquiring. Today we have many more disciplines and areas of expertise. Looking back, we were much less sophisticated (as was the industry) at the beginning than we are now.

For example, we would do very simple financial reporting for acquirers and help them create strategic business units. This allowed them to track their profitability much more closely and was innovative at the time. Today, the industry is much more advanced, so we have had to evolve to continue to provide more and greater information and value.

We are a much larger company now, too. We have over 80 professionals and 20 support staff today as opposed to approximately 50 employees just five years ago. The growth has been broad-based, both geographically and across our practices. For example, we now have 12 individuals in our European practice.

As an aside, the European market will be tumultuous over the next few years. The economy will be down, but there will also be bank consolidation, mergers and acquisitions, so we will assist in those areas, as well as with risk and cost containment projects.

Q. How have your clients changed over the years?

A. As we have gained sophistication, so have our clients. Our clients are much more capable today and do many more things in-house. Consequently, we must continue to evolve so we can add value. Additionally, our clients used to be primarily banks.

In the 1990s, that changed and we gained many different nonbank entities as our customers. Today our clients may be entrepreneurs, large banks or larger ISOs. We must continue to scan the environment and understand our clients so we can assist them and add value.

Q. What is your most challenging business issue?

A. Assimilating and hiring new staff. There are brilliant people who make poor consultants. Consultants must come into a client organization and recognize how decisions are made within that company. You need to recognize the capabilities of that organization.

Consultants don't make decisions; they help other people make decisions. This type of talent is very unusual, and we need to ensure we bring the right person in who can understand the business quickly and then work with the management team, along with their capabilities and constraints.

Q. What change did you not see coming or caught you by surprise?

A. I was surprised by the impact of regulation over the last few years. The impact has been enormous. Both the Card Act [the Credit Card Accountability, Responsibility and Disclosure Act of 2009], which affected the issuing business, and the Durbin Amendment [to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010] have such a monumental impact on our business. I would not have forecasted this three years ago.

Future regulation will be dependent upon the next election; however, certain regulators, like the Consumer Financial Protection Bureau [which was created with the Dodd-Frank Act], will likely not be favorable to the financial services industry, and their effects are yet to be fully seen or implemented.

Q. What are you most proud of over your career?

A. I am proud of what First Annapolis has become. I take a lot of satisfaction in our client engagements. I became Managing Partner in 2007, but I enjoy being involved with clients on an individual basis. As a consultant, we need to be excited by our clients' success, as ultimately that is how we are measured.

Q. If you could have a 'do over' with any aspect or project, what would it be?

A. If there is one category of things I would do differently over my career, it's an overestimation, especially early in my career, of what a client is capable of doing – either because of their capabilities or political environment. If I could isolate one thing I wish I had been better at, early in my career, it would have been my ability to estimate my clients' abilities and therefore have been more accurate in my recommendations.

Q. How will our industry evolve over the next five years?

A. There are a handful of key trends within the acquiring industry:

1. Technical change: If EMV [Europay/ MasterCard/Visa], for example, is implemented as Visa is prescribing it, it will radically change our industry.

2. Marginalization by innovative players: Because of changes (such as Square, Intuit, ISIS and others), some entities will be marginalized or disintermediated. An example is offers redemption. This may be provided by an entity other than an acquirer.

3. Resumption of consolidation in our industry: This will be fueled by the exit of private equity firms from their investment positions. There has been a pause in our consolidation over the short term; however, in the near future, private equity firms will pursue their exit strategy. This will radically shake up our industry.

Q. How will the Durbin Amendment impact our industry?

A. For some acquirers, Durbin has been a windfall, although over a short number of years this will be competed away. It remains to be seen what issuers do in response to Durbin, so we can not fully forecast what the effects will be. A large swath of merchants are not seeing the benefits of Durbin, and this will cause renewed activism within the payments space. Because of the activity, we are likely to see another shoe drop with regard to regulation.

Q. Is there anything else you wish to share?

A. It is a wonderful time to be in the payments space. This business is changing faster than any time in my career, and that is saying a lot. Although it will not always be like this, right now it's a great time to be in this business.

First Annapolis was one of the very first consulting firms that specialized in the card processing space and understood the ISO market. First Annapolis' publications were available before many of the now existing trade publications (and the Internet) were available. They were one of the few resources that provided data to aid in comparison of industry benchmarks.

Whenever I wanted to present to our board of directors, I would search out First Annapolis material, as I had the greatest confidence in their work and studies.

I hope this interview provided you further insight into Marc Abbey's background and viewpoint. 🖼

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Selling**Prepaid**

Prepaid in brief

NEWS

InComm counters nFinanSe's claims

In response to **nFinanSe Inc.**'s breach of contract and antitrust lawsuit against **InComm**, the Atlanta-based prepaid card distributor said the general purpose reloadable (GPR) card provider's claims are meritless. The lawsuit alleges InComm is blocking access by merchants to the Florida-based company's cards to force nFinanSe to join InComm's Vanilla Reload Network.

InComm countered that the Vanilla Reload Network is made available to its partners at a generally accepted reload price point and that "nFinanSe is free to participate or not participate on those terms at its discretion." InComm's statement added that "nFinanSe can continue to use its existing reload platform or any of the others available in the industry." InComm noted that it reserves the right to select what products it distributes on its network.

N.Y. state adds prepaid option to tax returns

Beginning in 2012, New York state taxpayers will be given the option to receive state income tax refunds on prepaid cards. **The New York State Prepaid Refund Card** will be available to taxpayers as a state tax refund alternative alongside paper checks and direct deposit.

Ed Walsh, Public Information Officer at the New York State Department of Taxation and Finance, said the MasterCard Worldwide-branded cards will be issued by Bank of America Corp., and taxpayers will be able to access funds via the Allpoint ATM network, which boasts 43,000 surcharge-free ATMs worldwide. The prepaid card option will appear on 2012 tax forms, Walsh added.

Parking goes prepaid in Boston

As part of Boston's annual Holidays on Main Streets campaign, Boston Mayor Thomas M. Menino officially launched the **Boston Meter Card**. The proprietary, closed-loop prepaid card is designed for use at 7,000 single-space parking meters across the city. Menino said

the card will not only make it easier for people to pay for street parking, as it eliminates the need for drivers to feed meters with coins, but it will also promote local holiday shopping.

Meters that accept the magnetic stripe card were deployed in Boston shopping districts. Users swipe the cards through the meters when they park and again when they leave to deduct amounts from prepaid accounts. The cards can be loaded in denominations between $5 and $100. When purchased and reloaded online, users pay with Visa Inc.- and MasterCard-branded cards.

ANNOUNCEMENTS

AllTrust goes to the cloud for underserved

Software and services provider **AllTrust Networks** launched AllTrust Cloud – a web-based platform that allows retailers and partners to offer check cashing, bill payment, money transfers, money orders and prepaid card services to the unbanked and underbanked.

QuikTrip gets Blackhawk's gift card mall

Safeway Inc. subsidiary **Blackhawk Network** is expanding its gift card mall network with the addition of 500 QuikTrip Corp. convenience store locations nationwide. The product line in QuikTrip stores includes a variety of gift, digital content and phone cards.

PPS becomes Brightwell

OceanPay maritime payroll card program manager Prepaid Solutions Inc. changed its name to **Brightwell Payments Inc.** "The new name more accurately reflects the company's strategic direction to be the industry source for smart, innovative prepaid solutions as it continues to expand domestically and internationally," the Atlanta-based company said.

FIS keeps tabs with ScoreCard

Fidelity National Information Services Inc. (FIS) rolled out the ScoreCard Prepaid Rewards program that offers card issuers a new program to attract and retain consumers with rewards points for using prepaid cards.

InComm sweeps up for the holidays

For the holiday season, **InComm** sponsored two contests. "A Million Options" sweepstakes offered entrants the chance to win one of five $1,000 Vanilla Visa Gift Cards; the contest ended Dec. 16, 2011. InComm

also launched the "Dreams and Drywall Sweepstakes," which runs through Dec. 31, 2011, and will award one winner $25,000 in gift cards to The Home Depot.

Clingle sends 'clings' for location-based gifting

New York-based mobile application developer **MyCityWay.com** added an e-gift card feature to Clingle, a geo-location-based mobile app that enables users to send messages embedded with personalized videos, audio or text (called "clingles") via mobile phones. Clingle Gifts allows Apple Inc. device users to send gift cards along with clingles.

PreCash extends (re)load services

With its new Secure Payment Services, transaction processor **PreCash Inc.** will offer prepaid debit card and stored-value products, including wireless telecommunications reloading and bill payment through its partners to over 3 million consumers. PreCash said it processes $2 billion in payments annually.

London ballroom gets 2012 prepaid awards ceremony

The Prepaid Awards said the 2012 ceremony will take place in the newly refurbished ballroom of The Lancaster London on Oct. 11, 2012. Over 500 industry professionals are expected to attend the event.

'Y Pay More' campaign to educate about prepaid

PrepaYd Wireless Inc., subsidiary of prepaid card provider PrepaYd Inc., is marketing the "Y Pay More" campaign to promote a $40-per-month wireless data plan to underbanked consumers. The parent company said PrepaYd Wireless is a "natural upsell" to PrepaYd's customer base.

Transaction Wireless adds e-tailers

Digital gift card solution company **Transaction Wireless** will provide athletic apparel and accessories retailer The Finish Line Inc. and sports bar and grill chain Buffalo Wild Wings with e-gift card solutions via the retailers' websites, Facebook pages and mobile storefronts.

