



The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

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2003 Best of the Best



May I have the envelope please ... and the winner is ... First Data, voted Best Processor of the year; TASQ Technology, voted Best Value-added Equipment Reseller; CIT Lease Finance Group, voted Best Leasing Provider; and Lipman USA, voted Best POS Terminal, the Nurit 2085.

In the ISO category, the winner is ... Bridgeview Payment Solutions, voted best ISO Organization of the year, and United Bank Card, voted Best Customer Service by an ISO.

Voting was conducted via postcard ballots and online over a two-month period, and the

results were sorted to eliminate duplicate voting by any individual reader of The Green Sheet. The ballot for the first annual "Best Payment Processing Players" was included with the March 10, 2003 issue of GS and also was available online from March through April.

The Green Sheet Advisory Board submitted nominations in nine categories, and write-ins were both allowed and encouraged. Voting was open to all subscribers of The Green Sheet print and online versions. We were both surprised and pleased that so many readers took the time to vote and even to give us a great deal of information about why they voted as they did. We want to thank all of you who took the time to vote.

Paul Green, Chairman

"Best Payment Processing Players" results, Page 43



Notable Quote:

Visa and MasterCard settled the lawsuit and agreed to charge lower fees. The problem is that Visa and MasterCard's fees are paid by the acquiring banks, who often offload pricing to ISOs large and small. It is the acquirers who pay the interchange and establish merchant pricing - not Visa or MasterCard.

See Story on Page 32

Simply the **BEST!**

Vital Merchant Services and Ingenico are teaming up to provide the best check reading and imaging products in the industry. Combined with Vital Merchant Services' single source service offerings, Ingenico's check products are simply the best.



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Protecting yourself from bad check losses is as easy as plugging the e⁺-Check 3000 into your telephone jack and power outlet. The large bright display and keyboard are incredibly easy to use and the keyboard layout is similar to that of a credit card terminal, making it easy to operate. The e⁺-Check 3000 can be wall-mounted or placed on a counter for optimum operator convenience. Integrated modem provides direct access to electronic check processing service.

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- » C. Lydell Taylor-Business Payment Systems
- » Scott Wagner-Hypercom
- » Dan D. Wolfe-Barons Financial Group



The Green Sheet

The Financial Services Industry Source for Education, Insights and Actionable Advice

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* Any Sales Professional who sells financial services to the retail merchant marketplace.

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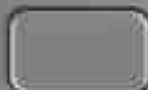
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Branching Out

Dear Sir,

I enjoyed reading your Green Sheet publication. I am considering a new career working for an ISO as an independent (1099) Merchant Level Salesperson. However, I am not familiar with your industry and have some additional questions. I would appreciate a short conversation to answer some basic questions about this type of position, such as:

- Is a two-day training program enough time to learn the MLS business?
- The ISO says it will set up two to five appointments a day for me. Is this realistic?
- Do I need to register and pay fees to Visa/MasterCard or face fines?

Sincerely,
David Bongo

David,

We are happy that you are enjoying our publication. For more information on this industry, we offer the following suggestions:

Register as an Merchant Level Sale at our Web site, www.greensheet.com. Then read through the sections, Industry FAQs and Knowledge is Power. You also should browse through some of the past Forum topics – your questions are discussed in some length there.

A two-day training course will introduce you to some of the basics, but the learning process continues for years. This is a dynamic industry, and things are in a constant state of change.

We suggest you do research on the ISO with whom you will be work-



ing. Make sure you thoroughly read your contract and fully understand its terms.

Our Industry FAQs offer you advice on registering with Visa and Mastercard. We wish you the best in your new career choice!

Editor

More about Registering with Visa/MC

I am evaluating whether to register with Visa/MasterCard as an ISO/MSP with an acquiring bank.

I am an agent for a registered ISO, but I want to register as an ISO myself to accomplish the following:

- Protect my residual portfolio if the ISO I am sending accounts to happens to go away for some reason (bankruptcy, etc.).
- Develop a competitive buy rate program so that I can bring on existing sales agent groups within our organization.

Ultimately, I am ready to grow my business and want to seek existing sales agent groups to come on board with my ISO program.

Where can I get detailed information that I can review to evaluate the pros and cons of registering as an ISO/MSP with Visa/MC as well as the requirements needed to become an ISO/MSP?

Your help would be greatly appreciated!

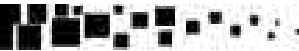
Eric Douglass

Eric,

Please check out our recently revised Industry FAQs online (www.greensheet.com/industryfaq.html). We have posted a great deal of information there to enable you to make informed decisions about this industry.

Additionally, we suggest that you subscribe to participate with the MLS Forum online (www.greensheet.com/forum/bb_register.php?mode=agreement). This is a networking space for sales professionals in the payment processing industry. As with all of the tools that we provide for professionals like yourself, the MLS Forum is free.

Editor



INDUSTRY UPDATE

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NEWS

Settlement Cost MasterCard \$721 Million

MasterCard International posted a \$425.4 million loss in the first quarter of 2003 compared with income of \$78.3 million in the same period last year, according to a recent filing with the Securities and Exchange Commission.

The credit card association attributes the loss to its April settlement with retailers in the class-action antitrust lawsuit over debit card fees. MasterCard said the settlement cost it \$721 million. Under the proposed settlement terms, MasterCard will make payments of \$125 million in 2003 and \$100 million from 2004 through 2012.

However, some good news for the organization: Total revenue was \$512.2 million, up from nearly \$393 million the previous year.

Online Retail Sales Fell 13% in Q1 2003

The **U.S. Department of Commerce** reported in its U.S. Census Bureau quarterly estimate of e-commerce statistics that Q1 2003 retail e-commerce sales (not adjusted for seasonal, holiday and trading-day differences) totaled \$11.921 billion, an increase of 25.9% from the same period last year but a decrease of 13.4% from the previous quarter.

Online retail sales accounted for 1.5% of total retail sales in Q1 2003. Total retail sales were \$772.2 billion, down from \$864.7 in the previous quarter but up from \$740

billion in Q1 2002. The department began tracking e-commerce sales in 1999.

Consumers Thinking Small with Debit

More consumers are using their debit cards to make purchases of less than \$25, according to a recent study by **Concord EFS, Inc.**'s payment network STAR Systems. The most popular "small-value" purchases are movie tickets (24%), fast food (20%), pay phone calls (19%), public transit (18%), parking meters (16%), vending machines (13%) and laundromats (13%).

STAR surveyed more than 11,000 consumers between September 24, 2002 and December 1, 2002. The survey also found:

- 82% of U.S. account holders have an ATM/debit card
- 86% of them used the card to make a purchase in the previous 30 days
- 51% prefer to validate their debit card purchase with a PIN
- 28% prefer to validate their debit card purchase with their signature

NACHA Sees Spike in Q1 Online Bills Paid

According to **NACHA-The Electronic Payments Association**, consumers sharply increased paying their bills online during the first three months of 2003. NACHA estimates that during Q1 2003, consumers made more than \$48 billion online bill payments through the Automated Clearing House (ACH) Network.



- ▶ **The Conference Board's U.S. Consumer Confidence Index** rose almost three points in May 2003, from 81.0 the previous month to 83.8.
- ▶ **Walt Disney Co.** is closing at least 87 of its North American chain stores, which have been losing money.
- ▶ **Federated Department Stores Inc.** is adding "Macy's" to its Bon Marche, Burdines, Lazarus and Goldsmith's department stores on Aug. 1. The stores will then be known as The Bon-Macy's, Lazarus-Macy's and Goldsmith's-Macy's. All regional credit cards will be reissued at that time.
- ▶ **Mothercare PLC**, a mother and baby product retailer, will close 15 of 173 town-center stores (8%) during the next year.
- ▶ **Staples, Inc.** has agreed to pay an \$850,000 fine in a settlement with the FTC concerning rules for communicating with customers about delayed shipments.

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That figure is half of the amount of \$96 billion for all of 2002. NACHA estimates that the dollar amount of online bill payments may exceed \$200 billion in 2003. According to Gartner, Inc., the most popular use of online bill payment is viewing and paying credit card bills.

Sears To Get Opening Bids for Credit Card Program

Preliminary offers for **Sears, Roebuck & Co.**'s credit card portfolio are expected to come in from Citigroup Inc., General Electric Co., HSBC Holdings Plc, J.P. Morgan Chase & Co. and Royal Bank of Scotland Group Plc.

Sears announced in March 2003 that it was putting its credit card business up for sale to focus efforts solely on retail ("Come Buy the Costly Side of Sears," The Green Sheet, April 28, 2003, issue 03:04:02).

Sears' credit card portfolio, the eighth largest in the U.S., is valued at nearly \$31 billion and includes nearly 25 million credit card accounts consisting of both co-branded Gold MasterCard cards and Sears' own store card.

Analysts expect Sears to get as much as \$6 or 7 billion

for the portfolio. Any buyer of the division will become a partner of Sears, based in Hoffman Estates, Ill. A deal is expected to close in the third quarter 2003.

ANNOUNCEMENTS

Hypercom Gets Class A Certified by Datamark

Datamark Technologies, Inc. Class A certified its gift and loyalty application on **Hypercom Corp.**'s standard 07A card payment terminal software. Datamark is planning to offer Hypercom's T7Plus terminals to its U.S. retail customers through various partnerships with distributors.

Global Payments One of Best in Atlanta

The Atlanta Journal-Constitution recently honored **Global Payments Inc.** as one of Georgia's 100 best performing companies. The newspaper ranked Global Payments number 30 in its 10th annual "Best of Business" rankings.

Global Payments was listed among companies such as Coca-Cola, Home Depot and UPS. The criteria that helped determine the rankings were return on equity, return on investment, change in profit margin, change in revenue over previous year and revenue from continuing operations.

Smart Card/PIN Pad Device Certified

SCM Microsystems, Inc.'s SPRx32, a smart card device combined with a PIN pad, has received EMV 2000 certification. In addition to EMV level one certification, the SPRx32 is also PC/SC (personal computer/smart card) compliant and Microsoft Windows Hardware Quality Labs (WHQL) certified.

Free White Paper on RF Contactless Payments

ViVotech is offering a free white paper called "RF-based Contactless Payment: a More Convenient Way to Pay." The white paper describes how RF-based contactless payment systems work, which retail applications can be implemented as RF-based contactless transactions, how retailers can benefit from using this system, and opportunities available for acquirers and ISOs to take advantage of this new technology. To download the white paper, visit www.vivotech.com/white_paper or phone 408-248-7001, ext. 107.

LML Awarded Patent

LML Payment Systems Inc. subsidiary **LML Patent Corp.** was awarded Patent No. 6,547,129 for electronic check processing. The new patent is related to LML's

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patents 5,484,988, 6,164,528, 6,283,366 and 6,354,491, which are related to electronic check processing methods and systems.

PARTNERSHIPS

Amex and Hypercom Partner at Drive-Thru

American Express Co. and **Hypercom Corp.** have joined forces to test their payment technology at **McDonald's** drive-thru lanes in three New York restaurants (North Babylon, North Lyndhurst and West Islip).

Hypercom is using its HFT 500 outdoor card payment terminal and ICE 5500 payment terminals with a HyperSafe operating system to provide McDonald's customers the option to pay with their credit or debit cards.

CrossCheck Signs 3 New Retailers

CrossCheck, Inc. announced several new customers: 17 **Master Tile** stores in Texas, Oklahoma and Florida; a chain of 11 **Sleep America** stores; and seven **Ashley Furniture Industries, Inc.** locations are using CrossCheck's check guarantee services. In addition, **Merchant Direct Processing** is marketing CrossCheck's services as part of its private-label merchant offerings.

Wild Oats Picks CheckAGAIN

Wild Oats Markets, Inc. selected **CheckAGAIN's** Centralized Returns check management services for handling returned checks at all of its U.S. store locations. CheckAGAIN's service allows Wild Oats to consolidate returned checks at one bank regardless of the fact that the checks have multiple depository banks.

CardWorks To Mangle Spiegel Cards

CardWorks' Cardholder Management Services (CMS) will service **Spiegel, Inc.'s** private-label credit card portfolio, which contains four million accounts, valued at approximately \$2 billion. The portfolio includes Spiegel, Eddie Bauer, and Newport News private-label cards. CMS will take over servicing of the accounts from First Consumers National Bank.

Fifth Third Helps Online Customers Fight Fraud

CardinalCommerce Corp. will provide **Fifth Third Bank's** online merchant customers with CardinalCommerce's payment authentication software, called Cardinal Centinel. The software is designed to reduce fraudulent transactions and guarantee payment to online merchants while protecting cardholder account information.

CashWorks Adds 2 Distributors

CashWorks, Inc. added two new distributors: Billings, Mont.-based **ATM Express, Inc.** and Los Angeles-based **National Link, Inc.** These two companies will offer CashWorks' check-cashing solution to their merchants.

Who Loves Chocolate?

