



# The Green Sheet

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

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## Insider's Report on Payments Around the World, No Cease Fire in the War of Words Over Interchange

By Patti Murphy

**J**ust when you thought the battle over interchange may be over, along comes another blow to these schemes. This time around, it's the Reserve Bank of Australia that wants to rein in Visa's debit card activities.

The Reserve Bank, Australia's central bank, is taking issue with interchange on Visa debit cards, as well as the Association's 'honor-all-cards' rule. It also has issues with the appearance of Visa debit cards—merchants should be able to visually distinguish debit from credit cards, the regulator insists—and Visa prohibitions on merchant surcharging.

This isn't Visa's first run-in with Aussie regulators. A few years back, both Visa and its rival MasterCard tussled with



See Interchange on Page 55

### Notable Quote:

Today, the advent of sophisticated check imaging solutions is injecting new life into electronic check conversion, making the process significantly more efficient and cost effective for merchants and banks.

See Story on Page 26



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- » Clinton Baller-PayNet Merchant Services
- » John Beebe-Global eTelecom
- » Stacy Bell-Advanced Payment Tech
- » Audrey Blackmon-POS Portal
- » Shannon Byrne-Paradata Systems
- » Robert Carr-Heartland Payment Systems
- » Steve Christianson-Transpay-USA
- » Rob Connelly-VeriFone
- » Wayne Damron-Lynk Systems
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- » Mike English-Ingenico
- » W. Ross Federgreen-CSRSI
- » Ed Freedman-Total Merchant Services
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- » Alan Gittles-Landmark Merchant Solutions
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- » David T. Parlin-ATM Exchange
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- » Stuart Rosenbaum-U.S. Merchant Systems
- » Charles Salyer-GlobalTech Leasing
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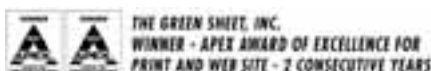
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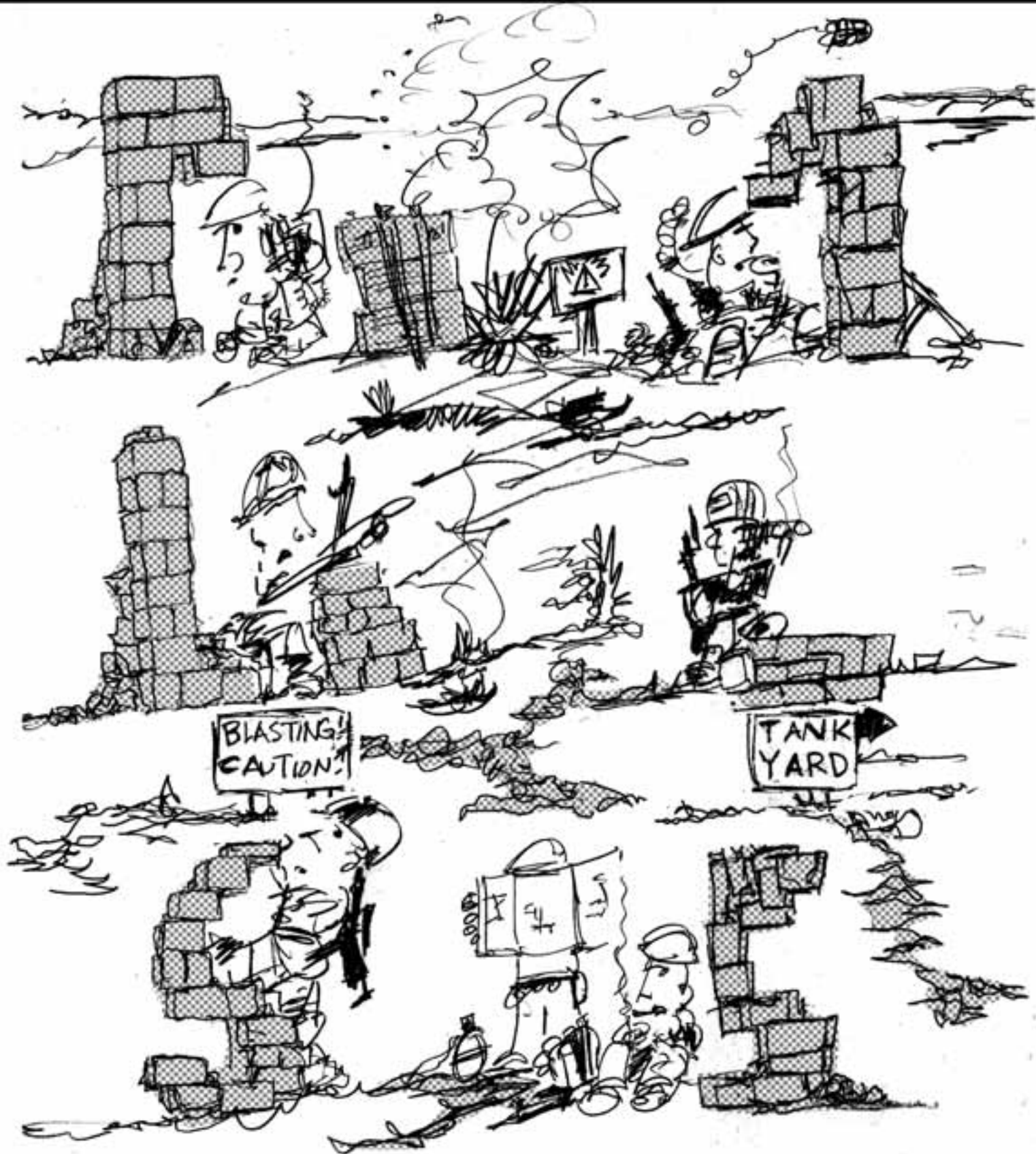
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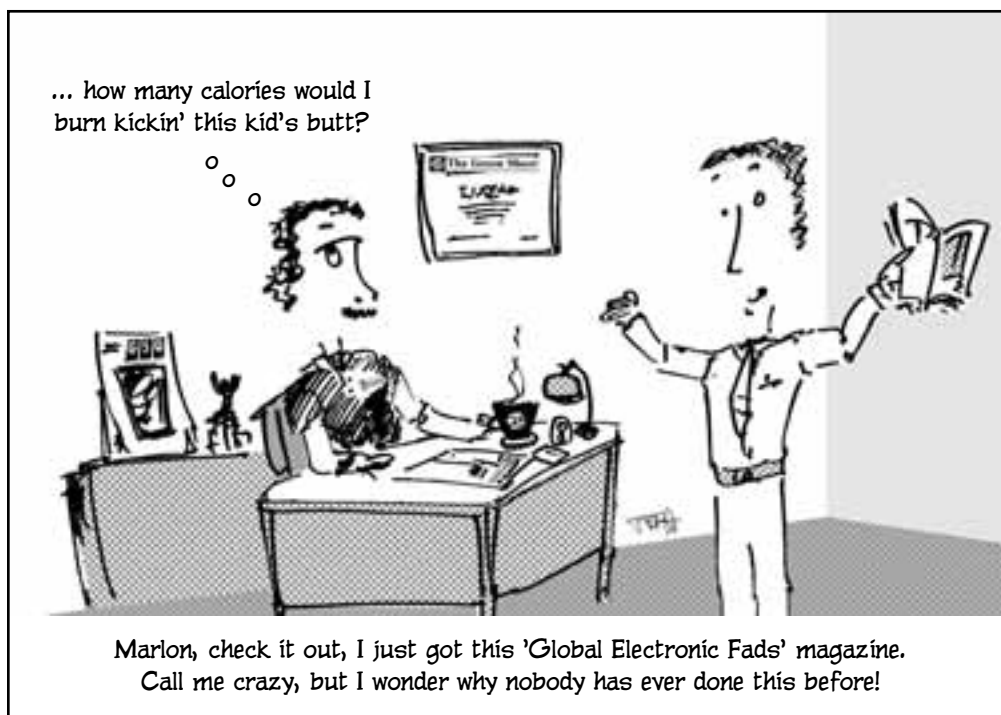