Vantiv unveils first GPR card

Vantiv LLC introduced its first prepaid card program available to its financial institution partners. The MasterCard-branded GPR card is designed to offer new
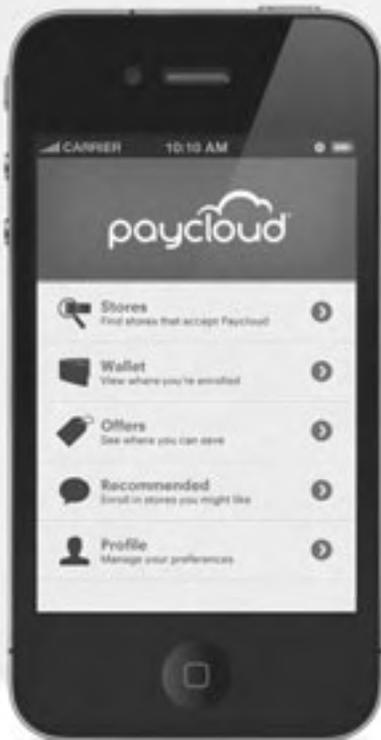
revenue opportunities for Vantiv's clients to help attract and retain more customers.

Western Union expands platform to the U.K.

The Western Union Co. extended its prepaid card platform to the United Kingdom with the launch of the Western Union MasterCard Gift Card and the Western Union GoCash Service. Western Union said its first international extension will continue with future moves into Asia, Latin America and other European countries.

PARTNERSHIPS

Payango plans European expansion with FIS

A multiyear agreement between prepaid card processor **FIS** and **Payango GmbH** is designed to extend the Berlin-based program manager's reach beyond Germany. Payango is focused on expanding its prepaid card solutions to banks across Europe.

Sunrise chooses Fiserv for prepaid services

Transaction processor **Fiserv Inc.** inked a deal with **Sunrise Community Banks** to provide GPR and gift card processing services. Sunrise Community Banks is a banking group composed of Franklin Bank, Park Midway Bank and University Bank headquartered in Minneapolis and Saint Paul, Minn.

Giftango turns Maritz onto e-gift card platform

Maritz LLC's **Maritz Motivation Solutions** will implement **Giftango Corp.**'s digital gift card solution for employee reward, incentive and loyalty programs.

MasterCard, Western Union to advance global payments

MasterCard and **Western Union** will work together to make electronic payments, including prepaid cards and money transfers, more efficient and convenient for consumers globally. The companies said 2.5 billion adults worldwide are financially underserved and more than a quarter of the adult population in the United States is excluded from the financial mainstream.

Evolution1 expands CDH footprint

Health care information technology firm **The TriZetto Group Inc.** teamed with health care card program manager **Evolution1** to provide TriZetto's health plan clients with Evolution1's consumer directed health care payment platform, which includes the Benny Prepaid Benefits Card.

ACQUISITIONS

SelectCore seeks M&A help

Prepaid telecommunications provider **SelectCore Ltd.** said it retained a financial advisor to act as an exclusive agent in connection with new potential merger and acquisition targets that have been presented to the Canadian company. SelectCore said the engagement is not related to the company's proposed acquisition of a Canadian payment processor.

APPOINTMENTS

MacIlwaine joins Green Dot as CIO

Green Dot Corp. hired financial technology veteran **John MacIlwaine** as Chief Information Officer to design and implement Green Dot's technology strategy. MacIlwaine was previously Head of Global Development at Visa, where he spearheaded development of new products and services across Visa's commercial and consumer product divisions.

Features

Will prepaid pivot with Green Dot's purchase?

Architects and historians of the prepaid card industry may look back at Green Dot Corp.'s $15.7 million acquisition of Bonneville Bancorp as a watershed event. Not only is it the first time a prepaid card company will function as its own issuing bank and thus issue its own prepaid cards, but it may also signal a trend of companies broadening business models to reach more customers with more diverse products.

Madeline Aufseeser, Senior Analyst at Aite Group LLC, called the purchase "prudent." It vertically integrates Green Dot's processes, she said. It also allows the company to avoid the consequences of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The debit card interchange cap imposed by the Durbin Amendment does not apply to banks such as Bonneville with assets under $10 billion.

"So what it does essentially is it secures Green Dot's interchange rates for prepaid cards," Aufseeser said. "And it solidifies them being not under the Durbin Amendment."

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No longer a 'one-trick pony'

Ed Lawrence, Director at Auriemma Consulting Group, said the purchase lessens Green Dot's risk. Financial or regulatory trouble at one of Green Dot's issuing banks would likely have negative repercussions for Green Dot.

"If that bank does something wrong, then Green Dot has its reputational risk involved," he said. "This way they control it totally. And they certainly do have the ability to mitigate some risk."

But Lawrence also believes the move is evidence that being a "one-trick pony" alternative financial service provider is on the decline. "Becoming a bank means you move more into the mainstream," he said. "And I think that's Green Dot's approach. …It's just like any business. If you look at Kraft Foods, they began making cheese. And if you look at them today, they're into a thousand different products."

Green Dot may enter the credit card market, according to Lawrence. "That they've got a banking license shows that they can go out and maybe raise some capital and issue credit cards," he said.

Bank influx imminent?

Lawrence noted the purchase may not spur other prepaid card businesses to become issuing banks, as it's a complicated and expensive process. The more likely scenario is that banks will acquire prepaid card businesses.

"I think banks should be eyeing [the prepaid card industry]," Lawrence said. "If you're going to get into it, it's a difficult business for a bank to start thinking of marketing to underbanked consumers when they haven't done that before. So getting your feet wet and buying one of these companies … would be a good step for a bank to do. Not only to get their feet wet but also to jump into the market with a proven portfolio of accounts – and then begin to expand it."

Green Dot's acquisition is proof the company recognized it needed to expand its services to stay competitive, Lawrence noted. "Either that, or sooner or later they would have been purchased by someone else," he said.

'Smart' gifting gears up

Gift cards represent an estimated $100 billion global market, and the digital gifting segment seems poised to move the market beyond plastic. According to CashStar Inc.'s 2011 *Holiday Online Shopper Gift Card Survey*, the mobile channel for holiday e-gifting is growing as smart phone users increasingly enjoy the convenience,

immediacy and variety afforded by the digital gifting experience. Over a quarter of 1,439 respondents polled in the CashStar-sponsored survey (conducted in November 2011 by online research firm Zoomerang) intend to use smart phones for holiday shopping.

Additionally, 30 percent of respondents who own smart phones would purchase e-gift cards, up from 20 percent who took part in the survey last year.

Plastic to digital

These analytics are evidence of what CashStar co-founder and Chief Executive Officer David Stone called the coming of the "post plastic card era." It is CashStar's mission to convert plastic gift card buyers into digital gifting consumers by showcasing the benefits of the online and mobile gift giving options. The way CashStar is converting consumers into believers is through personalization.

"People love and hate their [plastic] gift cards; regardless, it's the most given gift in the world," Stone said. "People don't like them because they don't feel very personal. So we're changing the game, making it very personal."

On the websites of over 200 brand retailers, including Best Buy Co., The Home Depot U.S.A. Inc. and Williams-Sonoma Inc., CashStar has integrated its digital gifting platform, which allows consumers to embed images, messages and now video to digital gift cards. Consumers can also pre-buy e-gift cards and have them delivered to recipients on a given date.

E-mail to mobile

Stone estimated transactions conducted over CashStar's network are more than doubling yearly, with the mobile channel growing at 6,000 percent – a percentage reflecting mobile gifting's still small user base. Delivering digital gift cards via email is still the dominant vehicle, where the magnetic stripe on plastic cards are turned into bar codes that can be printed out and scanned at the physical POS, he said.

But the future is mobile, according to Stone. Consumers don't have to be tied to PCs and print out e-gift cards, he said; instead, a person can arrive late to a Christmas party without a gift in hand and send an e-gift card via a smart phone almost instantaneously.

One metric that has retailers hearing Christmas bells is, as Stone put it, "They [e-gifters] spend a lot of money online." In fact, Stone has found that e-gift card buyers typically load 50 to 150 percent more value on digital cards than on plastic ones.

CashStar's 2011 Holiday Online Shopper Gift Card Survey is free for download at *www.cashstar.com/egift-card-resource-center/*.

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Status report: U.S. economy Q3 2011

The quarterly *U.S. Economic Indicators Q3 2011 Report*, prepared jointly by The Strawhecker Group and the Electronic Transactions Association, showed modest gains across U.S. economic sectors. Following is a summary analysis of key indicators from the report, including consumer spending totals, payments volumes, and retail winners and losers.

U.S. economic indicators Q3 2011

Total U.S. consumer spending .... $10.8 trillion

Total spending on nondurable goods .... $1.15 trillion

Percentage change in retail sales, annualized Sept. year-to-date .... 5.43 percent

Bank card volume percentage share of total consumer spending .... 7 percent

Bank card volume percentage share of nondurable goods spending .... 30 percent

Non-card based payments volume share of non-durable goods spending .... $805 billion

Total Visa/MasterCard credit card volume .... $358 billion

Retail sales by Segment

This chart provides an overview of U.S. retail and food services sales, shown in 12 catagories.

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Company**Profile**

PayLeap

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Warsaw, IN 46582
Phone: 877-472-9532
Fax: 925-955-8987
Website: *www.payleap.com*

ISO/MLS benefits:
- Product is a bundled, all-in-one virtual terminal for payment acceptance
- API allows for integration of new payment technologies from software developers
- API is broken into five components, allowing developers and resellers to sell the product as a bundled whole or as some combination of the different parts
- Co-branding option includes graphic import function, plus additional design and color schemes
- Shopping cart integrates with online storefronts, reducing consumer abandonment and reducing the scope of PCI compliance

Sophisticated payment acceptance simplified

At a time when electronic options for making and accepting payments are expanding into ever greater and more complicated forms, ISOs, merchant level salespeople (MLSs) and the merchants they serve need a way to simplify the integration and management of new tools, according to PayLeap Chief Executive Officer and President Scott Miller.