Global Payments Inc. will provide all of Swiss chocolate retailer **Lindt & Sprüngli Inc.'s** U.S. stores with card processing services. In addition, **United Merchant Services, Inc.** extended its contract with Global Payments for front- and back-end payment processing services and BIN sponsorship. United Merchant Services specializes in serving minority-owned businesses and retailers and provides bankcard, gift and loyalty and check processing services and support for merchants and resellers.

Global eTelecom for ECC

Global eTelecom, Inc. was selected as the back-end processor for **Merchant Services Network's** Electronic Check Conversion (ECC) Program, Convert-A-Check, which allows merchants to accept and process paper checks electronically.

Ingenico under U.K.'s Golden Arches

McDonald's Restaurants Ltd selected **Ingenico** to supply all software and hardware for a new chip and PIN card payment system for its restaurants in the United Kingdom. Scotland will be a test market. Ingenico says the deal is valued at a potential seven-figure sum over the next three years.

MIST's NBS and Bell ID Integrate Products

MIST Inc. subsidiary NBS Card Technology has partnered with **Bell ID B.V.**, a subsidiary of London-based Bell Group plc to jointly market Bell ID's ANDiS smart card management products and NBS Card Technology's card-issuance products as a combined solution.

PayPass in Mobile Phones

Nokia and **MasterCard International** are testing phones in a pilot program in Irving, Texas, with snap-on covers containing an embedded Radio Frequency (RFID) chip technology in conjunction with MasterCard's PayPass technology. The RF chip has a cardholder's MasterCard account information in it. This new product allows consumers to pay for food, gas and other items by tapping or waving their mobile phones.

Pitney Bowes Extends Moneris Offering

Pitney Bowes will offer **Moneris'** credit and debit card payment processing services to its small business customers. In addition, Moneris will equip those business-



STRENGTH

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SPS Signs U.S. Merchant Services

U.S. Merchant Services will offer **Secure Payment Systems, Inc.**'s check guarantee processing services – including SPS' "PayDay" program, which offers a "90 days same as cash" payment option – to all retailers through its independent sales offices and agents.

Wildcard Wins Major Order for Terminals

Wildcard Wireless Solutions, Inc. announced it received an order from **Card Ready International, Inc.** to purchase its TransAKT cellular telephone-based point-of-sale terminals. The order is valued at CDN \$184,745. TransAKT terminals are targeted toward mobile businesses such as pizza franchisees, restaurants with home-delivery capabilities, taxi and limousine drivers, and home-repair services.

ACQUISITIONS

ADS to Acquire Stage Stores' Portfolio

Houston-based retailer **Stage Stores, Inc.** plans to outsource the operations of its private-label credit card business to **Alliance Data Systems Corp. (ADS)** for at least 10 years. As part of the deal, ADS will acquire Stage Stores' portfolio of 2.2 million private-label credit card accounts and will assume the outstanding balances of those accounts during this time.

In addition, Alliance Data will employ the 220 employees of Stage Stores' Credit Support Center in Jacksonville, Texas. The transaction is subject to regulatory approvals.

CyberStarts Buying Billserv

Atlanta-based **CyberStarts, Inc.** announced plans to acquire certain assets of **Billserv, Inc.** for \$4.8 million, including the Australian joint venture between **Salmat** and Billserv. CyberStarts is a financial services technology holding company. Billserv provides outsourced electronic bill presentment and payment (EBPP) services. CyberStarts said it plans to keep using the Billserv name because it is a recognized brand in the marketplace. Billserv shareholders must approve the deal; it is expected to go through in late June 2003.

Diebold Expands Presence in India

Diebold, Inc. will acquire from **HMA Data Systems Private Ltd.** the remaining 50% in equity of its joint venture Diebold HMA Private Ltd. This deal expands Diebold's presence in India, adding multiple sales offices and service locations. Diebold HMA will become a subsidiary of Diebold, headquartered in Chennai.

APPOINTMENTS

MasterCard Canada Picks 2 for Board

MasterCard Canada selected **Tom W. Jones** as Chair and **Kathy P. Silmser** as Vice Chair of the MasterCard Canada Board of Directors. Jones is President of Citi Cards Canada and a 19-year veteran of Citibank's credit card business. His previous positions with Citibank include President of Citibank South Dakota and General Manager at Citibank Canada. Silmser is Senior Vice President, Cardholder Services, Personal & Commercial Client Group, BMO Bank of Montreal. She has 20 years' experience with BMO Bank of Montreal; most recently she served as Vice President, Cardholder Services, and Vice President, Deposit Services.

Judd Promoted at NYCE

NYCE Corp. promoted **James S. Judd** to Executive Vice President. Judd's previous title at NYCE was Senior Vice President. He also serves as NYCE's Chief Legal Officer, overseeing legal affairs, and will continue to hold that position along with his new one. Judd joined NYCE in 1995. Before joining the company, he served at the law firm Hinkley, Allen & Synder.

Knutson Elected to ETA Board

Marla Knutson, President of **TransFirst's** Agent Bank Services, was elected to serve on the 2003-04 **Electronic Transactions Association Board of Directors**. Knutson has more than 20 years' experience in banking and financial services. She has worked in all aspects of the business, from sales and marketing to product research and executive management.

Sterling Hires Credit Card Veteran

Sterling Payment Technologies, LLC appointed **David Meyer** to the position of Senior Vice President and Merchant Acquiring Partnerships Officer. Meyer has more than 30 years' experience in the banking and merchant credit card industries. He was President for 12 years of APEX Merchant Services, an ISO recently sold to Paymentech. He also served as Executive Vice President and Credit Card Manager for Landmark Bank and C&S Bank. Meyer most recently was President and founding principal of PSCU Service Centers, Inc.

White Promoted at Bank One

Randy White is **Bank One Corp.**'s new Treasurer. White joined Bank One six years ago as Asset/Liability Manager and has been the Head of Treasury Analytics since late 2000. Before joining Bank One, White led Balance Sheet Management at Huntington Bancshares in Columbus, Ohio, and served in a range of Treasury and corporate finance functions at First Republic Bank Corp. in Dallas. ■

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- Ronald Reagan was president.
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The Key to Success

As a merchant level salesperson, how do you measure success? Do you see it as obtaining the highest advertised commission or locking in to the best buy rate program? Judging from the many calls I receive from honest, hard-working sales professionals, it appears that what is promised and what is actually paid out are worlds apart.

On a regular basis, I hear horror stories about how companies just stop paying monthly residual commissions to their agents. I've also seen similar postings on The Green Sheet's MLS Forum that indicate how serious this problem is.

For example, the MLS Forum recently posted this query: "How can we help each other protect our residuals?" Here are some of the responses:

"Let's have some constructive ideas on different ways to help each other through our experiences with different companies paying or not paying residuals. My acting like a pit bull may not have been the right approach.... Anyone have some ideas that won't land us in court or jail?"

"The first step is to make sure you understand your ISO contract. Your residual payments should be clearly spelled out.... Take the time to visit the ISO office you are seeking to contract with and ask others about their relationship with that ISO. Due diligence on your part is important, so take the extra time to make sure you are contracting with an honest and reputable ISO."

"The first and only rule is to get your contract right before you sign..."

"I appreciate all suggestions on signing better contracts and dealing with more honest ISOs. The problem is they don't come with warning signs – only wonderful promises. I'd rather hear from the reps themselves on whether they were paid or what reason the ISO used not to pay. I want to hear the rep tell me how long it takes to get the MID and download. The ISO can blow smoke all day long. The rep experience is what is real. ...We can protect

each other more this way or at least as well as the contract we sign. It costs nothing to hear of real experiences from other reps and will make the ISOs think twice if they know everyone knows what they are doing. We are each other's best protection. What is the best way to do it?"

Whenever I hear these stories or read these postings, my immediate reaction is similar to the advice reflected in some of the MLS Forum postings. I say, "Go back to the beginning. It all starts with the contract."

The key to success in our business is to get an agreement that protects you from losing your monthly residual commissions.

Sure, every MLS needs to receive a substantial piece of the net revenue generated from his or her accounts but, more important, every MLS needs to make sure the contract protects him or her from losing that piece.

Here are several common ways that honest salespeople can avoid losing their residuals:

First, you must ensure your agreement provides you with no liability for merchant losses. For instance, one merchant's losses could easily wipe out a monthly residual income of \$2,000 to \$5,000. Never set up an agreement where you are liable for, or where you share liability for, merchant credit losses.

As a salesperson, merchant losses have no part in what you bring to the table. Being responsible for that is never a good idea. Liability can be a residual killer.

Another common mistake is entering into a contract with an exclusivity clause or minimum monthly production requirements. With regard to exclusivity requirements,

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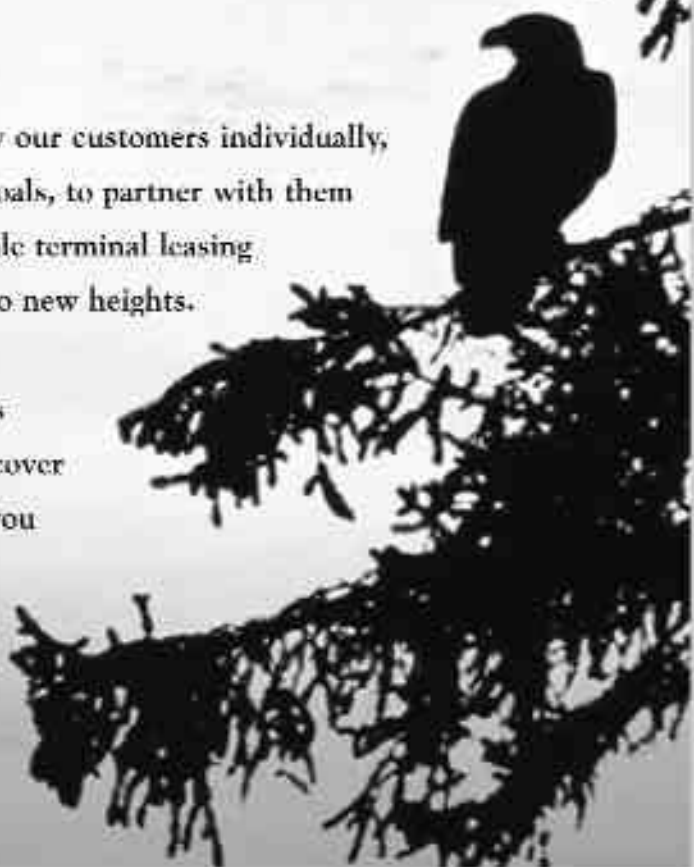
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look out for any provision in the agreement that requires you to send any or all of your business to this specific merchant account provider.

Make sure you can send business anywhere you choose, and make sure you do not need to continue to send a minimum amount of business on a regular basis to the ISO you're signing with.

The only provision that I think is acceptable would be a requirement that your monthly residual commission be at least a minimum amount after one year (e.g., \$250 to \$500 per month) in order to continue to receive your monthly commission.

Another item to look out for is language that requires you to sell your residual portfolio for a specific multiple or "fair market value" at the timing or choosing of the ISO. This is another hidden "bomb."

It is nice to have the option to sell your portfolio. It is another thing to be required to sell your portfolio. You need to be very careful. It's a "buyer beware" or in this case "salesperson beware" environment.

In the past, Merchant Level Salespersons could make a living from the upfront revenue earned when selling or leasing terminal equipment or software. The monthly residual commissions were considered extra income and not critical to their livelihood and ultimate success.

Today, as a result of diminishing opportunity to earn upfront fees from setting up merchants, many smart salespeople are figuring out, often the hard way, that their agreement for residual income will be the determining factor as to whether they will be able to survive in this great business.

This leads us to another important issue: Do you really know the people you're doing business with?



Another item to look out for is language that requires you to sell your residual portfolio for a specific multiple or "fair market value" at the timing or choosing of the ISO. This is another hidden "bomb."

Remember this: The contract is only as good as the people and the company behind it.

Take a close look at whom you are signing with as well as what the contract does or does not say. The contract often is only as good as the people behind that piece of paper. Simply getting a good contract is not good enough.

What do you know about this ISO? What are your chances of being paid properly? You need to do your homework and determine if you will receive your commissions in a correct and timely manner – and we are not just talking short-term. Does the company you're working with have a long-term track record for paying sales agents properly?

Then there's the risk factor. Does the ISO you're signing with have a firm



grip on the risk-management part of their business? If not, the company could get tossed right out of the marketplace, and your residuals will go down the drain when that happens.

So, please, take my advice as well as the good advice from the postings on the MLS Forum on this subject. READ the big print and the fine print. Make sure you UNDERSTAND all the terms and conditions of your agreement for residual commissions.

Before you go out and write another deal, examine your contract. If you don't, you might end up getting burned – through no one's fault but your own.


Even if you've been doing business with someone for a while, pull out the contract. Call the company if you have any questions about certain issues. If there's something that needs to be clarified or rewritten, get them to prepare a newly signed agreement that fixes any of the problems you've uncovered.

Spend a little money to contact an attorney if necessary. It does not cost that much money to make sure you're protected. This is my "spring cleaning" advice. So let's get to work and clean up this important issue.