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### Thanks for the Press

On behalf of our organization, I would like to extend our most sincere appreciation for including CSH Consulting, Inc. in your recent article, "Best and Brightest Plug Into Payment Industry Recruiter Network," published on February 9, 2004.

Both Curt Hensley and I enjoyed working with you throughout the information gathering, interviewing and editing process. You were incredibly accommodating to our schedule and interests while maintaining a very high level of journalistic integrity by keeping the interest of your readers and accuracy of information at a premium.

We have received an overwhelmingly positive response to this article and hope that you have had the same. Due to the similar focus of our organizations I hope that you will consider CSH Consulting, Inc. a resource in the future should you ever require information relating to employment or recruiting. We will always make ourselves available to you and look forward to working with you again in the near future!

J. T. Driscoll  
Vice President, Recruiting Services  
CSH Consulting, Inc.

### Best Wishes for The Green Sheet

Dear Julie,  
It was a pleasure seeing you at the Northeast Acquirers' Association (NEAA) at Mount Snow, Vt. I hope you had a safe trip home.

I think The Green Sheet is providing a great service to the MLS, as exemplified by your contribution the NAOPP.

I'd like to take this chance to wish you the very best for the rest of the winter months, and I hope to see you at ETA in Las Vegas.

Very best regards,  
Adam Atlas, Esq.

Adam,  
Thank you for your letter. The Green Sheet will have staff at the ETA show in Las Vegas, the regional acquirers' meetings and other future ETA functions. We look forward to seeing you at these shows.

Editor

### Correction

In "Uncovering Google Secrets with 'Google Hacks'", March 8, 2004, issue 04:03:01, by Kyle Rankin, Systems Administrator for The Green Sheet, the wrong syntax use was reported for searching for listings of people and businesses on the Internet. The syntax ":-phonebook" should have been written "phonebook:".



# INDUSTRY UPDATE

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## ANNOUNCEMENTS

### Cardtronics Files for IPO

**Cardtronics, Inc.** filed a registration statement on Form S-1 with the Securities and Exchange Commission relating to its initial public offering of common stock. The lead manager of the offering is Credit Suisse First Boston.