PayLeap does just that by bundling the gamut of POS payment acceptance and back-end management functions into an all-in-one virtual terminal, Miller said. The terminal makes the installation and maintenance of merchant POS systems easy through its multiple acceptance offerings, seamless integration with multiple front-ends and locations, and compatibility with new technological pieces from different developers, Miller added.

"We built a platform on simplicity, and anybody who wants to can integrate into our system," Miller said. "I started PayLeap in 2008, and one of the reasons was the payments space seemed a little too complicated. I wanted to do clear terms, clear pricing and simple solutions."

Reaching out to ISOs

Until recently, PayLeap's main partners were software developers who wanted to integrate their payment programs into a larger POS package that could be marketed to merchants. PayLeap continues to open its application programming interface (API) to new developers, but the focus now is taking its gateway-only offering to ISOs for immediate resale, Miller noted.

"Right now, it's really our gateway-only merchants that are going to be driven by the ISO market," he said. "For merchants that want to go online, ISOs already have an acquiring relationship, and we're trying to compete in the online merchant space and are looking to expand our offering to include an ISO model.

"We have moved to aggressively pursue ISOs because we feel we have a superior software solution that's relatively inexpensive and which ISOs and MLSs can easily upcharge."

Co-branding multiple POS services

Part of the program's appeal to resellers is a co-branding option that allows ISOs and other sellers to easily add their logos to the program, along with certain design and color scheme options, Miller pointed out.

"They can co-brand it and make it look like it's owned by the ISO or MLS," he said. "We let them drive it, and get it set up with a color scheme and logos. They can do all that within a few minutes."

On the front-end, PayLeap offers all of today's POS services, including gift card and loyalty card programs, PIN debit, automated clearing house and electronic check acceptance, along with recurring billing and invoicing, Miller said.

CompanyProfile

PayLeap can be used with brick-and-mortar, e-commerce and mobile acceptance, and merchants with multiple front-ends can have them seamlessly integrated, allowing the merchant to connect with a single gateway and view their entire reporting suite in one consolidated virtual portal, according to Miller.

Emphasizing data security

Miller said the company's program has "the highest level available" of Payment Card Industry (PCI) Data Security Standard (DSS) compliance. It can verify the proper cardholder with online purchases by using both the Address Verification Service and Card Verification Number, and it reduces the PCI scope of electronic merchants and mobile merchants by keeping card information away from the merchant environment, Miller added.

"Payment information stays on our system the entire time – it is never in the merchant's possession," Miller said. "That guards the data and prevents the merchant from having to undergo an audit."

Consumers who decide to buy something online from a PayLeap merchant are redirected to PayLeap's shopping cart, but that page is called up instantly and is designed to match the texture of a merchant's website. That way, consumers don't ever feel like they're leaving the merchant's site, which reduces shopper abandonment and virtually eliminates the scope of PCI compliance, according to Miller.

Integrating easily

On the back-end, PayLeap can integrate virtually any type of payment

software – making it a virtually limitless platform for POS add-ons. According to Miller, PayLeap's API framework makes it easy for developers to integrate new software pieces, as well as for merchants of different types to integrate the program and tailor it to their needs.

For example, Miller said PayLeap is a leading brand among medical billing entities, providing a customized system that can bill both insurance companies and customer co-pays. "The system allows a medical billing firm to submit an electronic invoice to the patient," he said.

Virtually any device that has a Universal Serial Bus port, including any computer or mobile phone, can be turned into a card-present POS system through the attachment of a MagTek Inc. swipe terminal and the installation of PayLeap, Miller noted.

Offering utmost compatibility

He said that unlike some legacy platforms, PayLeap uses state of the art technology that gives it across the board compatibility with existing computers, smart phones and POS systems. The flexibility of its back-end API also makes PayLeap ready for any new technological developments down the road, which can be seamlessly integrated without overhauling the program, Miller added.

In discussing mobile payment acceptance, Miller said, "There are two schools of thought about where it's going. There's the Square school of thought ... and there's the point of view that the future will be NFC [near field communication].

"With either one, we can code right into the developer's program. We're robust enough to basically do whatever the developer wants. Some gateways out there can't add features because their platforms are too old."

Tailoring components to merchant needs

PayLeap's API consists of five components: transaction services, reporting,

hosted payment form, secure data storage (recurring billing and card vault), and secure checkout.

Developers and other resellers can sell all five components as the total bundled solution, sell single components individually or sell any combination of them, making it easy to tailor the program to a merchant's specific needs without superfluous add-ons, according to Miller.

"In the past, the web developers had to develop all these different pieces separately," Miller said. "They had to integrate web services; they had to integrate recurring billing; they had to integrate reporting.

"Let's say they only need transaction services. They need to send us data, and we send back an authorization yes or no. We can easily give them just that, whereas other providers may need the recurring billing function and the secure data storage. ... Whatever they want to take from it, they can."

While partners don't have to install every feature, those that opt out of certain features but want to add them later can do so free of cost, Miller pointed out. "We're not going to do à la carte recurring billing, shopping cart and other add-ons," Miller said. "With this you have one simple solution with everything, so there's less complication around pricing."

For instance, a merchant who accepts card payments at his or her brick-and-mortar store but wishes to add a virtual shopping front can use PayLeap specifically for that purpose. "Using, for example, TSYS as a primary provider, we can provide a gateway to TSYS and, through them, integrate it with their technology," Miller said.

Designing for ease of use

Miller added that PayLeap's user-friendly technology makes it easy to install, although PayLeap can do installations itself if merchant providers prefer, and the company also provides direct technical phone support.

On top of that, PayLeap can conduct merchant boarding for ISOs that sell the product to new merchant customers but lack the time or inclination to undergo the application process.

"If the merchant provider sends us a lead, we will bundle the process from start to finish," he said. "We set up the account, get the documents signed and get them over to the payment provider. ... We cater to whatever the ISO or software provider wants. If someone sends us 100 leads to work with, we'll do it."

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CoverStory

> *Visa will require 75 percent of transactions to be processed on dual-interface EMV chip-enabled terminals by October 2012 in order for merchants to avoid PCI DSS revalidation – and that's only the beginning.*

muscled into traditional and untapped merchant segments this year. While the industry was atwitter on mobile, Twitter founder Jack Dorsey's startup Square Inc. made inroads with its Square dongle card reader squaring off against competing products, many with enhanced security features built in.

On the mobile front, United Bank Card Inc. teamed with Charge Anywhere LLC, VeriFone Inc. rolled out PAYware Mobile, ProPay Inc. introduced the ProPay Jack and North American Bancard unveiled Pay Anywhere. Other contenders joined the mobile race as well. By midyear, near field communication made a leap forward with Google Wallet, and others are lined up behind it.

No year would be complete without the major card brands adding a touch of spice to the mix. This year Visa didn't disappoint, issuing an initiative for U.S. adoption of the Europay/MasterCard/Visa (EMV) chip-enabled smart card technology widely used in Europe. Visa will require 75 percent of transactions to be processed on dual-interface EMV chip-enabled terminals by October 2012 in order for merchants to avoid PCI DSS revalidation – and that's only the beginning.

Industry realignments

On Jan. 1, 2011, transaction processor Total Systems Services Inc. completed 100 percent acquisition of First National Merchant Solutions LLC, the merchant acquiring subsidiary of First National Bank of Omaha. FNMS was subsequently renamed TSYS Merchant Solutions. Prior to January, TSYS entered a joint venture with FNBO, initially acquiring 51 percent controlling interest in FNMS.

The disclosure of VeriFone's intent to acquire Hypercom Corp. in November 2010 followed with shareholder approval before the acquisition was finally completed in August 2011. "The international distributors in the Hypercom network are a vital element in our strategy for geographical and product and services diversification," said Jeffrey Dumbrell, VeriFone Executive Vice President, International, at the time of the acquisition.

By September, VeriFone reported it had fully integrated Hypercom's international distributors into the VeriFone International Partner program. "We are working aggressively to share the benefits of our VIP program with these new partners," Dumbrell said.

Fifth Third Processing Solutions LLC, a leading U.S. acquirer, changed its name to Vantiv LLC in July. The

name change came two years after Boston-based buyout firm Advent International Corp. purchased 51 percent majority ownership in the company. Jointly owned by Fifth Third Bancorp and Advent International, Vantiv filed with the Securities and Exchange Commission in November for a proposed initial public offering of its common stock.

Reflecting on recent mergers and acquisitions, Mike Strawhecker, Vice President and Director of TSG Metrics for The Strawhecker Group, said, "I do think if the economy continues to improve at the rate that it has, we're going to see a lot more large M&A deals. At the same time, it's great to be a smaller merchant acquirer as well, because there's a lot of opportunity to increase the volume of their portfolios." Strawhecker has also seen an uptick in calls from capital investment firms interested in looking at the payments industry.

Stunning breaches

In the opening months of 2011, an unprecedented deluge of large-scale data breaches struck behemoths in retail, networking and data security. The breach of Sony Corp.'s PlayStation network in April exposed personal data of more than 100 million customers. Concurrently, Michaels Stores Inc. responded to a rash of fraudulent transactions and discovered 90 POS terminal PIN pads had been swapped to skim customer data in stores across 20 states.