Now that we have the key to building our portfolios on a solid foundation – i.e., the contract – let's talk compensation. In my next column, we will discuss not only the latest trends in compensation but also talk about the much-debated issue of buy rate versus revenue share.

"When you want what you've never had, you must do what you've never done."

– Anonymous

I'll see you next time where the rubber meets the road. 

Ed Freedman is founder and President/CEO of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Ed is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors so that Total Merchant Services can provide its customers with the highest quality and most reliable services available. To learn more about Total Merchant Services, visit www.totalmerchantservices.com. To learn more about partnering with Total Merchant Services, visit www.upfrontandresiduals.com or contact Ed directly at ed@totalmerchantservices.com

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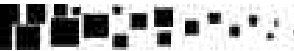
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▶▶ EDUCATION [CONTINUED]

Forming a Relationship 'Contract'

By Jared Isaacman

United Bank Card, Inc.

Avid followers of The Green Sheet's online MLS Forum no doubt read multiple postings about the ongoing horror stories of residuals being terminated and the deceptive practices of MSPs, processors and even banks. Although this does happen – and if you read through the postings enough you would think it is standard practice – the reality is that there are two sides to every story.

The agents' perspective is that they just got burned on their hard-earned residual income; MSPs/processors/banks see a contract that was broken and believe ongoing residuals have satisfied the breach. It all comes down to the integrity of the relationship and the two signatures on a contract.

Most contracts, in general terms, result from two parties sitting down at a table and reaching a "meeting of the minds," with lawyers negotiating mutually agreeable wording. But that is rarely how contracts in the bankcard industry get worked out and executed.

Typically, the MSP, processor or bank already has a standard drafted "agreement." The new agent or Merchant Level Salesperson gets sold on the concept or benefits of the program and to get in action must sign this standard agreement. Is it likely that this standard agreement is equally balanced with mutual protection for both parties? No, it's not likely, but why?

The reason most ISO agreements are not balanced is because the formula of how typical contract language is agreed upon never takes place. Instead, here's the typical scenario:

An ISO/MLS finds an advertisement in The Green Sheet and calls about the program. If the agent likes what he or she hears, a package with a contract arrives in the mail. Rarely are commitments required. Without a history, commitment or any real protection, the MSP, processor or bank is forced to balance the standard contract language in its own favor.

This could be for its own protection against a fraudulent ISO/agent, non-performance, etc. Or it could be used for less than ethical purposes – to be released from any obligation to pay residuals.

So does this mean all hope is lost for a fair, reasonable and

balanced contract between MSPs, processors and banks and their ISOs/agents? No. The typical arrangement for agreeing on contract language still can be achieved, and the standard agreement can be balanced and provide mutual protection.

If you are looking to negotiate the contract wording beyond what a simple addendum could provide, it is a good idea to bring something to the table. I imagine any MSP, processor or bank hungry for your business would be happy to negotiate a contract if you are prepared to make commitments.

This doesn't always have to be big-application counts, but volume, transactions, business types, etc. Get creative, look for the "hot button" and push it.

If you are bringing something to the table and you have a receptive party, there is no reason you can't negotiate a mutually balanced and customized contract. Or if you are not prepared to make commitments, there still is a selection of good MSPs, processors and banks that have reasonable and balanced contracts.

What to Look for in a Standard ISO/ Agent Agreement

Question: Are there any minimums, vesting points or production requirements in this contract?

Answer: This is important to look for because if you sign and fail to meet your obligations you have potentially opened the door for failure to perform under the term of the contract, leading to another horror story.

Q: If my contract does have these minimums, vesting points or production requirements, is this a bad thing?

A: No, this might not necessarily be a bad thing. Typically, as with most things, the more you commit, the better the rewards or pricing might be. The question you need to ask yourself: Are the contract requirements reasonable in light of the program you are receiving, or are they unreasonable with possible negative future ramifications?

Q: Does the term of the contract matter? Is a three-year contract better than a one-year because I will get paid longer?

A: Typically, the term of the contract has very little to do with your ongoing residual compensation. Most of the

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rights for "vested" and ongoing residuals are listed under "Post-termination" rights – meaning that regardless of how long the contract is, your residuals are secured even after the contract terminates.

However, the term of the contract is important because you are bounded by the obligations and responsibilities of that contract during the designated term.

Q: What about exclusivity? Should that be in my contract?

A: This is a decision that the ISO or MLS needs to make. If it were my advice, I would say not to enter into an exclusive contract without doing your homework on the other party and testing the waters.

If you sign prematurely and it turns out you are not happy in the relationship, signing with another company would put you in violation of your exclusive contract and could lead to the termination of your residuals.

Q: Does that mean exclusive contracts are always a bad thing?

A: Certainly not. Like the question about "commitments" above, the more of a commitment you make, the

greater the reward. This could mean that guaranteeing all of your business is going to one MSP, processor or bank could have monetary rewards as far as residuals and other compensation is concerned.

Again, entering into this type of agreement without having an established comfort factor could work out quite poorly if both parties don't live up to each other's expectations.

Q: What is a "cure period," and should I have this in my contract?

A: With the exception of fraud and a willful or gross breach of contract, you should always have the protection of a cure period. What this guarantees you is that your MSP, processor or bank cannot arbitrarily terminate your contract or residual stream without making you aware of their reason and giving you at least 30 days to correct the problem.


This concept is called a cure period. You never want to give the other party an arbitrary, single-sided power to terminate the contract and your residuals without showing cause and giving you the opportunity to correct/cure the problem.

There are certainly a thousand more questions about contract negotiations, interpretations and strategies, most of which should be answered by an experienced lawyer. The above areas should be used for reference when reviewing your current or next contract.

If you have already entered into a contract that you believe is unbalanced, once you have a history in your business relationship you probably have the ability to negotiate a more favorable and balanced agreement or addendum.

If this is your first time or you are about to enter in a contract, you probably should take note of a few of the more important variables above and see if they are included in what you are about to sign.

Entering into a relationship with a company because of its assumed integrity, reputation or sales presentation has a big value, but things can change and having a reassuring and balanced contract will help you sleep better at night.

With more educated ISOs and Merchant Level Salespersons, I am confident the horror stories of lost residuals will be pushed aside with tales of success. 

Jared Isaacman is Director of Operations for United Bank Card, Inc. He may be reached directly at Jared@unitedbankcard.com or 908-638-5326, ext. 120.



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▶▶ EDUCATION [CONTINUED]

It's Time to Start Using Verified by Visa

By David H. Press

Integrity Bankcard Consultants, Inc.

Since its introduction in 2001, Verified by Visa has not caught on with either cardholders or merchants. Depicted in television commercials featuring NFL star Emmitt Smith and others, the service was designed to increase both cardholder and merchant confidence in Internet purchases as well as reduce disputes and fraudulent activity related to the use of Visa payment cards. On April 5, 2003, it got real value for the merchant when a liability shift from acquirers to issuers for the fraudulent use of a card became effective.

To use Verified by Visa, merchants must purchase a simple plug-in software module that determines cardholder participation in the service and establishes an Internet connection, enabling Visa Issuers to authenticate their cardholders. Processors have begun to include Verified by Visa solutions in their product mix. The implementation process for the merchant is somewhat complex, but the various vendors have developed solutions that make implementation easier.

The vendor software selected should include Cardholder Information Security Program protection, a Verified by Visa requirement. For a list of vendors who have been certified by Visa as providers of the Verified by Visa service, visit www.visa.com/verified/vendors

Online merchants and acquirers have been slow in beginning to use Verified by Visa, but since April 5, 2003 the savings in chargebacks, chargeback fees and lost product makes sense for the merchant to pay the up-front expense and extra cost for the service.

For the acquirer, it can mean additional income from the merchant, decreased exposure to fines from the

Acquirer Monitoring Program, the ability to continue to receive income from a merchant who might otherwise have to be terminated for "excessive chargebacks," and the opportunity to reduce its overall risk exposure because of the better quality of the transactions.

Verified by Visa, marketed to increase the confidence of Visa cardholders in making more online purchases, really does nothing for the cardholder. Visa's Zero Liability policy, which took effect April 4, 2000, already has virtually eliminated consumer liability in cases of card fraud for all Visa transactions processed through the Visa network, including online purchases. The new policy removed both the \$50 cardholder liability and the 48-hour reporting requirement in cases of fraudulently used Visa credit or debit cards.

What Verified by Visa does do today is a lot for the online merchant. When properly used, Verified by Visa now takes away chargebacks for fraudulent transactions. The risk of loss now remains with the issuer for these types of cardholder complaints. This can be a huge benefit to acquirers and online merchants that have been plagued with charge-

backs, the most common of which has been Reason Code 61 (Fraudulent Mail/Phone Order Transaction).

By using Verified by Visa, the most common chargeback and the other new "I didn't do it" chargeback, Reason Code 75 (Cardholder Does Not Recognize Transaction), are eliminated, which can dramatically reduce an online merchant's chargeback totals.¹ Acquirers for merchants using Verified by Visa will be able to represent any Reason Code 61 and Reason Code 75 chargebacks.

The best news is that the merchant is simply required to submit the transaction for enrollment verification, and it does not matter whether the cardholder is enrolled in Verified by Visa and uses it or not. Issuers appear to be responding to the liability shift in various ways. Some fearing steeper losses are mandating that the cardholders sign up for Verified by Visa. Others, fearing the loss of customers, are not even bothering to offer it to their cardholders and are establishing reserves to cover the higher anticipated fraud losses.

Verified by Visa Program Requirements

Issuer chargeback rights will not apply if a merchant authenticates or attempts to authenticate a cardholder using Verified by Visa during an online purchase. Both the U.S. and International Operating Regulations were revised effective April 5, 2003, to further support Verified by Visa. The program, designed to boost consumer confidence and promote a secure electronic commerce environment, protects acquirers, when cer-

¹ Reason Code 23 (T&E-Invalid Transaction) and International Reason Code 83 (Non-Possession of Card) also are included in the liability shift from the acquirer to the issuer.



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tain online transaction conditions are met, from the following chargeback reason codes:

- 23 – T&E – Invalid Transaction
- 61 – Fraudulent Mail/Phone Order Transaction
- 75 – Cardholder Does Not Recognize Transaction
- 83 – Non-Possession of Card (International)

Effective April 5, 2003, the issuer is required to:

- Acknowledge a Verified by Visa Authentication Request with an Authentication Confirmation or an Attempt Response and a Cardholder Authentication Verification Value (CAVV), regardless of whether the cardholder is participating in the Verified by Visa program.
- Validate the CAVV during processing.
- Provide Visa with CAVV keys for stand-in processing.

Effective April 5, 2003, an acquirer is protected from chargeback liability for the reason codes listed above if it meets the Verified by Visa authentication processing requirements, which include:


- Use of a valid CAVV in the authorization request – when supplied by the Issuer or by Visa – as a condition of using a "5" (Secure Electronic Commerce Transaction) or "6" (Merchant attempted Verified by Visa), in the

Electronic Commerce Indicator (ECI) field of the authorization and clearing records.

- Ensuring that its participating merchants and third-party processors comply with the terms of the Verified by Visa (a/k/a 3-D Secure) operating requirements and the Cardholder Information Security Program.

For more information about acquirer requirements, refer to the "3-D Secure Acquirer Implementation Guide" available from Visa.

MasterCard has begun to roll out its own program, SecureCode, which enables online merchants to receive a "global payment guarantee." SecureCode also shifts the liability, but only for transactions where an actual cardholder authorization has occurred.

Unlike Verified by Visa, simply offering cardholder authorization does not shift liability to the issuer. Most vendors offering Verified by Visa also offer SecureCode, and it usually can be added without requiring extensive integration. 

David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. (www.integritybankcard.net). He can be reached by e-mail at dhp@integritybankcard.net or by phone at 630-637-4010.



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►► EDUCATION [CONTINUED]

Interchange Untangled – Part 1

This is the first in a series of articles written in response to numerous reader requests for definitions of the various interchange levels. We are working on a series of articles with the help of several industry experts to explain the interchange "buckets" and how transactions are assigned to the processing levels. If you have a specific question regarding payment processing, please send your inquiry to julie@greensheet.com or post it online on the MLS Forum in "Ask The Green Sheet."

? *I would like to know what the different downgrades are, what causes them, and maybe even what they mean per MID- and NON-qualified category. Let me re-word that. What subcategories are within MID- and NON-qualified transactions? Also, what is the fee directly billed from Visa/MC (pass thru) for these downgraded transactions?*

on the specific data included with the transaction.

The processor and the acquirer determine how Interchange is expressed to a merchant and therefore "billed." The most explicit form of pricing, which is frequently used in processing very large merchants, is called "Interchange plus."

In this scenario, the merchant actually sees the pricing by the various Interchange categories of the merchant's transactions, as Visa and MasterCard define them. When the terms mid- or non-qualified transactions are

used, they are referring to how a processor or acquirer has aggregated categories of Interchange into fewer groupings to make it easier to manage.

The most basic of these simplified "pricing options" is called "tiered" pricing. However, what one company includes in qualified vs. mid or non is highly individualized and is not mandated by any definition by the Associations. The acquirer or ISO, depending on the options offered by their processor, sets these up. These Interchange groupings are created when the parameters are set up on the processing system.

For example, some companies price in two tiers, qualified and non-qualified. Qualified is generally referring to the best available rate for both Visa and MasterCard. Anything other than that is billed at a higher rate termed to be non-qualified.

What the service provider has done in this case is develop a rate based on its general experiences of the categories where its transactions clear; thus, this "non-qualified" rate covers the service provider's cost and profit margin for all other transactions.

Three-tier pricing similarly aggregates Interchange categories but provides a median category so that certain Interchange rates that are between the highest and the lowest can be billed at a median combined rate. This system gives the merchant and the acquirer protection from any significantly different portfolio of transactions, out-

A It would be best to first clarify the scale of Interchange as it relates to the conditions surrounding the sale transaction and also to the card product presented at the point-of-sale.

Retail merchants, as a general rule, are priced by an acquirer to assume that they will qualify for the best Interchange rate, generally given to the lowest risk transaction. The parameters that dictate Interchange, at a very high-level view, are consumer card product, face-to-face sale, card present with mag stripe read and batch transmission by the merchant the same day as the transaction.

If a transaction deviates from these conditions in any way, the transaction is considered to "downgrade" from the lowest Interchange rate available. Where the transaction ultimately falls is determined by which of those conditions has varied; i.e., key-entered, corporate card, batch timeliness, etc.

The base of any discount rate is always calculated by the Interchange category in which a transaction falls based on the "condition" of the card product presented and the "behavior" consummating the transaction.

In commercial card products, there is a separate scale that also takes into account the level of data (i.e., I, II, or III) that has been entered along with the transaction. Level III requires the highest amount of data, including line-item detail. This is, in essence, a product-by-product listing of the purchased items. If any of the required data is missing, the transaction is downgraded to II or I, depending

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side of the norm, from causing an over- or underbilling from the general expectation.

Another form of "pricing option" is a rate billback. In this scenario, an expected rate is determined on the front end for certain Interchange categories. Anything that deviates from that mix is "billed back" to the merchant at the end of the month. Another important factor to remember in pricing is whether the Interchange is taken from the deposit daily (i.e., net daily) in some combination of categories or whether all of the "variations" in clearing are handled once a month at settlement.

To the degree it is possible, merchants should be counseled to understand how conditions that they may create at the point-of-sale (failing to clean the magnetic card reader heads in their terminal, clerks punching in numbers rather than using the mag stripe, the merchant not batching out every day, not putting data into the commercial card data prompts, etc.) can create a higher rate for them.

While some variations of price cannot be controlled (a customer purchasing items for business using a corporate card rather than a personal card, for example) others are within the merchant's control and can be easily managed.

One of the most important questions that Merchant Level Salespersons need to ask their sponsoring organizations is how their pricing is determined.

If the sponsor prices in tiers, what rates has it defined in its tiers? If it nets Interchange daily from the deposits daily, does it assume that everything is qualified on the front end and, if so, when and how does it determine the amount of a billback and when is that charged to the merchant?

Does the provider charge net or gross; i.e., is the discount priced on the net amount deposited, sales less credits (the issuing bank returns Interchange to the acquirer on a credit, but many acquirers do not give that back to the merchant), or is there another fee charged on top of what was previously paid on the sale to process a credit?

The nuances of pricing are so varied, you should closely study both Interchange and the sponsoring providers' pricing setup to adequately and completely disclose pricing terms and conditions so that they are understandable to the merchant. ■



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Seismic Events To Rearrange Payment Landscape

First of three parts

First it was the \$800+ million judgment against Visa and MasterCard for hidden currency-conversion fees. Next came the announcement of the First Data Corp. acquisition of Concord EFS, Inc. Then it was the capitulation of Visa and MasterCard to Wal-Mart, Sears and the class action of virtually all U.S. merchants. This three-part series will examine these events and discuss their potential implications for the U.S. payment industry.



Lower Interchange Rates for Signature Debit

First, let's examine four likely ramifications of the settlement of the Wal-Mart suit. Lower offline (signature) debit interchange rates are set to go into effect on August 1, 2003. Visa has agreed to lower interchange for the Visa Check Card by 48 basis points, and MasterCard has agreed to establish a new interchange category for the Master Money Card that is 1/3 less than the MERIT III rate (a reduction of about 46.7 bps).

Sounds pretty straightforward, right? But, as usual, the devil is in the details.

1. Implementation Frustrations – Antiquated Back-End System Designs

Systems engineers are going to have to scramble to establish the new MasterCard interchange category and classify and rate all MasterMoney transactions properly to this new category. No separate debit category existed for MasterCard until a few weeks ago, and certainly these millions of offline debit transactions never have had to be classified and rated separately before.

The pathetic "card plan" systems architecture, together with the Billing Element Tables (BETs) designed in the 1970s but still in use in the 21st century, also are going to cause lots of grief. Yet another "card plan" is going to be forced into the database systems for every merchant, and yet another set of BET tables will have to be established for every merchant.

The bulk of our industry's back-end systems weren't designed to link to discount rates and transaction fees directly from inexpensive SAN-based databases. Instead, technology used today was designed back when the Y2K problem was a concern, and for the same reason – to save expensive direct-access storage space. Most of these sys-

tem designs still form the merchant billing superstructure of the mainframe, "green-screen" systems of the ancient past.

2. Archaic Database Structures, Too

It's not just the software design. The databases must be fixed, too. Y2K problems were repaired several years ago, but the equally antiquated and inefficient "card plan" and "BET" table structures continue to provide pricing trees for back-end systems from Omaha to Columbus to Louisville to Cleveland to Toronto.

These systems look to see what BET was established for each merchant for each "card plan" and that BET defines the discount rate. To illustrate this approach, imagine having your weight and height coded as random four-digit numbers on your driver's license. For example, the number 1183 might represent 5-foot-10, and the number 3752 could represent 175 pounds.

Why would anybody use the code 1183 instead of just using 5-foot-10 or use 3752 instead of just using 175 pounds? If a police officer picked you up for a traffic violation, he would have to look into a thick manual (or a computer) to see the actual height and weight that should have been printed on the driver's license in the first place! Seems downright stupid, doesn't it?

The strange and inefficient thing about this type of system is that if you gained a pound, your BET would have to be reclassified to the BET for 176 pounds! With today's back-end BET structures in the payment industry, every merchant pricing change requires a change of BET tables unless the acquirer decides to change the actual BET value for all merchants assigned to that BET.

And therein lies the problem! With today's technology, changing rates for 5 million merchant numbers isn't easy. This difficulty will cause major fits in implementing this significant rate decrease. Many errors will be made because a lot of manual work will have to be done in a very short time frame.

With storage space so inexpensive these days, this database structure design has long since outlived its usefulness. However, it still dominates the back-end systems that cost millions of dollars each month to operate and maintain.

Look for more clunky patches or work-arounds to these antiquated back-end systems and databases to somehow

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allow for this new category to be established for 5 million merchants in world-record time. Maybe we can get a new generation of back-end systems before the next century!

3. Oops – Additional Margin Improvement

And then there is that pesky issue of unintended consequences – unintended by the merchants, that is. Sure, Wal-Mart and Sears have "cost plus" arrangements with their acquirers, and so do most of the big merchants. Visa and MasterCard settled the lawsuit and agreed to charge lower fees. The problem is that Visa and MasterCard's fees are paid by the acquiring banks, who often offload pricing to ISOs large and small. **It is the acquirers who pay the interchange and establish merchant pricing – not Visa or MasterCard.**

To date, the acquirers have not been asked about their intentions to pass these rate decreases directly to their merchants. And the settlement does not appear to require them to do so!

Some acquirers are saying informally that they do not

intend to pass on all of this rate decrease to all of their merchants. Clearly, it was the intention of the class-action group of merchants led by Wal-Mart and Sears to have all of this rate reduction passed directly to the merchants. Visa and MasterCard probably intended for this to be the outcome as well.

But some acquirers are contemplating how much of this rate decrease they can keep for themselves and just how much they will pass on to their merchants. Surely some will say they can not get the rate decrease "programmed" into their antiquated systems by August 1.

Still others are currently surcharging (by as much as 50 or even 150 basis points) the already lower rate for Visa Check Cards as "non-qualified" transactions. Will these acquirers continue to charge the merchant these extra fees for transactions that cost them even less? Are the merchants going to get the benefit of this rate decrease, or is this yet another way that the price-discounting sales organizations can "fix" their "margin compression" problem caused by their "teaser-rate" sales approach?

4. Current Visa Check Card Qualification Rules to Continue?

As of this writing, I can find nothing about any changed



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rules that will qualify a transaction as a Visa Check transaction come August 1. At this time, for example, if a Visa Check card is used at a restaurant, hotel or beauty salon, the tip-adjustment process disqualifies the transaction for the lower Visa Check interchange rate and causes the transaction to settle at a higher interchange level. Is this going to continue?

And what about transactions that must be key entered or that are not settled within 48 hours? Will these qualify at the new interchange levels? I can't find out.

Are all Visa Check Card transactions going to qualify for the lower rate or just those that meet the current qualification rules? If the rules are going to change, then there is a lot more systems-development work to be done for our front-end as well as back-end systems. If the rules aren't going to change, we all need to plan on thousands of extra phone calls explaining why all of the offline debit transactions don't always qualify for the new, lower rate that merchants learned about on TV and in newspapers.

In summary, the manner in which the lower interchange

rates are going to be implemented on merchant statements beginning in August is going to be worth watching. My guess is that we will see a mother lode of billing errors. In addition, margin is going to improve significantly for many acquirers beginning August 1, and many, many merchants are going to be disappointed that they did not get the benefits that were contemplated by the settlement of this litigation.

First Data-Concord Merger

Second, let's discuss the First Data-Concord merger. The dearth of opposition to this merger speaks volumes about our industry. I am told that First Data's lobbyists have been busy for many weeks in Washington trying to convince the power brokers at and behind the Antitrust Division of the U.S. Department of Justice (DOJ) that there will be no negative anticompetitive impact on the payment industry as a result of this merger.

We all had better hope that the DOJ doesn't swallow this specious argument without forcing FDC to sell off NYCE and more.

If First Data is going to get away with forming this new monopoly for online (PIN-based) debit processing, all significant acquirers and ISOs are going to pay a heavy, heavy price. The class-action litigation discussed above accused Visa/MasterCard of using their power with credit to force high prices upon merchants for offline debit.

But the First Data-Concord merger creates a brand new monopoly that will allow the new FDC to leverage its online debit monopoly to acquire the credit card processing of merchants and eliminate all other competitors for large merchants with small and medium-size tickets.

What is shocking is that they may actually get away with it because the non-FDC factions of our industry are much weaker than the behemoth, and, worse, we are unorganized except for nifty social and highly effective educational and networking events.

We don't have to look back too far in our history to see what is about to happen in the future.

1. Is the McDonald's Contract the Precursor to FDC's Hegemony over Large Merchants?

Remember awhile back when Concord announced that it had won the bidding war for the thousands of McDonald's hamburger restaurants? The coup de grace for the competitors in these bidding wars was Concord's willingness to set a lower interchange rate on STAR transactions in exchange for all of the payment business of McDonald's.

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Funny thing: Only Concord had the ability to lower STAR interchange because it is the only competitor that owns the entire STAR network. It used its monopoly to win the contract for all of the payment processing of McDonald's. Get the picture?

The last time I checked, First Data was the only other significant acquirer that could pull off the same type of deal. It could lower interchange on its NYCE platform (which dominates the Northeast sector of the U.S., where STAR is not so strong).

With Concord and First Data combined, FDC will be the only player with the ability to link a lower price for PIN-debit interchange to get the acquiring business for credit and signature-debit transactions. Does this bother you?

It should most certainly bother anyone who thinks a level playing field with respect to interchange is important for the competitors in the payment industry. (See my previous articles on this subject in The Green Sheet – December 1, 1997, issue 97:12:01, and December 23, 2002, issue 02:12:02.) Of course, not all merchants can benefit much

from a lower interchange rate on PIN debit, but is FDC going to own the business for all that can?

If the DOJ understood the long-term impact on merchants and acquirers of this new monopoly for FDC, it surely would force FDC to spin off NYCE (likely something FDC would do) and possibly STAR (which would kill the merger). Instead of addressing this issue, FDC is working hard to convince the regulators that its true competitor is cash and checks. Does anybody in this industry really think that FDC's payment competitor is cash and checks?

2. Visa Forced to Relinquish PIN-Debit Platform to FDC

The most crushing news for non-FDC players in the Wal-Mart settlement was Visa's agreement to not aggressively compete for the PIN-debit contracts of the big banks. STAR is likely to win this battle because Visa was forced to agree that Interlink would tie its hands behind its back by not offering signing bonuses for the new contracts.