Even guardians of data security lacked immunity. During March, secure socket layer (SSL) certificates were fraudulently obtained through an affiliate of Comodo's SSL Certification Authority. RSA, the security division of EMC Corp., suffered a network attack resulting in information being stolen via its SecurID authentication product. And then there was the email system breach at Epsilon Data Management LLC, which impacted over 50 large global clients.

The assault on personal data prompted swift countermeasures by the PCI Security Standards Council, including issuance of point-to-point encryption requirements for hardware-based solutions, new oversight of PIN security requirements previously managed by the card brands and setting a mandate for all merchants to become Payment Card Industry (PCI) Data Security Standard (DSS) 2.0 compliant by Dec. 31, 2011.

However, in the waning moments of 2011, the march toward PCI compliance continued to plod along. According to *A 'Perfect Storm' of Complacency: The Third Annual Survey of Level 4 Merchant PCI Compliance Trends*, a

report released by ControlScan and Merchant Warehouse in November, 47 percent of Level 4 merchants surveyed remain either unsure of or are not at all familiar with the PCI DSS.

To increase PCI compliance awareness, ControlScan Vice President of Marketing Heather Foster suggested merchant acquirers adopt an ongoing program of merchant education and support, especially among micro-merchants, those with 10 or fewer employees, where she said an estimated 85 to 90 percent of all data breaches occur.

Durbin implementation

When the final rules for the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 went into effect Oct. 1, 2011, the exhaustive debate over interchange regulation seemed to have run its course. The new rules effectively capped the debit interchange fee at 21 cents per transaction, plus a small allowance for fraud prevention.

But surprisingly, the parties that lobbied Congress for passage of the Durbin Amendment filed a lawsuit in its aftermath. In November, a coalition of merchant groups led by the National Retail Federation headed to Federal Court in Washington, D.C., to challenge the Federal Reserve Board's final ruling, claiming the board adopted an "unreasonable interpretation" of the Durbin Amendment, citing the ruling did not distinguish between allowable incremental costs and other costs, and the ruling should not have allowed for fraud losses.

"This is an ... example of government interference with private enterprise," said Barry Sloane, President and Chief Executive Officer of Newtek Business Services Inc., The Small Business Authority. "And then they have the audacity, and I know I'm probably getting into trouble because this is my customer base, but the audacity of the retail sector to go back and sue the Federal Reserve.

"My scorecard on Durbin, as a participant and industry observer, is we created legislation that set an awful precedent, which is that the government will actually determine what private corporations can charge for a service, and the primary purpose of the Durbin Amendment to the Dodd-Frank bill was to protect consumers," Sloane said. "I'm not really aware of that happening."

While Sloane believes the Durbin Amendment may benefit large retailers, additional fees could make it more costly for small retailers to accept electronic payments.

Durbin opportunities

Strawhecker views the Durbin Amendment as an opportunity for ISOs to strengthen the value proposition, especially as payment products become more commoditized. "What merchant acquiring companies are having to do is expand their product offerings," he said. "For example,

they may team with a VAR or a business management software provider in order to get referrals from that software provider, and that makes the merchants more sticky."

Strawhecker suggested that when aligning with value added resellers (VARs) in vertical markets, it is important to understand the terminology associated with each niche. "It's kind of like what Heartland started doing in the very beginning [when] focusing on restaurants," he said. "However, we're seeing that more and more all the way down to a super-niche level. For example, even to the point where people are specializing in pool cleaners with a mobile merchant application."

Although it's too early to tell what long-term effects the amendment may have on the payments industry, Strawhecker sees the industry divided into two camps: bundled fees or interchange plus. "If it's bundled fees, then I think a lot of merchant acquiring companies, in the short term at least, will see somewhat of a windfall, especially with smaller merchants who might not be aware of Durbin," Strawhecker said. "It's easy for them to keep that savings provided by Durbin.

"On the other hand, you have companies like Heartland with an interchange-plus model. They communicate to their merchants that they're passing the savings on to them, so they're using that as a sales tool. I think of lot of people are doing that."

1099-K penalty reprieve

Still reeling from the effects of debit interchange regulation, members of the payments community were bracing to meet the deadline set forth under IRS Code Section 6050W as part of the Housing and Economic Recovery Act of 2008. Under the new code, payment processors and merchant acquirers are required to file annually a newly created IRS Form 1099-K beginning Jan. 1, 2012, for the 2011 tax year.

In October, the Internal Revenue Service offered a temporary reprieve when it agreed to delay by one year the assessment of penalties for filing incorrect taxpayer identification number (TIN) matching and related information under the new code, provided "good faith efforts" were made by required filers. The decision to delay penalties (which include a federally mandated 28 percent withholding of card revenue for merchants submitting incomplete TIN validations) will allow the IRS and payments industry more time to refine reporting procedures.

IRS Section 6050W requires reporting of gross credit and debit card receipt amounts for each merchant as indicated by the settlement entities, as well as an accurate TIN and related merchant information. The IRS projects it will generate about $9.5 billion in extra revenue over the next decade as a result of the new electronic payment reporting requirements. Stay tuned. More game changers are in the periphery.

Education

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EMV's time is nigh

By Bill Pirtle
C3ET Credit Card Consortia for Education & Training Inc.

When writing "EMV, are we there yet?" (published in *The Green Sheet*, Dec. 12, 2011, issue 11:12:01), I sought input from terminal manufacturers regarding Visa Inc.'s August 2011 press release, which revealed the company's intention to accelerate Europay/MasterCard/Visa (EMV) chip migration and adoption of mobile payments.

I placed a request on VeriFone Inc.'s LinkedIn group, "VeriFone North America MLS & ISO." Tobi North, a senior marketing professional with VeriFone, contacted me and arranged for a conference call with two gentlemen who could answer my questions on EMV:

Erik Vlugt, Vice President of Product Marketing and Integrated Systems at VeriFone, and Scott Henry, the company's Director for Product Marketing.

We began by discussing whether now is a good time for agents to be selling EMV-capable equipment. Vlugt, who is knowledgeable about retail and petroleum systems, clarified that April 1, 2013, is "only the date that Visa set for all acquirers and processors to have the capability to support EMV for processing card information.

"Oct. 1, 2015, is the point where liability shifts to merchants for contact chip cards not processed through EMV or NFC [near field communication] terminals for nonpetroleum merchants. Since petroleum terminals are more complex, the deadline on those is Oct. 1, 2017."

Incentives for EMV adoption

I asked if there were incentives for ISOs to sell, or for merchants to buy, EMV-capable terminals. Vlugt dis-

cussed Visa's Technology Innovation Program (TIP), which eliminates the requirement for eligible merchants to annually validate their compliance with the Payment Card Industry (PCI) Data Security Standard (DSS) for any year in which at least 75 percent of the merchant's Visa transactions originate from chip-enabled terminals.

Linda Grimm wrote in "Visa to eliminate PCI DSS requirements with EMV – not," *The Green Sheet*, Nov. 14, 2011, issue 11:11:01, that mostly only Level 1 merchants need to validate compliance. Level 3 and 4 merchants (the ones making up the majority of merchant level salesperson [MLS] portfolios) will not be affected by TIP.

Henry said there would be packages available to the ISO channels to spur sales in PayMedia, contactless and NFC terminals. (PayMedia is a VeriFone solution that integrates new media and payments. It supports traditional and emerging payments, as well as related services – such as electronic couponing – in nontraditional environments.)

Network access

I asked if there was currently a network in the United States for smart cards. Vlugt said the network was due to be fully in place by 2013 and that Wal-Mart Stores Inc.

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> *EMV-capable terminals are becoming more common. Although percentages are not available to confirm, the largest retailers are implementing the terminals at a faster rate than others.*

was expected to be capable to run EMV transactions in 2012. He noted that processors active in Canada already have the capability to process EMV, as those cards are in use there.

Henry stated that the transaction sets depend upon the processor. I understood this to mean that the terminals being sold now can transmit transactions for chip-enabled cards, but it depends upon the front- and back-end capabilities of the processor on whether transactions can be processed that way.

EMV-capable terminals are becoming more common. Although percentages are not available to confirm, the largest retailers are implementing the terminals at a faster rate than others. But the percentage of EMV-capable terminals for Tiers 3 and 4 is also increasing. As mentioned earlier in this article, petroleum conversion is not coming along as quickly because of the complexity of those transactions.

Uniform standards

GS Online MLS Forum members had questions about standards, and some thought differing standards would slow down EMV implementation. As I stated in my last article, why should the standard in the United States differ from the standards in Europe, Canada or South America? U.S. banks are issuing cards that will work in Europe and elsewhere.

Developing different standards in the United States would affect the usability of European cards in the United States. With the card brands creating the standards, I would expect the standards to be the same across the world to allow any EMV chip card to be used anywhere.

I asked the experts for their opinions. Vlugt said EMV standards have changed and will continue to change. The current standard is version 4.2. Henry added that there are two levels for EMV- capable terminals. Level one is hardware based. Does the terminal have the slot and the chip reader? If not, then you would need to replace it. Level two is software based.

Major changes can be accomplished via manual download, but Henry said most updates are done automatically. This brought to mind calling tech support with a new American Express Co. merchant account: there is no need to download new instructions; the terminal is just updated remotely at the next batch. Apparently, simple tweaks also can be done remotely.

Vlugt said VeriFone welcomes Visa's smart card/EMV initiative and, because Visa set up a clear and manageable timetable for implementation, he believes there will be no delays. He also feels that utilization of smart card/EMV technology is not only critical to reduce ever-increasing fraud in the United States, but that it will also add interoperability among global markets.

Vlugt gave the example of the American in Germany finding out that his U.S.- issued credit card is not being accepted at a gas station.

My last article mentioned that top banks were starting to issue EMV cards to "affluent clients who often travel abroad." But what about someone on his or her first trip overseas who is not affluent and has no clue that a card universally accepted in the United States will not work in some readers overseas?

Merchant education

Is EMV perfect? No, it will not help curtail online fraud. But it can eliminate the type of fraud where fake credit cards are easily produced or magnetic stripes are reprogrammed and used thousands of miles away from where the card was skimmed.

Henry believes now is the time to start educating merchants on EMV. That means, as you add new merchants, start selling them on EMV-capable terminals now because, if you sell your merchant on a non-EMV terminal now, are you prepared to go back and tell them later that they need to switch? Vlugt said if you just installed a new non-EMV terminal, you can wait to replace it until 2015 (before the Oct. 1 deadline).

It would seem that EMV is really coming this time. If your ISO or terminal supplier does not indicate which terminals are EMV capable, look on the manufacturer's website. I would like to thank Tobi North for bringing my request to the attention of VeriFone executives, and to thank Erik Vlugt and Scott Henry for taking time from their busy schedules to discuss Visa's EMV initiative.

What you do today, determines your tomorrow.

Bill Pirtle is the President of C3ET Credit Card Consortia for Education & Training Inc., a joint venture with Theodore Svoronos of Merchant University. Created to establish a comprehensive training program for ISOs and merchant level salespeople, C3ET is working with industry experts to produce a training guide to be published in early 2012. Bill's email address is bill@c3et.net. He welcomes all connections on Facebook and LinkedIn.

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HARBORTOUCH

Education (continued)

QR codes – the new call to action

By Stephen Enfield
POS Supply Solutions

Quick response (QR) codes are showing up everywhere, although they aren't necessarily new. You find them in magazines and on business cards, storefront windows, product labeling and displays, billboards, and catalogs.

Consumers with camera phones equipped with the correct reader application simply scan the image of the QR code to display text, a web page, v-card (virtual, or electronic, business card), contact details, video and much more.

Merchant level salespeople (MLSs) are always looking for new ways to help merchants increase business. QR codes are an excellent tool for engaging potential and existing customers. Savvy businesses print QR codes directly onto POS receipts.

Before	After

Many POS terminals, printers, card terminals and cash registers now offer the ability to print graphics on every receipt.

This low-cost tool makes it possible for businesses to market to their customers every time they make purchases. Adding QR codes is an effective way to reward current customers and encourage repeat business.

From receipt to call to action

When used correctly, QR codes offer a strong call to action. When printed on a receipt, the customized code can link to:

- Coupons
- Contests
- Surveys
- Loyalty programs
- New products
- Reviews

Technological advances have made it easier than ever to add custom content to POS receipts. We spoke with POS terminal manufacturer Ingenico to get its opinion on integrating QR codes into receipts.

"POS terminals have advanced vastly since the early days of the single-purpose, printer-less devices that were long considered the mainstay of electronic authorizations," said Gregory Boardman, Senior Vice President of Product and Development at Ingenico.

Thermal speed demons

Today's POS terminals incorporate thermal printers capable of speeds of 18 lines per second, including graphics, according to Boardman.

This simplifies printing bar codes, logos, coupons, and QR codes that can be scanned using a smart phone to create a more intimate experience between merchants and cardholders. Boardman noted that QR codes can even be used to redeem discounts on customers' return visits.

"It's all about finding new ways to tap into popular technology trends to drive increased customer loyalty and to deliver relevant and timely messages and offers" to the merchant's customer base, Boardman said.

Smart phones and more robust bar codes create a mechanism to provide consumers with a more diverse payments experience.

The receipt plays an important role, because it is one of the few items that can influence customers' actions once they leave the store, he added.

What is a QR code?

QR code is an abbreviation for quick response code. It is a type of two-dimensional code, also called a matrix bar code, that has large data storage capacity and can be decoded at high speed.

QR codes are square, with black patterns on a white background and can be encoded to contain all types of data, for example information in alphanumeric or binary form.

Initially created for the automotive industry, QR codes have become an increasingly popular way for companies in a variety of industries to provide information and offers to their customers and prospects.

Many of today's mobile phones are capable of reading QR codes.

Scan code with your smart phone to visit *www.greensheet.com*.

Following are a few technical tips to ensure success with QR code scanning:

- Test your QR codes with multiple readers and devices
- Use a site like *www.bitly.com* to shorten links and create clean codes

- Make codes at least one inch by one inch in size to ensure proper scanning

Finding ways to stand out from the competition is the key to success in a highly competitive marketplace. QR codes can be a great way for any ISO or MLS to add value for merchants. 🖾

Stephen Enfield founded POS Supply Solutions in 1999 and has over two decades of experience in the POS industry, working with large multinationals as well as small business accounts. Stephen is an innovative, entrepreneurial professional with an unwavering focus on customer satisfaction and a down-to-earth approach. For more information, visit www.possupply.com, or contact Stephen at senfield@possupply.com or 888-431-5800.

Fraud trends 2012:
Like 2011, only more so

By Nicholas Cucci
Network Merchants Inc.

What will 2012 bring to the payments industry? In this age of technology, personal cardholder information such as credit card data is more vulnerable to fraudsters and computer hackers. According to the Bureau of Justice Statistics, only 23.7 percent of households subjected to some form of identity theft had no direct financial loss as a result. The average out-of-pocket loss was $1,640, but half suffered minor losses of $200 or less.

The emotional impact of identity theft is often far more painful than the actual financial loss. Consumers and regulators should be proactive about guarding and protecting credit card and other personal information.

Play it SAFE

With the global economy struggling to correct itself and fraud continuing to rise, we will see breach notifications become a priority in 2012. We started to see this year that larger data breaches have a trickle-down effect, which causes the government to take action. Congress is considering the so-called SAFE Data Act, which would preempt breach notification laws in 47 states.

The act would require notification of consumers within 48 hours of identifying those whose information has been compromised, except when an inadvertent breach is unlikely to cause harm. The legislation would require companies and other entities that handle sensitive cardholder information to establish and maintain appropriate security policies to prevent unauthorized acquisition of data.

Even with the progress toward a national standard for breach notifications, it still seems the law may be ambiguous. In 2012, we will continue to see the struggle for clarity of the legal requirements for companies handling cardholder data.

For example, what is an inadvertent breach? If the compromised data is limited just to email addresses, the argument could be made that this is partially sensitive data. When a fraudster can't pull down credit card or more sensitive personal information, the next best thing is an email address.

With that, the fraudster can start phishing – a way of attempting to acquire more sensitive data, such as user names, passwords and credit card details, by masquerading in an email as a trustworthy entity. If emails are compromised, will that fall under "unlikely to cause harm"?

A banner year for fraudsters

Some of the largest breaches in history occurred in 2011:

- A server breach at Sony Network Entertainment International LLC from April 17 to 19 reportedly compromised over 100 million card numbers. Sony shut down its network for 23 days because of the breach, which reportedly cost the company over $100 million dollars. Sony discovered the breach on April 19 but did not publicly disclose information about it until April 26.

- A breach at Michaels Stores Inc. was discovered May 2 when the company was notified of possible debit fraud related to its stores in the Chicago area. Through compromised PIN pads, some card data was skimmed between Feb. 8 and May 6. Michaels replaced 7,200 PIN pads in 964 stores in the United States.

- An extremely sophisticated cyber attack took place earlier this year at RSA Security Solutions, the Security Division of EMC Corp., related to its SecurID technology. Organizations use the two-factor authentication system to provide more protection for sensitive data and networks than just a password.

  With two-factor systems, someone accessing a network needs to provide something they know – a password or PIN – and something they have, which can be a thumb-sized hardware token, key fob or software on a mobile device.

  Although the extent of the breach is still unknown, the consequences could be huge. SecurID reportedly has some 40 million SecurID hardware deployments, with an additional 250 million applications on mobile devices.

  Lockheed Martin Corp., a top U.S. weapons manufacturer, was affected by the RSA breach, as were hundreds of other companies. Lockheed reportedly replaced 90,000 SecurID employee devices, paid for by RSA, and employees were required to reset all passwords.

With technology advancing daily, criminals' methods become ever more sophisticated and organized. We need to continuously evolve our defenses in order to stay ahead of fraudsters. Everyone must understand that fraud is still a two-step process. The first step is stealing the data, while the second step is conversion of that data.

Here are our expectations for the top five fraud hazards in 2012.

1. Malware attacks

Malware refers to malicious software designed specifically to gain access and damage victims' computers without their knowledge. In 2009, the incidence of this type of attack was 10 times greater than in 2008. Most malware today is designed for financial gain. It escapes detection while collecting and transmitting sensitive data, such as victims' bank account information, passwords and card details.

Hackers and fraudsters create malware Trojans daily, exploiting new vulnerabilities before they can be detected and fixed. Keeping up to date on your virus definitions gives you the upper hand. Vulnerabilities are usually found in older or out-of-date virus definitions. (A "virus definition" is the database of all virus signature files used by an anti-virus software for virus protection.)

2. Advanced phishing and vishing, SMSishing and whaling

Phishers pretend to be trustworthy entities like banks or credit card companies and send out emails and instant messages prompting users to send sensitive information confirming they are the owners of the accounts.

Now, phishers send out text messages, too (SMSishing). In voice phishing, or vishing, emails ask recipients to make phone calls to dummy numbers where voice prompts ask for credit card numbers. In the fraud world, whaling targets high-worth individuals on social networking sites such as LinkedIn. Fraudsters search profiles for descriptors such as vice president, chief executive officer and chief financial officer.