That, of course, means that FDC is going to be the behemoth of PIN debit and will be using it to gain competitive advantages in ways that we cannot yet contemplate. For Interlink – the only viable potential competitor to FDC, in this writer's view – to be neutered in this way for the foreseeable future is a disaster for acquirers who will now be at the mercy of FDC's willingness to play nice.

The fox not only has snuck into the hen house, he is about to become the head rooster. How do you think it will feel to be a chicken in this new paradigm – aka, new monopoly. If you had been targeting conventional merchants with average tickets of less than \$40 and annual volume of a million dollars or so, how are you going to compete when First Data can offer lower online debit interchange than you can offer? It might be time for us to call our U.S. representatives and senators.

In Parts 2 and 3 of this series, we will discuss our industry's problems with hidden fees and how the First Data-Concord merger will continue to mask the otherwise declining market share of First Data's merchant acquiring business. ■

Bob Carr is the Founder, CEO and Chairman of Heartland Payment Systems, the nation's largest privately owned merchant acquirer and ninth largest overall, with annual revenues exceeding \$300,000,000.

Heartland was recognized by INC Magazine as the 57th fastest-growing private company in America and is one of the 10 largest INC 500 companies. Bob was a Founder and Vice President from 1988 to '90 of the Bankcard Services Association, which has since become the ETA.

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Final Results: Best Payment Processing Players

Best Processor:

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Voting was very close in this top voting category. The five Advisory Board nominees split 83% of the votes, with a difference of only 1 or 2 percentage points separating each ranking 2 through 5. Write-in nominations included 18 additional companies.

The processors were ranked as:

#1 First Data	20%
#2 Paymentech	17%
#3 NPC	16%
#4 United Bank Card	15%
#5 Vital Merchant Services	14%

Best Value-added (Equipment) Reseller:

TASQ

Equipment deployment can be the lynchpin of the revenue stream for Merchant Level Salespersons. There were two nominations in this category, and they garnered a total of 80% of the respondents between them. The other 20% voted "Other" and listed 11 additional companies.

The Top 2 VARs voted to the "Best" were:

#1 TASQ	61%
#2 JR's P.O.S. Depot	19%

Best Leasing Provider:

CIT Lease Finance Group

In this category we had three nominations; however, "Other" came in as the No. 2 provider with 25% of the votes. Thirteen separate companies were listed by the respondents as their favorite leasing company, which tells us all that there are a lot of sources for leasing.

The Top 3 Leasing Providers were:

#1 CIT Lease Finance Group	41%
#2 Other	25%
#3 Integrated Leasing	23%

Best POS Terminal:

Nurit 2085

It's often said that the "best terminal" is the one the salesperson has in the trunk. However, through your

votes, Green Sheet readers have shown a strong preference for certain equipment. With six nominations in this category, it is interesting to note that 8% of respondents voted "Other," listing a total of nine additional terminals.

The Top 2 terminals voted to be the "Best" were:

#1 Nurit 2085	49%
#2 Omni 3200 or 3750	21%

Best ISO Organization:

Bridgeview Payment Solutions

Bridgeview Payment Solutions received a strong lead over any other ISO organization in the balloting process. However, the field included a great many more companies.

The organizations ranked two through five shared 46% of the votes cast, and the remaining 29% was shared among 44 additional companies, none of which garnered more than 2% of the votes cast.

The Top 5 ISO Organizations were:

#1 Bridgeview Payment Solutions	25%
#2 CPS/Concord	17%
#3 United Bank Card	16%
#4 Lynk Systems	10%
#5 Barons Financial Group	2%

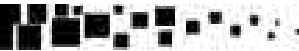
In alphabetical order, the Top 5 write-in nominees were:

#6 Chase Merchant Services
#7 Heartland Payment Systems
#8 Retriever
#9 Total Merchant Services
#10 TransPay Processing

If you are a Merchant Level Salesperson and are trying to get a handle on ISOs, you may want to take a look at the MLS Forum on www.greensheet.com.

Readers have been asking for and receiving an applause meter on a number of industry players, including Bridgeview Payment Solutions, North American Bancard, 1st National Processing, ABANCO and Vequity Financial Group, to name just a few.

In terms of the notes that readers sent us about their favorite ISO, they tended to mirror the comments on the Forum.



GS Fast Finder Version 4.0 Released

The Green Sheet Online search engine "Fast Finder" has been significantly upgraded with the release of its newest version, 4.0. This proprietary product was developed exclusively to research The Green Sheet's robust Web site.

Kyle Rankin, Web Master and Network Administrator, has significantly improved the capabilities of Fast Finder. Now all readers will be able to search the entire backlist of

publications for product or company information. In addition to searching previously published issues of GS and GSQ, the engine's database now includes all text published on the site.

Visitors will now be able to specify keyword or phrase searches for:

- Green Sheet
- GSQ
- Newswire
- Breaking News
- Company Profiles
- Industry Leaders
- Tradeshows
- Resource Guide
- Media Kit

Search criteria will default to "All,"

enabling our readers to obtain a complete listing of every occurrence of the search item within our Web site.

The improved Fast Finder will enable our readers to obtain listings of Tradeshows by month, year, sponsor or subject; search for information on companies or products; or research how many times their name has appeared in our publication.

Please see for yourself and try Fast Finder at www.greensheet.com/search.cgi?query=

The Green Sheet delivers the right stuff to the right people, right now.



Best Customer Service by an ISO: **United Bank Card**

Tabulating the ballots in this category was even more problematic than the one above. Of the votes cast, the four companies nominated by the Advisory Board shared 53% of the vote; 47% voted "Other."

Of the 47% who voted "Other," 9% did not indicate a company. The remaining votes were shared among 46 companies.

The named nominees were ranked as follows:

- | | |
|--|-----|
| #1 United Bank Card | 24% |
| #2 TransPay Processing | 12% |
| #3 Innovative Merchant Solutions | 11% |
| #4 Barons Financial Group | 6% |

In alphabetical order, the Top 5 write-in nominees were:

- #5 Bridgeview Payment Solutions
- #6 Cynergy Data
- #7 First Data Merchant Services
- #8 Heartland Payment Systems
- #9 Lynk Systems

In addition to the six "Best of" categories, we asked two additional questions on our balloting: What was the most Influential Technological Advance over the last year, and who is the Most Influential Industry Leader?

Most Influential Technological Advance: **Wireless**

Green Sheet readers were quite decisive when it came to naming the most influential technological advance in payment processing. More than 42% stated that wireless payment systems won this honor.

Check truncation came in second place with 29% of the votes cast, followed by Hypercom's ICE technology with 15%.

Most Influential Industry Leader: **Larry Stone**

The named nominees in this category shared 78% of the votes cast.

- | | |
|---|-----|
| #1 Larry Stone | 28% |
| #2 The courts (We guess for resolving the CMS issue.) | 24% |
| #3 Joe Kaplan | 15% |
| #4 Mary Dees | 11% |
| Other | 22% |

We thank all of our readers who took the time to participate in the survey. We have received numerous requests over the years to conduct this type of balloting. Please let us know if you would like to see this repeated next year. Send your comments to paul@greensheet.com.



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TRADE ASSOCIATION NEWS

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By Julie O'Ryan-Dempsey

General Manager

The associations' events are listed in the Trade Show directory available on The Green Sheet Online (www.greensheet.com). Additional information on the meetings – such as agendas and direct links for registration and hotels, when available – also are on our Web site. If you know of an association that is not listed or if you have a question you would like posted to the associations, please write to me at julie@greensheet.com.

NATIONAL AND MULTINATIONAL ASSOCIATIONS

Electronic Transactions Association

1101 16th Street NW, 4th floor
Washington, DC 20005
Phone: 800-695-5509
Fax: 202-828-2639
www.electran.org

Call for Committee Volunteers

ETA President-Elect Mary Dees will work with her Committee Chairs to appoint volunteers to the various committees for fiscal year 2003-04. If you would like to volunteer to work on one or more of the ETA committees, go to the Web site, Members Only area, and click on "Join a Committee."

Mission Statement of ETA Committees

The overall Mission Statement of all ETA committees is to brainstorm and exchange ideas relevant to their committee, create and execute action plans to address those ideas, and provide ideas of member interest or timeliness to the Program Planning Chair (for break-out topics at ETA conventions), to the Editorial Chair (for Transaction Trend article ideas), and to the Education Chair (for ETA University curriculum subject matter).

List of ETA committees

Awards & Recognition

The Awards & Recognition Committee shall be responsible for the identification, recommendation and imple-

mentation of special awards and recognition programs as warranted for outstanding member service or performance. Members shall be responsible for defining criteria for award category, selection and recognition.

Editorial Advisory Committee

The Editorial Advisory Committee shall have input to the editor on policies and procedures to include timelines for publication, guidelines for advertising and advertising policy, and recommended advertising prices. The committee shall identify resources, determine and solicit articles, identify industry experts and may review content of ETA publications and the ETA Web site. In addition, the committee may advise on marketing, public relations and communications matters.

Education Committee

The Education Committee shall be responsible for identifying, developing and reviewing program content for seminars, training sessions, workshops and ETA University curriculum. The committee shall also develop and review all certification programs offered by the ETA University. In addition, the committee shall recommend locations and access methods for all educational forums, to include the University.

Emerging Markets Committee

The Emerging Markets Committee shall be responsible for identifying key emerging markets and their potential opportunity or risk for the association and recommending information forums to disseminate these new markets. This committee shall serve as liaison to the technology committee in identifying key trends and technical impact to the association.

Exhibitor Advisory Committee

The Exhibitor Advisory Committee shall serve as a liaison and communications conduit between the exhibitors and the ETA board and staff. The committee shall be responsible for identifying and promoting successful exhibits and programs relating to the policies and standards for exhibiting at an ETA event. The committee shall also perform evaluations from both the exhibitors and the ETA Board at each ETA event and make recommendations for improvement or change of policy.

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- OPERATIONS: Certified Electronic Transactions Operations Professional (CETOP)
- TECHNOLOGY: Certified Electronic Transactions Technology Professional (CETTP)
- EXECUTIVE: Certified Electronic Transactions Executive Professional (CETEP)

The first level of certification for the CETPP will be available in the Fall 2003

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Government Relations Committee

The Government Relations Committee shall be responsible for identifying, communicating and recommending to the board ETA's position statement to government-related issues concerning the electronic payment industry. The committee shall monitor state and national regulatory and legislative bodies regarding rules, regulations and changes to legislation that may impact the industry and to disseminate such information to the members.

Industry Relations Committee

The Industry Relations Committee shall be responsible for identifying, communicating and recommending to the board ETA's position statement to industry-related issues concerning the electronic payment industry. It shall also be responsible for developing an annual plan designed to maximize the communication, influence and advocacy of ETA to the card companies. The annual plan shall include meetings with each of the card companies and a listing of promotional events and other appropriate activities that should gain media attention and interest.

Membership Committee

The Membership Committee shall be responsible for identifying and soliciting potential ETA members, actively promoting ETA's value to its members, and ETA's objectives, and for developing policies and promotional campaigns that encourage and sustain membership in the Association. The committee shall also research and recommend value-added member services to the board.

Presidential Advisory Council

The Presidential Advisory Council is appointed by the current President and is responsible for participating in the President's request for advice with regard to matters in front of the board of directors.

Program Planning Committee

The Program Planning Committee shall be responsible for evaluating and providing program content and speakers for the annual and midyear Association Meetings. This committee shall also research, evaluate and recommend keynote speakers and any related entertainment or content for general sessions. This committee shall develop and maintain a speakers profile and summary guide for reference in future planning meetings.

Technology Committee

The Technology Committee shall have responsibility for identifying and communicating technology-related issues to the membership. The committee shall position

the ETA as an incubator of new technology addressing the need for comprehensive, concise and clear information related to new products and services. In addition, the committee shall develop the appropriate forum whereby ideas can be exchanged among members.

Ad Hoc Committees

The following ad hoc committees will be continued through the 2003-2004 fiscal year:

Best Practices

The Ad Hoc Committee on Best Practices shall develop industry best practices communications and white papers on applicable subjects. The committee may explore the development of a Code of Ethics that members would sign off on and adhere to as well as a clearinghouse to monitor merchant complaints.

Bylaws Review

The Ad Hoc Committee on Bylaws shall have the responsibility of reviewing the current bylaws and making recommended revisions in conjunction with staff and legal counsel.

Internet

The Ad Hoc Committee on Internet shall have the responsibility for embracing this fastest-growing segment of our industry and tracking, researching and communicating Internet-related issues as well as trends for products and services. In addition, this committee shall evaluate and make the membership aware of any impact and programs concerning the international usage of the Internet.

ISO Advisory

The Ad Hoc Committee for ISO Advisory shall be responsible for identifying and communicating issues that reflect the smaller ISOs and recommending programs that benefit these ISOs.

The committee shall keep ETA focused on the needs of the small ISOs and provide input and directions on ideas and subject matter that needs to be addressed through research, articles or education.