3. ATM skimming

Skimming devices, placed directly over ATM slots where customers swipe cards, steal cardholder data off mag stripes. The skimmers are so small, authorities have a hard time finding them. Skimming has been around since the early 1990s.

4. SQL injections

In SQL (Structured Query Language) injections, hackers inject malicious coding into web forms, such as log-in fields or browser addresses, to access and manipulate company databases. These attacks can give criminals access to restricted data, such as credit card details and PIN numbers. This is becoming a popular attack because of its versatility.

5. Counterfeiting in non-EMV countries

Many countries outside the United States have adopted the Europay/MasterCard/Visa smart card standard – a chip and PIN technology. EMV's higher security has reduced the basis points charged to cover losses in the U.K. from 18 in 2001 to 12 in 2008.

This method of payment security is emerging in the U.S. market. However, the transition will be slow because it necessitates a change of hardware by all merchants wishing to deploy chip and PIN-enabled payment acceptance devices.

Until we make a shift to more secure technology, like EMV, we will continue to see fraudsters attacking card databases and the resulting proliferation of counterfeit credit cards.

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

Crisis management as opportunity

By Dale S. Laszig
Castles Technology Co. Ltd.

The hyper-connected world reacts immediately to everything. News is broadcasted and tweeted at a dizzying rate. Images unsuitable for wide distribution and careless comments that might have passed unnoticed a decade ago are blasted across the blogosphere to the embarrassment of people in all walks of life. But a faux pas, if managed decisively, need not end a career. Mistakes happen. It's how we handle them that counts.

Whether you work for a large corporation or have your own consulting practice, you'll have plenty of opportunities to hone your crisis management skills. There's an art to accepting responsibility for things that go wrong and responding appropriately when someone asks to speak to a manager.

Don't take it personally when a merchant asks to talk to your supervisor. It's a typical response to many situations and a bona fide selling opportunity. Fulfill the request by promptly referring the client to your boss and offering additional support if needed.

Take it to the top

When moving massive, enterprise-scale bloopers up the chain of command, it's best to go all the way to the top. Having a chief executive officer do damage control demonstrates that the matter is being taken seriously and shows the direction the company will take to resolve the situation.

According to leadership consultant John Baldoni, who blogs for the *Harvard Business Review*, the best way for high-profile leaders to communicate is to:

- **Define the problem.** Explanations describe the issue, the initiative or the problem.
- **Define what is excluded.** The leader should define exclusions clearly and avoid assuming he or she knows the boundaries of the problem.
- **Define what to do next.** Staff need specific instructions regarding next steps.

"Establishing expectations is critical," Baldoni blogged. "Explain what your actions will entail in clear and precise terms." Leaders can also use this process as a challenge for people to think and act differently. Explanations then take on broader significance.

How you say it

In addition to framing the message properly, striking the right tone is important, especially when making an apology. Recent examples include the public apology of Toyota's president, who bowed deeply when expressing remorse for the company's delay in resolving manufacturing issues.

Likewise, Maple Leaf Foods' CEO publicly apologized for shipping contaminated food. The company launched a recall and provided status updates throughout the entire process, boosting confidence in the company's humility and transparency.

How you interview

Over the years, news anchors have become more aggressive in interviews. Anyone preparing for a television interview would do well to rehearse with qualified coaches. No CEO can afford to look like a deer in the headlights when asked the most difficult questions.

Effective communicators exude confidence and professionalism. A marketing department can prepare a public statement; senior executives may contribute their views on how and why things went wrong. None of this preparation will make any difference if the designated spokesperson walks into a meeting or press conference and chokes.

How you manage the public statement

Public statements are most effective when aired immediately following a crisis, before speculation surfaces about a company's lack of response to allegations. Social media postings and full-page newspaper ads are popular ways to apologize for transgressions and disappointments.

As Steve Pendlebury commented on HuffingtonPost.com in February 2010, Toyota was one of many organizations to apologize in ads. He cited two other examples: Domino's Pizza's ad campaign touting its reformulated pizza recipe and admission in commercials that its old sauce tasted "like ketchup" and the crust seemed "like cardboard." And in early 2010, the Chicago Bears football team placed full-page ads apologizing to fans for the team's miserable season.

How you rally the troops

It's customary for a company leader to hold a post-mortem review with managers to dive deep into the root cause of a failure and formulate corrective measures to improve performance and educate personnel. These measures must include a companywide, scripted response. It's better for employees to say nothing than to downplay bad situations, shift blame or try to justify mistakes.

How you learn from mistakes

Economist Paul Romer's 2004 statement that "a crisis

is a terrible thing to waste" has become a rallying cry for politicians, executives and academic professionals. Manchester College President Jo Young Switzer recommended going back to basics in the aftermath of a crisis. She suggested posing the following questions:

- What do we want our organization to look like in 20 years?
- What mission guides us?
- What methods work well now to help us achieve our mission?
- How will we accomplish our work? Do we work in silos, cross-unit collaborations or groupings of friends?
- How can we redesign old procedures to be more effective (steering clear of repeating ineffective behavior just because we've always done something a certain way)?
- Are we aggressively learning about best practices at comparable organizations? What do we do when we hear alternatives?

How you follow up

Leaders can't assume messages are heard. The Maple Leaf Foods campaign was effective because of repetition and message reinforcement. And the CEO did more than apologize and walk away.

A summary of the crisis-response basics will help you and your organization recover and move on:

- Define what the situation is by acknowledging that you're aware of the issue; ask for forgiveness.
- Define what falls outside the situation by taking appropriate action; resolve to do better through best practices.
- Define what will be done and what controls will be put in place to prevent similar occurrences in the future. Provide regular updates to show that you've learned a valuable lesson and are a better person or company because of it.

The court of public opinion can be fair and even forgiving when an issue is addressed promptly, honestly and with a modicum of humility. Sooner or later we all do something we regret. Sometimes, the best way out of the hot seat is simply to step up and say, "Sorry, my bad."

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

ISOs welcome in the POS waters

By Jerry Cibley
United Bank Card Inc.

In the old days – the 1990s – restaurants routinely shelled out $30,000 to $40,000 for a four-terminal POS system. POS companies were making profits with margins sometimes exceeding 70 percent. It was a great time for merchant level salespeople (MLSs) and POS company owners alike, but not so great for merchants.

Then, the mid 2000s saw an influx of POS companies that began to offer low-cost and do-it-yourself products that could be purchased for under $2,500 per station. Although many merchants were still buying $30,000 to $40,000 systems, the introduction of these lower-cost systems was a sign of things to come.

Now, the industry I grew up in is undergoing a radical change. We have seen a huge paradigm shift from the traditional model that was the norm more than seven years ago to the current model of today.

The way we were

In the 1980s, VeriFone Inc.'s Zon Jr proudly had its place in restaurants and retail operations. POS companies and credit card processors existed side by side, without territorial boundaries or divisions – the former stuck strictly to the POS business, while the latter only provided merchant services. We didn't bother each other, and we had little need for partnerships. That seems like such a long time ago.

As a POS man, I had never heard of the residual streams that are so central to the ISO world. Now I think, How dumb could I have been? But card processing was not my business, and at the time the POS and ISO worlds were completely different.

I remember my first dial-out credit card integration to my DOS-based POS system was called "Touch 'n Serve." We sold it, supported it, troubleshot it and lived with it; but no one mentioned money. We earned no additional income from this setup. We received no residuals.

Getting in on the act

The POS dealers wised up in the early 2000s and made alliances with credit card processors. Sometimes it was a choice between residual-sharing or leads-sharing. The bottom line was the possibility of getting a significant income stream from a relationship with the processor.

In 2008, I elected to sell my regional POS dealership in Massachusetts. I had tired of the 3 a.m. phone calls that my technicians routinely slept through. The downward trend in the economy, coupled with the virtual extinction of financing for startup operations, made me look for greener pastures.

I was approached by an ISO who said he wanted to have his own POS dealership in order to secure his portfolio. It was a novel approach, and I jumped at the offer. I agreed to remain with the company during the transition and was amazed at how much easier it was to sell POS systems when I could offer in-house financing and competitive rates, as well as provide discounts on the overall system.

A good thing, with limitations

I dreamed of taking this concept national, but our contract with the software developer restricted our sales territory to 100 miles of our office. The software vendor was not happy that I had sold out to an ISO because the vendor was no longer getting residuals on my portfolio.

Nobody likes to give up income, and I could not blame the vendor for its reaction, but this was business. The ISO I sold to was not in a position to negotiate huge volume purchases on hardware, which would have allowed us to become even more aggressive and competitive on pricing.

What is a POS system?

A POS system is a system for managing the sale of retail goods. Short for point of sale system, the term refers to the hardware and software that enable merchants to accept and process payments at checkout, as well as carry out a host of related tasks, such as inventory, accounting or loyalty program tracking. POS systems offer more functionality than stand-alone POS terminals and can be tailored to specific business types, such as restaurants or grocery stores.

Our success was short-lived, as other national processors had the same ideas relative to the POS business. Soon, the major players wanted in on the action. A number of processors and super ISOs began rolling out POS programs geared toward ISOs and MLSs.

The advent of the free program

POS vendors can still find opportunities to sell $40,000 systems. But today, our industry finds many more opportunities to place a POS system through one of these new, less expensive and possibly free programs. Some even offer 24/7 support, a lifetime warranty, free installation and training.

The perspective is a bit different, but the residual stream is protected and some of the roadblocks to traditional sales of POS systems have been lifted.

Is there room for both the traditional POS dealer and the new model of ISOs offering POS systems? The answer is a resounding yes. POS dealers are actually embracing the merchant services-POS model and are increasing their offerings to include free POS programs. But in this case, the ISO market has a chance to stay ahead of the curve by partnering with one of the processors or super ISOs offering these programs.

Yes, there is room for both ISOs and POS dealers to thrive and prosper in this new POS market. C'mon in, the water's fine.

Jerry Cibley is a 25-year veteran of the POS industry. During his career, he has been the founder of three POS dealerships servicing New England. Today, Jerry is the National Sales Trainer for United Bank Card's Harbortouch POS division. As National Sales Trainer, his role with UBC is to train the company's sales partners on the intricacies of the POS business so they can become POS experts themselves, ensuring their success with the free Harbortouch POS program. Jerry can be reached at jcibley@harbortouch.com.

Parlay tradeshow costs into social media bonanza

By Alan Kleinman

Meritus Payment Solutions

As companies put together their marketing budgets year after year, there is always one glaring expense in the marketing plan: the tradeshow. Exhibiting at tradeshows gives businesses the chance to get in front of significant numbers of clients and prospects in a short amount of time.

And having a well designed tradeshow booth staffed by knowledgeable people offers the opportunity to showcase a product or service, create a first impression and build a relationship.

When debating whether to exhibit at a tradeshow or simply attend one, cost is sometimes the deciding factor. Exhibiting at a tradeshow is expensive and resource-intensive. Renting floor space, designing and fabricating the display, taking employees out of the office to staff the booth, setting up and dismantling the booth, traveling to and from the show, and paying for accommodations and meals at the event add up to a very costly undertaking.

Costs versus benefits

Moreover, many companies approach all this expense by questioning whether it is "worth it" for only two to three days of interaction with clients and prospects. But you can justify the cost of exhibiting at a tradeshow, not just by deals made and warm leads gathered at the event, but also by seeing it as an investment in new social media marketing opportunities.

Tradeshows provide myriad opportunities to increase brand exposure for more than just the two to three days that you and your colleagues represent your company in person on the exhibit floor. You can extend related marketing activities over months and nurture leads using social media and inbound marketing.

Implementing a comprehensive pre- and post-tradeshow marketing campaign which utilizes social media and inbound marketing can help you solidify the transition from online marketing to real-world presence by creating buzz before the event, increasing traffic to your booth at the event and maintaining relationships afterward.

Which media when

Twitter has a 140-character limitation, which lends its messages to a sense of urgency. Twitter is best used just before a show or during the show. Facebook is more generous, allowing for 420 characters, and it easily displays people's feedback, leveraging the social network throughout the event marketing cycle.

LinkedIn is predisposed to more professional interactions. For example, by participating in unique interest groups, you can initiate discussions within the answers section before the show. When creating groups, be sure to use keywords for the show, or type of show, so the keywords are easily searchable within LinkedIn and can clearly be associated with the show.

In addition, a company blog provides endless space for content. Remember, it is best practice for your blog to be informative or thought-provoking rather than overly self-promotional. Also, publicize your content about the upcoming tradeshow with industry bloggers who can embed links to your blog in their posts. YouTube videos are best used to explain complex concepts and give your company personality. Such videos can be very effective ambassadors for your company after the show.

Before the show

Once you've planned everything – reserved the floor space, registered your staff, booked travel and handled shipping logistics – one question remains: exactly who is

Education (continued)

> *Turn the procession of business card exchanges into standout face-to-face meetings by building your social media presence and its connection to the show months in advance.*

going to stop by your booth and what will those people want to know? There are ways to determine much of this before the show. Here are some suggestions.

Turn the procession of business card exchanges into standout face-to-face meetings by building your social media presence and its connection to the show months in advance. Engage your customers and prospects on all social media channels. Be sure to ask what they would like to learn about.

Usually, the list of exhibitors is made public weeks or months in advance of a tradeshow, and your website is the first place people will go to when they want to learn more about your company. Capitalize on the opportunity to meet someone face-to-face by adding a "show page" to your website. Remember to optimize the page's name, tags, keywords and URL with the show name and year to capitalize on the searches for the show.

People who conduct Internet searches for the tradeshow may find your website page, click on it, and be informed about the show and your company while improving the search engine ranking of your site. This page can also link to a landing page on your website to set appointments, so your customers and prospects can meet with you at the show.

After the show

Once you and your staff are back from the show, don't just settle into the day-to-day routine; there's still follow-up marketing to be done. Here are several things to do:

- Use Facebook to recap the highlights of the show for those who could not attend.
- Share keynote speakers' presentations or learning sessions as they become available online after the show.
- Use your company blog to delve deeper into issues brought up by customers and prospects at the show. Even better, turn your answers into a series of blog posts to ensure long-term engagement and repeat visits.
- Armed with business cards for referral contacts, new Facebook and LinkedIn followers and Twitter handles, invite your new audience and relationships to recommend your product and service or join your social network by offering incentives.
- Most importantly, keep records of all your tradeshow marketing efforts, and track your triumphs as well as your shortcomings. Marketing requires continuous refinement, and the only steadfast plan is one that's always changing.

Beyond the calendar

When looking at your marketing calendar for the next year, remember that tradeshows extend far beyond the two to three days of the actual event. A solid marketing plan can ensure that most tradeshows are, indeed, "worth it."

Alan Kleinman is the Principal of Meritus Payment Solutions, the leader in advanced global transaction processing. With a client-first mentality, Meritus provides a breadth of payment and transaction processing solutions that include mobile, credit and debit cards, gift and loyalty cards, electronic benefit transfer, automated clearing house, Check 21 and more. Contact him at akleinman@merituspayment.com or 888-851-7558, ext. 141.

NewProducts

All-in-one payment platform

Product: fasttransact

Company: FrontStream Payments Inc.

FrontStream Payments Inc. recently introduced fasttransact, an integrated payment management platform. The enterprise level management system offers plug-and-play convenience, manages multiple payment input channels, and interactively gathers and tracks customer and consumer activity.

Financial data is streamed to core client-side business applications. According to the company, it's the first single-source payment capture and management platform of its kind.

Nina Vellayan, FrontStream President and Chief Executive Officer, said, "The traditional payment processing model requires a merchant to purchase and configure a separate system for accepting electronic transactions and managing deposit data, but it stands alone and is valued only as a necessary business commodity.

"We saw an opportunity to raise the bar and develop a more integrated, enterprise level payment model that would also serve as a valuable business management asset our clients can use to drive growth and enhance the consumer buying experience."

Hosted on FrontStream's Payment Card Industry Data Security Standard-certified network, the platform's framework reportedly touts such virtues as efficient client boarding, fast and secure authorization, payment channel diversity, and compliant data storage.

Each of these core business functions is supported by enterprise-level features that enable clients to plug in and share data with back-end systems, the company said.

"We designed fasttransact with the objective of providing a modular payment management system that configures to a client's unique business needs and also seamlessly integrates with their existing commercial environment," said Bill DeGraff, FrontStream Vice President of Product Management and Strategic Marketing.

DeGraff noted that what sets fasttransact apart is the "seamless configuration between capture methods like web, mobile or point of sale, front-end data input and mining tools, and the back-end data flow that ports to client-side ERP, marketing and business applications. It's truly an all-in-one, end-to-end, single-source solution."

Other benefits of the platform include exclusive administrative tools for personalization, pre-configuration and deployment; host-side scalability; a customizable consumer web interface that enables 24/7 merchant-customer interaction; and secure data sharing with client-defined business management and media applications.

"The rapid global advancement of mobile technologies has challenged our industry's standard way of doing business, yet it has also inspired innovative companies like FrontStream Payments to develop new business systems that can quickly meet the market's needs for payments," Vellayan said.

According to Vellayan, the platform is well backed by equity capital, a reassuring factor for users looking for a long-term solution.

FrontStream Payments Inc.

800-724-7000
www.frontstreampayments.com

10 years ago in The Green Sheet

The Green Sheet was 64 pages.

Visa, MasterCard antitrust case ruling

New York Federal District Court Judge Barbara S. Jones ruled Visa Inc. and MasterCard Worldwide must allow banks that issue their cards to also issue cards for American Express Co. and Discover Financial Services. Jones said to do otherwise would be anti-competitive. Visa immediately appealed and asked that the ruling be put on hold.

Fiserv purchases NCR operations

Fiserv Inc. acquired NCR Corp.'s bank processing outsourcing operations. Fiserv took over NCR's account processing and item processing businesses and began providing daily transaction services for nearly 300 financial institutions. Fiserv added almost 600 people to its payroll in the United States, Canada and Argentina with the purchase.

VeriFone introduces EMV POS terminal

After The Gores Group LLC purchased VeriFone Inc. from Hewlett-Packard Development Co. L.P, VeriFone introduced the Omni 3700 series – a POS payment device featuring Europay/MasterCard/Visa smart card acceptance capability. New VeriFone Chief Executive Officer Douglas Bergeron said he was eager to show the new product to ISOs.

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

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International Quality and Productivity Center
3rd Annual Mobile Commerce Conference

Highlights: This event offers conference participants the opportunity to share experiences, ideas and solutions with mobile-system professionals, as well as learn from an array of mobile commerce experts representing diverse industries.

Conference workshops, working sessions, case studies and networking breaks will focus on growing mobile commerce systems from e-commerce bases; interconnecting multichannel mobile strategies across all channels; working with end users; and monitoring and quantifying mobile commerce integration.