Nominating Procedures Review Committee

The Ad Hoc Committee on Nominating Procedures Review shall be responsible for reviewing the current Nominating Committee procedures, identifying any issues with regard to these procedures so that they are fair to all individuals seeking a position on the ETA Board, and communicating their recommendations for a new set of Nominating Committee guidelines to the ETA Board of Directors.

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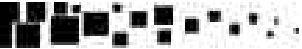
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www.fwi.org

Next Event

FWI's 81st Annual Conference
September 6-9, 2003
Honolulu
Brochure and registration available online:
www.fwifoundation.org/81stconference.htm

Regional meetings and chapter organizations:

www.fwi.org/newevents/calendar.htm

Independent Community Bankers of America (ICBA)

One Thomas Circle NW, Suite 400
Washington, DC 20005
Phone: 202-659-8111
E-mail: info@icba.org
www.icba.org

ICBA (formerly the Independent Bankers Association of America) is the trade association for community banks in the U.S. The following information was available on the association's Web site as of May 20, 2003.

Mission Statement

"The ICBA is dedicated exclusively to enhancing the franchise value of the nation's community banks for the benefit of consumers, small business and family farms nationwide.

"The ICBA improves the profitability of community banks and other community financial institutions by providing improved access to high-quality products and services."

Membership information and a list of affiliated state associations are available online at the Web site noted above.

ICRDA/SDA-The Association for POS Systems Dealers

(Independent Cash Register Dealers Association/Systems Dealers Association)

1900 Cross Beam Dr.
Charlotte, NC 28217
Phone: 704-357-3124
Fax: 704-357-3127
E-mail: info@icrda.org
www.icrda.org

This association has several membership levels available. Membership information, future events, publications and directories are available on the Web site.

EVENT CANCELED

Focus Advantage 2003, scheduled for July 27-30, 2003 at Toronto, has been canceled because of the SARS virus.

NACHA-The Electronic Payments Association

13665 Dulles Technology Dr., Suite 300
Herndon, VA 20171
Phone: 703-561-1100
www.nacha.org

The association has several membership programs, which are explained in detail on the Web site. Membership is available to the Electronic Check Council, Council for Electronic Billing and Payment, EBS Council, Global Payments Forum and Internet Council. An Affiliate Membership program is also available; this appears to be most appropriate for Merchant Level Salespersons to consider.

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NACHA has a robust program of educational seminars and meetings throughout the year. Information and registration is available online at the Web site noted above.

Western Payments Alliance (WesPay)

100 Bush Street, Suite 400
San Francisco, CA 94104
Phone: 415-433-1230
Fax: 415-433-1370
www.wespay.org

Next Event

Payments Symposium 2003
September 28-30
The Palace Hotel, San Francisco
Registration available online at Web site listed above

REGIONAL ASSOCIATIONS

Midwest Acquirers Association

c/o Jim McCormick,
General Credit Forms, Inc.
3595 Rider Trail South
Earth City, MO, 63045
E-mail: jimmccormick@gcfinc.com
Fax: 815-577-1402
www.midwestacquirers.com (under construction)

Next Event

1st Annual Meeting
July 30-August 1, 2003
Hotel Allegro
171 West Randolph St., Chicago
Registration information: Jim McCormick

Northeast Acquirers Association

11 Westman Street
Somersworth, NH 03878
Phone: 603-692-2408
Fax: 603-692-2384
www.northeastacquirers.com

Next Event


Summer Seminar & Golf Outing
June 11 & 12, 2003
Tropicana Casino & Resort
Atlantic City, NJ
Registration & Information available online at the Web site noted above.
Walk-in registration available
\$150 attendee fee for entire seminar

Southeast Acquirers Association

c/o John McCormick,
General Credit Forms, Inc.
3595 Rider Trail South
Earth City, MO 63045
E-mail: jmccormick@gcfinc.com
Fax: 815-577-1402

Next Event

3rd Annual Meeting
October 8-9, 2003
The Rosen Centre Hotel
9840 International Drive
Orlando, FL 32819
Phone: 407-996-9840
Fax: 407-996-2659
Registration information: John McCormick, 800-325-1158

For more details on future trade association events, see GS issue 03:05:01 or go to www.greensheet.com/tradeshows.htm 

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Hungry for More Business? Quick Service Restaurant Industry Dishes Up Opportunity

By Michelle Graff

VeriFone

Consumers are demanding the convenience of plastic everywhere they go – supermarkets, gas stations, drug stores, video stores and restaurants. And now debit and credit card acceptance is emerging into a space that historically accepted only cash – the quick service restaurant (QSR) market – where the average ticket may be less than \$12 and speed is king.

Take a look at the market. The top 50 chains operate more than 100,000 stores. Franchisees operate the majority of the QSR units, so while they all share a single brand, they make many individual decisions regarding store operations, equipment purchases and even card acceptance.

The Opportunity Is Now

A wave of card acceptance is occurring in the QSR space. The market is opening up because of several factors:

- **Competition:** Today's pace finds families on the run. Dual incomes, school, soccer practice – it all adds up to a busy lifestyle. Families are turning to supermarkets, restaurants and take-out as sources of home meal replacement (HMR), a growing percentage of disposable income.

And savvy QSR operators understand that a family of five easily can spend more than \$20 on a meal. To earn their share of HMR dollars, they need to offer the same convenience found at businesses competing for a family's wallet. That means extending the convenience of plastic to their customers. And once the chain "across the street" accepts debit and credit, the domino effect will take hold, and competition between the QSR chains will drive widespread adoption.

- **Aggressive Pricing Models:** As the card associations and acquirers vie for this space, they are brokering deals with QSR chain headquarters to extend "best in class" pricing to all participating franchisees. In many cases, this allows an owner of one or two stores to receive the same terminal and transaction rates as those operating 200 stores.

- **Faster Transactions:** Historically, one of the barriers to entry in this market was the fact that transactions needed to be fast. Today, a combination of quick-pay programs from the card associations, combined with advances in IP communications that result in transaction times of 2-4 seconds, means transaction times don't slow down the checkout process.

Keep it Simple

As this market opens up, it's important that everyone in the payment industry – from terminal manufacturers, to acquirers and processors, to ISOs and Merchant Level Salespersons – understands the unique challenges facing QSR operators and the solutions that will result in success. So put yourself in the shoes of the franchise operator and design a total solution to win their business. Here are some tips that might prove successful:

- **Easy to Use:** High clerk turnover means QSR operators are constantly hiring and training new employees. Therefore, systems must be easy to use. Today's intuitive ATM-style payment terminals speed training time and greatly reduce clerk errors. The software application must be simple to customize by activating parameters. Providers must offer a variety of configurations – from stand-alone dial, to LAN, to integrated POS – to fit into the widely varied POS environment of QSR operators.

- **Drive-thru Operations:** Nearly 65% of all QSR transactions take place at the drive-thru window. Therefore, it is essential to capture payment information at the "point of order" so consumers can simply swipe, order and drive around to the pick-up window. Point-of-order devices must be durable enough to withstand the elements of

heat, humidity, cold and frost, yet must be designed for easy access and ease of use.

- Value-added Applications: In our industry, merchant retention is one of the keys to a profitable business. Before approaching a QSR account, ask yourself what other services can be offered that add value to the merchant countertop, making it more difficult for the operator to "unplug." Certainly, an application such as gift cards comes to mind. In order to securely run multiple applications in the same device, make sure the solution supports true application separation at the hardware and software levels.

A Menu of Solutions

The QSR market is diverse and fragmented, requiring a menu of solutions to serve the needs of individual stores operating a variety of POS equipment. Your choices include stand-alone payment, integrated POS payment and even unique payment solutions that can withstand the abuse of the drive-thru lane.

Quick service requires quick payment; the payment system can be an important aspect of consumer satisfaction if it fulfills certain requirements:

- Must fit easily into the environment. Fast service for

high consumer volumes is essential. Consumers can't be kept waiting while transactions are processed.

- Must be easy to learn. High clerk turnover requires terminals that are simple to learn and operate.
- Must be reliable. Terminals must resist the hard knocks of the quick service environment.
- Must be fast. If terminals support advanced communications such as DSL, you can expect transaction times to be 2-4 seconds – just the fast time needed for fast food. Terminals also should take advantage of special quick service options, such as disabling receipt printing, to speed consumers through the payment process. Customer-activated terminals such as those used at supermarkets and drug stores can further speed throughput by eliminating the need for consumers to pass cards across the counter.

So if you're looking for the last bastion of new opportunity for first-time card acceptance, look no further than your next meal. Drive up and supersize your business!

Michelle Graff is Director of Global Marketing for VeriFone.

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WHITE PAPER

REVIEWED BY

Eric Thomson

The Small Business Opportunity for Financial Service Providers

Author: CheckFree
Date: July 10, 2001
Size: 10 Pages
Relevance Rating: Medium to High
Web Address: www.checkfreecorp.com/level2.jsp?layoutId=122&contentId=201

The Small Office/Home Office (SOHO) market is huge (9 million businesses), according to this white paper. It is growing faster than the rest of the economy (5-10% annual compounded rates), accounts for virtually all of the new employment, and for commercial banks it is TEN times more profitable than the consumer or large-corporation market segments.

While the document does an excellent job of describing a series of new financial services for the SOHO market, what it missed was how these products will be sold. The assumption is that commercial bankers will simply start taking orders once the products are made available. It is my belief that Merchant Level Salespersons are going to provide the "feet on the street" that will explain these new services, sign the contracts and educate the users about how to transition their paper/clerical/error-prone accounting practices over to the new emerging electronic payments.

For sales agents interested in generating new sources of revenues from their existing clients while also expanding their prospect base, this document is worth a download and careful reading.

Executive Summary

CheckFree, for those of you unfamiliar with the name, is the country's largest electronic bill payment processor. Its Web site details CheckFree's bill payment services in two dimensions:

- As an online bill presenter for 260 large national billers (utilities, credit card issuers, insurance companies, etc.)
- Enabling more than 6 million consumers to receive and pay all of their bills online

This "Pay-All" capability means that when a consumer decides to pay the local veterinarian or dry cleaner through the CheckFree Web site, a paper check is going to be generated and stuffed in an envelope to make payments to low-volume billers. In fact, today CheckFree is the nation's largest laser check printer in the country in addition to being the largest electronic bill payment processor.

This year, for the first time, CheckFree was able to report that it was able to settle more than 50% of its bill payments electronically. Until then, there were more paper checks printed than EFT transfers used in performing Electronic Bill Presentment and Payment (EBPP).

The focus of this white paper is that the same technology platform that CheckFree has built out for consumer EBPP can be deployed by bankers serving the SOHO market. The enabling technology that is creating the opportunity to automate both revenue collection and disbursements is the dramatic rise in PC's with Internet access.

The white paper cites research that shows that the percentage of Internet-active home offices swelled to 81% at the end of 1999, up from 26% at year-end 1996. The number is expected to further increase to 92% by 2004.

Of course, the Internet allows small businesses to expand into global markets, and the rise in broadband connectivity also enables these companies to streamline their accounting functions – thus leaving more time for selling and growing their businesses.

Merchant Level Salespersons who are starting to present their retailers with payroll cards can quickly appreciate the opportunities that CheckFree is describing in this white paper. These cards represent the first acquirer offering for sales agents to generate new revenues from automating accounting functions.

Payroll cards deliver to employers substantial savings in the form of printing and distribution of checks, their reconciliation and duplicate check fraud. For retailer employees, many of whom are unbanked, these cards

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mean that they get their cash from the nearest ATM as opposed to paying steep fees to check cashiers.

If the cards have the Visa or MasterCard logos on them, they give employees the convenience of making POS PIN debit purchases along with cash back in most supermarkets and government agencies, such as the post office.

CheckFree is proposing the Internet connectivity in the SOHO sector soon will enable these businesses to further streamline their accounting practices. They simply will click a mouse to approve their bills for payment, they will be able to look up payment history online and they can download this payment history directly into their accounting packages. As the white paper states, electronic billing and receipts collection delivers better and more convenient overall financial management of their operations.

The hard dollar savings projected in this report suggest

"For those prepared to develop a deeper understanding of the vertical industries that make up these different sectors, they will eventually develop industry-specific financial products and services for these small businesses."

– Excerpt from "Small Business Opportunity for Financial Services"

that the average small businessperson could afford to spend \$11,000 to generate the type of ROI that can be realized from signing up for electronic bill presentment. This kind of sales opportunity, together with providing sales agents with many more prospects (insurance/real estate agents) to call upon in their markets, makes EBP a

service that CheckFree needs to package and make available to the processor and MLS channel.

Excerpts from this White Paper

- "Small business may be the fastest-growing segment of the U.S. economy."
- "The SOHO category represents nearly 99% of all U.S. employers as well as 75% of new jobs – according to the U.S. Small Business Administration."
- "Another important characteristic of today's small business sector is the fact that half of the market is found in the service and retail industries."

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• "For those prepared to develop a deeper understanding of the vertical industries that make up these different sectors, they will eventually develop industry-specific financial products and services for these small businesses."

• "Today, women account for nearly half of the ownership of small business, rising from just 40% a year ago – according to statistics from the U.S. Department of Labor."

• "Minority owners of small businesses have seen their ranks rise significantly. There has been a 232% surge in Hispanic-owned businesses and a 180% increase in Asian-American businesses and a 108 % rise in African-American-owned businesses in the past 10 years."

• " ... Small businesses leveraging an EBP solution can save an estimated \$356 per month according to the following analysis provided by a 2000 study conducted for CheckFree:"

Average Monthly Activity	Paper Payment	Electronic Payment
# of payments made	44	44
Typical cost per payment	\$1.50	\$0.35
Payment cost per month	\$66.00	\$15.40
Payment savings per month		\$50.60
Hours of labor per month	27.67	4.25
Time savings per month		23.42
Hourly wage	\$13.06	\$13.06
Cost of labor per month	\$361.00	\$55.51
Payment cost per month	\$66.00	\$15.40
Total cost per month	\$427.00	\$70.91
Total savings per month		\$356.00
Total overall cost per transaction	\$9.70	\$1.61

Web Sites for More Information on Electronic Services for the SOHO Market

www.checkfree.com/

The home page for the author of this white paper.

www.oracle.com/appsnet/products/smallbiz/docs/integration_technologies.html

Oracle has a targeted offering for the SOHO market, and this is it.

www.greatplains.com/

Microsoft recently purchased this small business software firm to compete in the SOHO market.

<http://developer.intuit.com/default.asp?2001betadevelopers>

Intuit has the most to gain or lose in how the SOHO market adopts electronic funds transfer with its installed base of Quicken and

QuickBooks users. This site demonstrates Intuit's willingness to partner with third-party developers who can create value-added plug-ins.

www.intuit.com/company/investors/corporate_releases/2001/09-24a.html

This press release describes Intuit's "Best for My Business" strategy to protect SOHO clients who outgrow Quicken and QuickBooks.


www.quickbooks.com/products/pointofsale/

A few months ago, Intuit released its first targeted offering to the growing retailer with its QuickBooks Point-of-Sale system.

www.americanexpress.com/homepage/smallbusiness.shtml

American Express's Web page targeted for the SOHO market.

http://usa.visa.com/business/small_business/

Visa's recognition that the SOHO market is a growth opportunity for its members. 

Eric Thomson is Executive Vice President of Profit Source Advisors. He can be reached at etprosc@attbi.com.

BEE appreciated.

Bonus Program in *addition* to residuals. Each approved account processing with BPS receives 1 Bee Credit.

500 Bees = Mini Cooper, VW Bug, or Toyota Camry or \$20,000 CASH

400 Bees = 10 Day Vacation to the Caribbean or Europe for 2 or \$12,000 CASH

250 Bees = In-Home Theatre or 5 day trip to Disney World for 4 or \$5,000 CASH

100 Bees = Laptop or Desktop Computer with flat screen or \$1500 CASH

50 Bees = Nikon Digital Camera or Sony 15" Flat Screen TV or \$500 CASH

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Electronic Check Payments by Banks Getting Closer to Law

The House Committee on Financial Services approved by voice vote on May 20, 2003 the Check Clearing for the 21st Century Act (H.R. 1474) – legislation that would allow banks to exchange checks electronically.

The purpose of H.R. 1474 is "to facilitate check truncation by authorizing substitute checks, to foster innovation in the check collection system without mandating receipt of checks in electronic form, and to improve the overall efficiency of the nation's payments system."

Check truncation removes an original paper check from the check collection or return process and sends to a recipient a substitute check, which could include data taken from the MICR line of the original check or an electronic image of that check.

If banks lack existing agreements with each other for accepting electronic payments, current law requires them to physically present and return original checks. Many have complained this is a slow and outdated process that

also increases opportunities for fraud.

When airplanes were grounded on September 11, 2001 and the days following, paper check payments were delayed, and banks had to take drastic steps to ensure the shipment of checks from bank to bank.

Think about it: Trillions of dollars in U.S. payments are moving across the country via airplane and U.S. highway. Isn't this the 21st century?

Rep. Melissa Hart (R-Pa.) introduced legislation resulting from these issues in order to prevent similar future problems with check payments. The bill updates bank laws to give electronic checks the same legal authority as traditional paper checks.

Banks stand to benefit from improved efficiencies and reduced processing costs. Customers of banks would benefit from faster check clearance and more control over their funds.

For the payment industry, it's an opportunity like no other – banks will have to update their back-office functions, branches, check imaging/archiving systems, ATMs and POS systems, the Bank Administration Institute suggests.

The bill is expected to proceed to the full House before July 4, 2003. ■

Supreme Court Rules ATM Fees OK

In what appears to be a final decision on the matter, the U.S. Supreme Court refused on May 27, 2003 to hear one more plea from two California cities that want the fees banks charge non-customers on ATM transactions to be outlawed.

In 1999, voters in San Francisco and Santa Monica passed local laws that would prevent banks from adding surcharges to ATM transactions for customers who were not customers of those banks.

These people have been hit particularly hard with ATM fees banks started charging in the 1990s. ATM surcharges range from \$1.50 to \$2 per transaction per bank. If you use

an ATM that is not owned by your bank, not only do you get hit with a fee from that bank, your own bank often will charge you a fee as well.

Wells Fargo & Co. and Bank of America Corp., two of California's largest banks, did not take the local ordinances lightly.

The banks threatened to allow only their own customers to use their vast network of ATMs; they also teamed with the California Bankers Association to fight the issue in court and got a federal judge to block the laws from going into effect.

In October 2002, the 9th U.S. Circuit Court of Appeals ruled in favor of the banks – stating that the cities'

laws were in violation of federal laws because only the federal government could place those types of limits on the federally regulated banking industry.

Federal laws currently allow banks to charge access fees to non-customers.

San Francisco and Santa Monica appealed to the Supreme Court, but the court chose not to hear the case, without comment. Both the banks and the cities said they expected the decision.

The only option left for the cities is to lobby for federal legislation and to better educate citizens on how to avoid these fees. ■

Internet Retailers Sue Card Associations over Chargeback Fees

A new class-action lawsuit against credit card companies has surfaced, and this time fraud is the main issue. Three online retailers are suing Visa USA, MasterCard International, American Express and Discover Financial Services, claiming that the credit card companies profit from Internet fraud and don't do enough to help prevent it.


Attorney Mark Ishman, a member of North Carolina-based The Triangle Law Center, filed the lawsuit on behalf of eGeneral Medical Inc., Howell Automotive and Direct Foreign Exchange PLC, which all operate e-commerce sites. All Internet, telephone and mail order merchants that accept credit cards have been invited to join the class-action suit.

The basic issue in the lawsuit is this: Typically, when a card is swiped through a point-of-sale terminal at a brick-and-mortar retail location, the account number gets compared to fraud-related account numbers in a credit card company's database; if there is a match, the card is denied. This group of Internet retailers wants credit card

companies also to be required to notify them in a similar manner of possible fraudulent transactions.

The lawsuit also objects to the chargeback fees e-commerce merchants are required to pay the card companies for reversing a fraudulent transaction, which the merchants say is costly to them since they also lose the sale price of the item, the shipping cost and the merchandise itself on a fraudulent transaction.

The action is pending in the U.S. District Court for the Eastern District of North Carolina. Judge Terrence W. Boyle is presiding. The online merchants seek actual and punitive damages, but no dollar amount has been specified.

In May 2003, Paycom Billing Services, Inc., a processor of credit cards for Internet merchants, filed a multimillion dollar lawsuit against MasterCard International for what Paycom called excessive fees charged to Internet merchants ("Card Associations Face New Actions," The Green Sheet, May 26, 2003, issue 03:05:02). 

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More U.S. Financial Jobs To Move Offshore

U.S. financial services companies plan to move more than 500,000 jobs (about 8% of their workforce) to foreign countries over the next five years, according to a study by Electronic Data Systems Corp. subsidiary A.T. Kearney.

The jobs targeted for relocation include those in financial analysis, research, regulatory reporting, accounting, human resources and graphic design. Typically, most jobs transferred overseas have been focused more on back-office functions such as data entry, transaction processing, account reconciliation and call centers.

The main reason for the migration is lowering costs in a weak economy.

The study found that off-shore relocations are expected to reduce annual operating costs for U.S. companies by more than \$30 billion – mostly attributed to decreased costs in labor.


American Express Co., Citigroup Inc., General Electric Co.'s GE Capital Corp., J.P. Morgan Chase & Company and eFunds Corp. are some of the financial companies already making the move.

One of the top relocation targets is India, which has a large population of English speakers and college graduates and pays much lower wages. For instance, a call center employee in the U.S. earns about eight times more per year compared to a call center employee in India.

American Express is setting up a processing center in India. GE Capital already has 15,000 employ-

ees there and plans to add another 5,000 by the end of 2003, the Wall Street Journal reported. J.P. Morgan plans to establish an equity research department in Bombay and hire 40 junior analysts in addition to adding hundreds of new employees for back-office work there, according to the New York Times. eFunds is already set up in Bombay, providing customer service for EBT recipients in nearly 20 U.S. states.

Other locations cited in the study as possibilities include China, Brazil, Mexico, Philippines, Hungary, Ireland, Czech Republic, Australia, Russia and Canada.

A.T. Kearney's study involved 100 financial services companies and reflects the answers of senior executives, such as CEOs, CFOs and CAOs, as well as A.T. Kearney's analysis. For more information, visit www.atkearney.com/main.taf?p=1,5,1,130 



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COMPANY PROFILE ◀◀◀



The Phoenix Group

MLS contact:

Scott Rutledge

Phone: 866-559-7627

E-mail: scott@phoenixgrouppos.com

Company address:

79 Hubble Road

Suite 102

St. Charles, MO 63304

Phone: 866-559-7627

Fax: 636-329-1710

Web site: www.phoenixgrouppos.com

MLS benefits:

- Emphasis on supporting ISOs with quality service and inventory
- Independent company
- Direct relationship with Lipman and channels with VeriFone and Hypercom
- Same-day shipment
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Missouri Company Promises To Show You Quality and Service

The Phoenix Group, an independent point-of-sale equipment distributor based in St. Charles, Mo., opened for business in November 2001 with a vision of providing high quality products and services to ISOs, along with creating strong relationships with its customers. The company has not faltered from this vision and a year and a half later, amid a highly competitive market, The Phoenix Group is going strong.

"Business is wonderful," said Scott Rutledge, the company's founder and President. "I think it's the fact that all we've done is exactly what we said we'd do: 'We're going to treat people with respect and honesty, give them fair pricing and keep our overhead low so we can keep our prices low.' And it's just taken off like gangbusters over here."

The Phoenix Group sells both new and refurbished equipment directly to ISOs and provides them with services such as equipment deployment and repair, overnight replacement of that equipment and equipment buy-back programs. Rutledge said the company sells thousands of pieces of equipment a month now and signs new customers every day. Customers range from large Independent Sales Organizations to individual agents. The company attributes most of its growth to advertising and word of mouth from having a good reputation.

"When we advertise in publications like The Green Sheet, that drives the calls," he said. "When the calls come in, then it's simply just getting to know the customers. If you have a good business and you have good morals and the customers have a decent business, then it clicks."

The Phoenix Group's business model is to *not* do what its competitors do – an everything-under-one-roof approach. The company still offers an all-and-everything menu of services and products, but it has formed partnerships with trusted providers to supply many of these services rather than try to do it all alone.

"We'll sell the equipment, and we'll stand behind it – probably better than anybody," he said. "But when it comes to the services, we'll either do it ourselves or we sub it out to some of our strategic partners. And by doing that, we can maintain a very, very reasonable overhead, which means our equipment pricing is extremely competitive."

What also sets the company apart from the competition is its ability to create and maintain personal relationships with its customers. After a sales organization or agent makes initial contact with The Phoenix Group and receives the company's information packet, Rutledge tries to call every new customer himself.

He calls to get a better understanding of the customer's business and



its needs. He'll ask questions such as "How many sales do you do a month?" and "Who is your processor?" and "Why are you currently looking for a new distributor?" Rutledge believes that if the customer is looking for a new distributor, then he or she obviously is not satisfied with some aspect of that relationship. He'll try to find out the reason why and then earn the business with The Phoenix Group's policies.

Some of these policies include not charging handling fees, not bumping up freight charges, not adding on miscellaneous charges or restocking fees. "All those nickel-dime fees," Rutledge said. "We enjoy the people we choose to do business with and we enjoy the relationships that we have with them. We'll bend over backward to get things done for them if need be, and if they're not the type that appreciate that or want to do business like that, it's fine. We shake hands, we part ways and that's that."

The Phoenix Group also uses a database to track each customer's preferences and attempts to meet those preferences when providing equipment and services.

"Some guys like their equipment shipped with a custom label on it, some guys like their equipment shipped where it says 'please deliver at the site door,'" he said. "There

just are so many different variations in terms of how people like their stuff. We try to accommodate all the little idiosyncrasies of every order and, for the most part, we're pretty successful at that because we keep good records."