When: Jan. 30 – Feb. 1, 2012
Where: San Francisco, venue to be confirmed
Registration: *www.mobilecommerceevent.com/ Event.aspx?id=625612*

Northeast Acquirers Association
NEAA Winter Seminar & Outing

Highlights: The NEAA winter show, now in its 27th year, is the oldest regional acquirers tradeshow in the United States. And the event is returning once again to The Grand Summit venue near Mt. Snow, Vt.

Seminar topics slated for the 2012 event include the Payment Card Industry Data Security Standard from the ISO perspective, selling POS systems, growing businesses through social media, the introduction of the Europay/MasterCard/Visa card technology in the United States and issues involving mobile payments.

Among the speakers scheduled for the event are SignaPay Ltd. President Kevin Jones, Discover Financial Service's Bob Kinsella, Nancy Austin and David Talach of VeriFone Inc., and Tony Abruzzio of ISIS. Activities this year will include snow tube races sponsored by SignaPay, free skiing and snowmobile rentals.

When: Jan. 31 – Feb. 2, 2012
Where: Grand Summit Resort & Conference Center, Mt. Snow, Vt.
Registration: *www.northeastacquirers.com/event.htm*

Smart Card Alliance
2012 Payments Summit

Highlights: The SCA's fifth annual Payments Summit is designed to build on previous successes. After years of double-digit growth in the number of event participants, the summit is moving to a larger meeting space to accommodate a more broadly focused agenda. It will combine the rapidly growing council meetings with a new "Roadmap to EMV Payments" conference track, which drew hundreds of attendees to the annual conference in Chicago last spring.

The SCA's objective – to host a single, comprehensive payments event, covering every leading transaction platform: card, mobile and transit payments – is accomplished by bringing together experienced smart card practitioners and suppliers with innovative solutions-developers and end users across the payments, mobile and transit markets.

When: Feb. 8 – 10, 2012
Where: Hilton Salt Lake City Center, Salt Lake City
Registration: *www.cvent.com/events/2012-payments-summit/ event-summary-4331cd14a7f34f59be009bce63d7934d.aspx*

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Prepaid Expo USA 2012

Highlights: This independent expo is designed to generate business for the entire prepaid and stored-value community. Aims of this year's show are to promote prepaid businesses with next-generation solutions, discuss regulatory challenges and analyze technology disruptions to the industry. The seventh annual expo will boast more than 1,700 attendees and over 100 exhibitors.

Independent market research and an unbiased conference structure will create an atmosphere that gives industry professionals the chance to be inspired by provocative keynote speakers; connect with leading prepaid card providers; and discover the regulatory issues, emerging and mobile payment technologies, distribution challenges and consumer insights that are changing business practices today.

When: March 12 – 14, 2012
Where: Mandalay Bay Resort and Casino, Las Vegas
Registration: *www.iirusa.com/prepaid/welcome-page. xml?registration=XU2548GRST*

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Calendar

2012 Calendar
of events

2012 Events

2012 Events	Date	Location	Web site
World Research Group, 3rd Annual Prepaid Card Congress	Jan. 24 – 26	Las Vegas	worldrg.com/showConference.cfm?confCode=FW12006
ACI, Prepaid Card Compliance Conference	Jan. 30 – 31	Washington	www.americanconference.com/prepaidcard
IQPC, Mobile Payments and NFC	Jan. 30 – Feb 2	London	www.mobilepaymentsandnfc.com/Event.
NEAA, 2012 Winter Seminar and Outing	Jan. 31 – Feb 2	Mt. Snow, VT	www.northeastacquirers.com/event.htm
Smart Card Alliance, 2012 Payments Summit	Feb. 8 – 10	Salt Lake City	www.cvent.com/events/2012-payments-summit
Comexposium, Cartes in North America	March 5 – 7	Las Vegas	www.cartes.com
IIR Holdings, Prepaid Expo USA 2012	March 12 – 14	Las Vegas	www.iirusa.com/prepaid/welcome-page
Gulf Bay Consulting LLC, Mobile Payments	April 11 – 12	Orlando, FL	www.socialmobilepayments.com
ACI, Emerging Payment Systems West Coast Edition	April 16 – 17	San Francisco	www.aci.com/Events?find=441959
ETA, 2012 ETA Annual Meeting & Expo	April 17 – 19	Las Vegas	www.electran.org/content/view/815/494/
SourceMedia, 24th Annual Card Forum & Expo	May 9 – 11	Orlando, FL	www.globalmediadynamics.com/upcoming-events
Smart Card Alliance/NFC Solutions Summit 2012	May 22 – 24	Burlingame, CA	www.smartcardalliance.org/pages/activities-next-conference
Global Media Dynamics, 2012 Mobile Payments Congress	June 11 – 12	Las Vegas	www.globalmediadynamics.com

To submit your event to this calendar, email a press release to press@greensheet.com. Please include the name, date and location of the event, as well as highlights of planned activities and registration contact information.

NORTHEAST ACQUIRERS

Jan. 31 – Feb. 2, 2012

Smart Card Alliance

Feb. 8-10, 2012

ETA

April 17 – 19, 2012

Inspiration

Use your human gifts

O n Jan. 1, 2012, neither animals in the wild nor those that have been domesticated by humankind will notice a brand new year has come. Life will go on for them much the same as it did on Dec. 31, 2011.

It is we humans who give significance to all manner of events throughout the year – birthdays, anniversaries, graduations and the holidays we celebrate, including New Year's Day. Of course, the importance each of these plays in our individual lives varies greatly. However, many of us do take these opportunities to celebrate, reflect and plan in ways that are uniquely human.

Decision time

It is possible that some folks will enjoy a day or two (or more) off work during the holidays and return in January with nothing different in mind. They may give lip service to a few resolutions, but will carry on much as they always have.

Others, however, will take the opportunity a new year offers to reorganize and reinvigorate themselves to create the best year ever in the payments business.

Which group are you in? Have you given thought yet to what you hope to accomplish this year and how you intend to do it?

The human race is governed by its imagination.
— Napoleon

Ideas for you

Over the years, *The Green Sheet* has published numerous articles on goal setting, business planning and marketing. Today would be an ideal time to tap into the wisdom successful payment professionals have shared on our pages.

Following are just five examples:

- "Marketing resolutions for the New Year," by Peggy Bekavac Olson, *The Green Sheet*, Jan. 10, 2011, issue 11:01:01
- "New year, new plan" by Jon Perry and Vanessa Lang, *The Green Sheet*, Jan 11, 2010, issue 10:01:01
- "Dreams fulfilled: Six easy steps," by Jason Felts, *The Green Sheet*, Dec. 22, 2008, issue 08:12:02
- "The why, what, how and when of goals," by Jason Felts, *The Green Sheet*, Dec. 25, 2006, issue 06:12:02
- "An urgency resolution," by Ken Musante, *The Green Sheet*, Jan 23, 2006, issue 06:01:02

Further reading

In addition to perusing our archives, you can download free, PDF versions of my books *Good Selling!SM: The Basics* and *Good Selling!SM 2: Thirteen Weeks to Personal Success*. I wrote both of these volumes as tools to assist ISOs, merchant level salespeople and other sales professionals in financial services.

The books provide the basics of selling as well as information on how to shape an enduring, satisfying sales career – all in straightforward, easy-to-digest chapters. The pages also offer much encouragement, which, I hope, will help spur you toward your goals in 2012.

Why not use these and other resources available to shape your life and business to your specifications in the year ahead? Why not reach far to make your financial and personal goals come true? After all, being able to visualize, strategize and then fulfill your dreams is part of what makes you human.

Good Selling!SM

Paul H. Green, President and CEO

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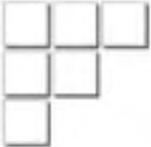
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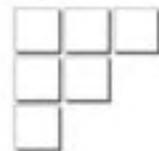
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Fasten Your Seatbelts, It's Getting Exciting!

Are you ready? Mobile payments, remote deposit capture, new financial regulations, evolving technology and some unexpected competitors mean we are in for an exciting time in 2012. Along with these changes and offerings, there will be opportunity for more revenue, more services to engage our merchants and more ways to grow a business.

We're looking forward to the new year and have several exciting check processing services to assist your merchants and feed your income with on-going residuals. How about remote deposit capture with future deposit and guarantee? We have it and you can start selling it now.

Now is also a good time to say a special thank you to the many ISOs and partners that share and contribute to our success. You make it happen and we appreciate it!

We're excited about 2012 and hope you are, too. Contact us for more details on our sales and revenue-sharing opportunities. And have a happy and prosperous New Year!

J. David Siembieda,
President and CEO,
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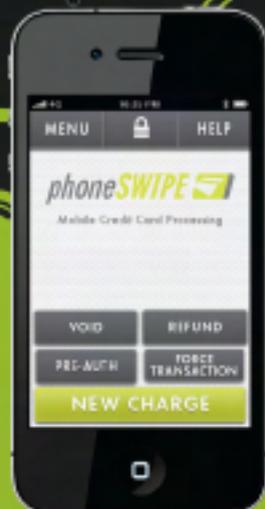
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Honesty is our Everyday Policy

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>
> — *Alex V.*
> *Seattle, WA*

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- 24/7 customer service and technical support including remote support
- With the "Lighthouse", merchants can run reports or update their menu from any computer with an Internet connection

FEATURE	CREDIT CARD TERMINAL	HARBORTOUCH POS
Process Credit Cards	●	●
Print Receipts	●	●
Detailed Reporting		●
Inventory Tracking		●
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Built-in Time Clock		●

*To receive a Harbortouch POS system as part of this program, merchant must sign a credit card processing agreement and equipment service contract. Other charges may apply.