As an independent distributor, The Phoenix Group sells equipment mainly from Hypercom, Ingenico, Lipman, MagTek, Thales and VeriFone. Small manufacturers often approach Rutledge and ask him to sell their equipment, but just as The Phoenix Group won't do business with every customer, it won't sell just any piece of hardware, either – only quality pieces that are certified and being used.

"If it's a viable product, we're all over it," he said. "If it's not, we'll say, 'Give it a few months.' Let it get certified. If they have some of the big certifications, then we'll support it."

Rutledge believes part of the benefit of being an independent distributor is that he sells what sales agents want and what their customers demand. "There's no processor behind me looking for transactions or looking for specific banks or specific ISOs," he said. "There's no hardware manufacturer behind me where I go out and tell everybody that calls that this certain piece of equipment is the best thing out there when it very well may not be the best thing out there.

"If you want a Lipman, you get a Lipman. If you want a VeriFone, you get a VeriFone. If you want to know about any one of them, I'll tell you everything there is to know about every single piece of equipment that you want to ask about."

If asked, The Phoenix Group provides sales agents with recommendations on equipment based on their individual needs and directs them to processors and other companies with experience using that equipment.

"If they have a long history of using Lipman devices or using VeriFone devices and they say their preferences are toward that, we'll try to tailor a solution on the platform that they are used to," Rutledge said. "If that platform is not a viable platform for where they want to go, we'll suggest other things to them."

Rutledge said The Phoenix Group will try to help its customers in any way it can – and sales agents are shocked when they do this: "They call back and say, 'I can't believe that you helped me with this.' If I can't get to know the people, or if someone here can't get to know the people and know what they need, then we've lost the battle. Then you may as well label us the same as everybody else." ■

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Two payment industry leaders, First Data Corp. subsidiary First aSuretee, LLC and Hypercom Corp., have joined forces in the fight against fraud at the point-of-sale. The result is a payment and identification solution for the U.S. government and U.S. corporations that provides a "double" authentication, both biometric and signature, of individuals authorized to conduct transactions.

The technologies integrated by the companies include Hypercom's BioPin, which converts a fingerprint into an algorithmic reference, Hypercom's ICE terminal and HyperSafe application along with First aSuretee's "chip" for creating digital signatures.

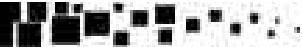
A unique digital signature coupled with a biometric reference will validate a person conducting a transaction at the point-of-sale. The signature gets transmitted from the POS terminal every time a transaction is initiated.

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Company: Semtek Innovative Solutions Corp.


Semtek's third release in a series of mobile-commerce swipe readers is the Side Swipe II, a three-track magnetic stripe card reader that turns mobile phones into point-of-sale terminals.

Semtek says the Side Swipe II can be used with virtually any mobile phone. It connects to the phone via a serial port and has a printer port if a merchant needs to attach a printer to print receipts. The product does not require additional batteries.

The Side Swipe II was designed for merchants that work in "on-the-go"

industries and need to accept credit cards for payment when out in the field, such as taxi and limousine drivers, delivery service drivers, construction companies, door-to-door services and merchants at fairs.

The product has two features that will be especially appealing to mobile merchants – a belt clip and a car mount kit.

Semtek also offers magnetic stripe card reader solutions for PDAs and hand-held PCs. 

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Dear Sales Professional,

I'm George Reich, President/CEO and Founder of E-Chex. Recently I've heard some talk in sales circles about Electronic Check Conversion. I'd like to clear up a misconception that can seriously hamper your sales.

MYTH

"My check processor tells me that 'new' NACHA Electronic Check rules require merchants to store an image of each processed check. Does this mean I must also sell a more expensive check imager with each deal?"

REALITY

Not true! NACHA does not require check images to be stored unless the check is mailed in to the merchant and won't be returned to the checkwriter. Retail storefront businesses are not required to store check images, because each check is returned to the checkwriter at the point-of-sale.

As your check processor, E-Chex wants to provide your merchants with excellent service and competitive rates. Access to stored check images helps our collectors recover bad checks, so we can continue to guarantee funds to your merchants. Simply put, stored check imaging is really a service for processors - it's not a merchant requirement.

We offer several check reader and imager options for your merchant's unique needs. The only basic hardware requirement for an E-Chex system installation is a simple inexpensive MICR Reader that most terminal manufacturers support.

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Why not contact us and make greater sales and revenue a **REALITY** now? Call Micah Hobart, Vice President of Sales, at 972-830-3004 or e-mail mhobart@e-chex.net

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INSPIRATION ◀ ◀ ◀

Take Care of Business by Taking Care of Yourself

First of two articles

You work from dawn to dusk and many times far into the night. You make phone calls to not-so-willing prospects; you visit merchants who reluctantly have agreed to listen to you try to sell your wares. Most of the day you deal with rejection or just downright rudeness.

Such is the life of the sales professional. Telemarketers have not made your job any easier. Most prospects receive so many phone calls each day that the minute you try to

tell them how you can help them, they turn surly and unresponsive. How many times last week were you hung up on? How many times did you hear "No"?

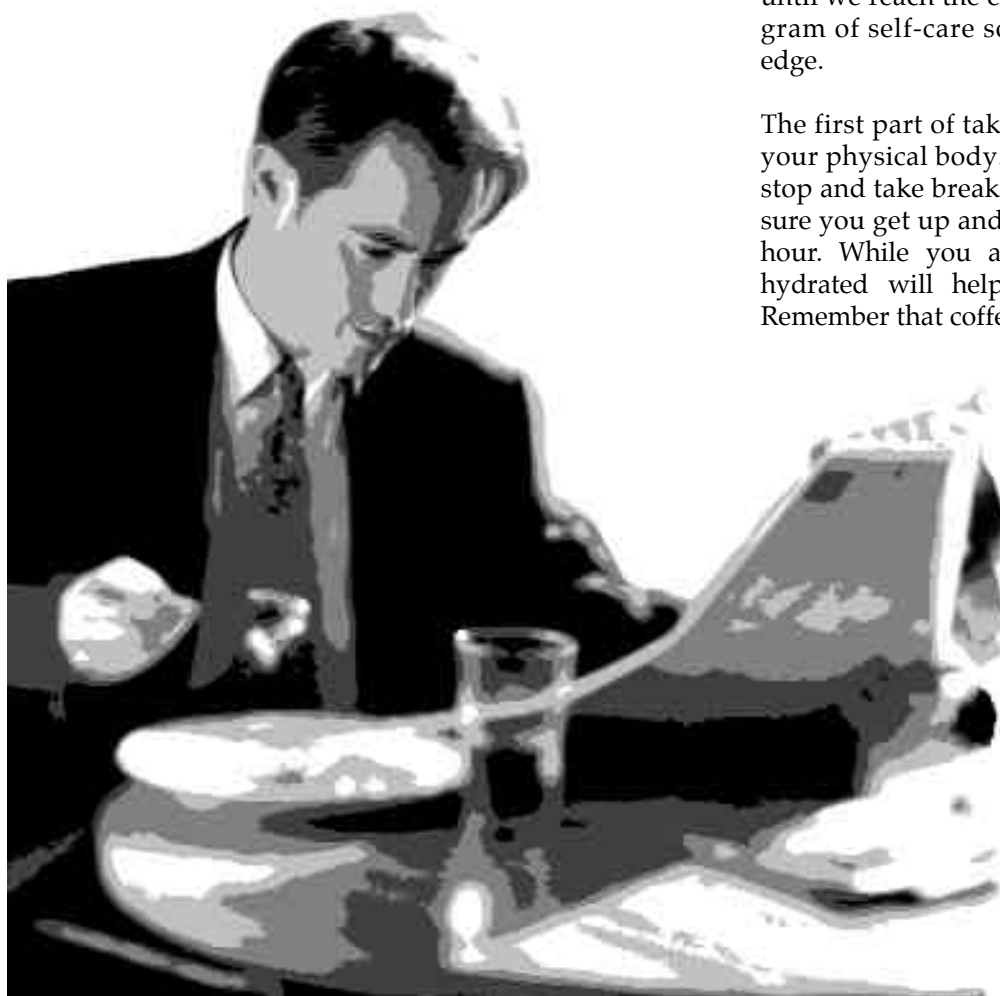
Sales professionals have one of the most difficult jobs around. Even the most seasoned pro gets tired of being turned down. So how do you battle this? How do you take care of your most important asset ... YOU?

That's right, you actually have to think about and put some effort into taking care of yourself. To most of us this just sounds self-indulgent. Or possibly it sounds obvious. But the simple truth is that most of us just keep pushing until we reach the edge. Perhaps it is time to start a program of self-care so that you don't get so close to that edge.

The first part of taking care of yourself is taking care of your physical body. During our busy days, we forget to stop and take breaks. While you are on the phone, make sure you get up and walk around for five minutes every hour. While you are up, drink some water. Keeping hydrated will help you maintain peak performance. Remember that coffee will only dehydrate you more, so if you are a coffee drinker, drink water, too.

Don't forget to eat. You need to refuel your body, especially in the morning. Sure, it sounds like a cliché, but breakfast is the most important meal of the day. Your body has just gone for a long period of time without food, and it needs to recharge so you can attack your day with the energy it deserves. A balanced meal will provide you with this energy.

Make sure to include protein in your breakfast. The energy you receive from protein is longer lasting than the energy





NACHA Electronic Child Support Payments Teleseminar

Highlights: Employers are turning to banks to help transmit child support payments to federally mandated State Disbursement Units (SDUs). The Federal Government is pushing electronic funds transfer (EFT) to expedite payments to custodial parents, and states are relying heavily on direct deposit. If you need to know more about electronic child support payments, take part in this informative teleseminar. Hear details of a case study from the state of Iowa that will give examples and statistics of the state's experiences in the implementation of a successful electronic payments program. Registration provides you with access to the teleseminar on a single telephone line; there is no limit to the number of people who may listen in and participate on that line. One site per fee paid. Each registered site will receive one set of handout materials supplied by the speakers via a special Web site. Presented by NACHA-The Electronic Payments Association and the Regional Payments Associations.

When: June 18, 2003, 1:30 p.m. to 3 p.m. EDT

Where: Your location via Internet/telephone connection

How to Sign Up: Visit www.nacha.org. Phone 703-561-1100.

Midwest Acquirers Association Conference

Highlights: This is a newly formed regional association, and the first meeting will offer an opportunity for training, education and networking for the Midwest acquiring community. Like the events organized by its sister organizations in the Northeast and Southeast, the MWAA will put vendors, acquirers and sales organizations in touch with each other in a relaxed environment. The MWAA conference is targeting acquiring professionals from Ohio to Colorado and Minnesota to Texas and anticipates up to 200 attendees at this first meeting. Workshops and panel discussions include Vision of Payments in 2004 & Beyond, Prepaid Cards, Check Conversion and Imaging, and Gift Cards. ETA will present Introduction to Electronic Processing on July 30 at a reduced fee. Receptions and meals will allow plenty of time for networking.

When: July 30-August 1, 2003

Where: Hotel Allegro, Chicago

How to Sign Up: E-mail Caroline Marino at cmarino@ingenico-us.com. Registration fee is \$75 before July 23, \$125 after that.

CANCELED: ICRDA-SDA Focus Advantage 2003

The event scheduled for July 27-30 in Toronto has been canceled because of the SARS virus.

you receive from carbohydrates although both are important to your health.

While you are on the phone and computer, it is important to move around. Many of the aches and pains you may be starting to notice can be avoided by making sure that your workstation is properly set up and that you are taking breaks to move around. Sustained periods of sitting are very hard on your back. Even just standing and doing a simple series of stretches throughout the day will prove beneficial.

Of all the things you can invest time and money into, the item that will provide you with the biggest benefit is your chair. Make sure that the chair you pick for your workstation is fully adjustable. You should be able to adjust the height of the seat pan, the tilt of the back and the seat pan and, ideally, the length of the seat pan itself.

When you adjust your chair, your feet should be placed flat on the floor with a slightly open 90-degree angle on your knees. Your elbows should be at approximately a 90-degree angle, and your arms should be parallel to the floor. For computer work, you should be able to place your arms at the keyboard, keeping your wrists in a neutral position. It is also important to keep your wrist in a neutral position while using your mouse.

The monitor should be at a height that allows you to look straight ahead instead of bending your neck up or down to allow comfortable viewing. You should also make sure that your monitor is 18-30 inches away. If you find that you have to hunch forward or squint at this distance, perhaps you need to go to your eye care professional for a VDT vision test.

One last thing to remember is to get enough sleep. In addition to fuel, our bodies need time to rest and restore. By getting at least seven hours of sleep a night, you give your body the chance to perform when you need it to.

Following these simple steps will help you keep up with the physical demands of your chosen profession and maintain a positive attitude.

Next: taking care of your mental needs

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*Inc Magazine, October 15, 2002, ranking of top 500 privately-held companies.

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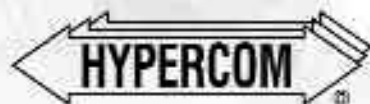
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