Cardtronics is a non-bank owner of ATMs in the United States—it has more than 12,000 ATMs in all 50 states. Cardtronics offers its ATM products and services primarily to retail outlets such as convenience stores, supermarkets, membership warehouses, drug stores and shopping malls.

### Two More Companies Are Compliant with Visa CISP

**Global Access Corp.**'s wholly owned subsidiary, **EFT Integration, Inc.**, and **Plug & Pay Technologies, Inc.**—in separate announcements—said they were notified by Visa that they are compliant with Visa's Card Information Security Program (CISP). CISP is a standard for securing Visa cardholder data, wherever they are located. CISP compliance is required for all solutions that store, process or transmit Visa cardholder data.

### MasterCard Reports Growth for 2003

**MasterCard International** said cardholders used more than 632.4 million MasterCard-branded cards for nearly 15 billion transactions in 2003, generating a gross dollar

volume (GDV) of \$1.27 trillion—an increase of 5.9% on a local currency basis and an increase of 10.4% on a U.S. dollar basis—over 2002. In addition, use of Maestro, MasterCard's online, PIN-based global debit brand, grew in 2003, with the Maestro brand appearing on more than 520 million cards worldwide, a 13.8% increase over year-end 2002.

### Pipeline Data to Get \$3 Million Financing

**Pipeline Data Inc.** entered into a financing arrangement with **Laurus Master Fund, Ltd.**, a financial institution that funds small and micro-capitalization companies. Laurus Funds is providing Pipeline with up to \$3 million in financing. Pipeline provides transaction-processing services for all major credit cards. It offers card processing services for wireless mobile payment, e-commerce and retail merchant payment solutions.

### Prodigy Announces Pilots of TranzRoute

**Prodigy Prepaid Solutions, Inc.**, a provider of point-of-sale-activated (POSA) solutions and prepaid cards, announced it has successfully launched pilots using TranzRoute, a POSA device. TranzRoute is about the size of a portable CD player. It enables existing credit card terminals to process prepaid cards such as phone, wireless, debit and gift cards by connecting to the terminal's phone line.

With TranzRoute, prepaid card swipe transactions go directly to Prodigy's back-office processing platform, ProdigyNET, while credit card swipe transactions pass through unhindered.



- ▶ **Big Dog Holdings, Inc.** completed its acquisition of **The Walking Company** on March 3, 2004 for approximately \$19 million.
- ▶ **JoS. A. Bank Clothiers Inc.** opened the first three of between 50 and 75 new stores planned for its fiscal year 2004. The stores are located in Ormond Beach, Fla., Wichita, Ks., and Fort Lauderdale, Fla.
- ▶ **National Real Estate Clearinghouse (NRC)** will help in the sale of 15 convenience stores and gasoline stations, and three commercial sites for Hi-Noon Petroleum and MRC Hi-Noon, LLC, of Missoula, Mont, the National Association of Convenience Stores reported.
- ▶ **Wal-Mart Stores** opened its first Supercenter in California in La Quinta.

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## TrustCommerce Certified with Global Payments

TrustCommerce received certification from **Global Payments Inc.** for its product, TC CrediKey. CrediKey offers numerous payment options and packages that enable merchants to generate revenue in a highly secure, easily adaptable and efficient environment.

## Visa Interlink PIN Debit Network Use Grows

Visa USA said its Interlink PIN debit network saw a 43% increase in dollar volume and a 39% increase in the number of POS transactions for the month of January 2004 compared to January 2003. In January 2004, Interlink processed more than 93 million transactions worth \$3.3 billion, compared to 67 million transactions worth \$2.3 billion in January 2003.

The number of merchant locations accepting Interlink grew by 19% over the same time period. The Interlink merchant base is now at 1.2 million locations and growing by more than 200,000 new merchant locations annually. Visa said the increases are from growth in merchant acceptance, issuing financial institutions and consumers using electronic payments over cash and checks.

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## PARTNERSHIPS

### NOVA Renews Agreement with UMB

UMB Bank, N.A., a wholly owned subsidiary of UMB Financial Corp., extended a payment processing and alliance marketing agreement with **NOVA Information Systems** to a 10-year term. NOVA will provide UMB's 9,000 merchants with payment processing services including credit and debit card processing, electronic check services and other value-added solutions.

### Paymentech to Process for Circle K

Paymentech, L.P. announced it will provide settlement processing for 1,663 **Circle K** convenience stores located across the United States. Paymentech already processes for Mac's Convenience Stores—Circle K and Mac's Convenience Stores are owned by parent company Alimentation Couche-Tard Inc.

### Providian Hires First Data

Providian Financial Corp. signed an agreement with **First Data Corp.**'s card processing subsidiary. First Data will print and mail cardholder statements for Providian's current portfolio and personalize plastics for its new cardholders and reissues. Production will begin in Q2 2004.

### Two Sign With Secure Payment Systems

**Redwood Merchant Services** (a division of National Bank of the Redwoods) will provide **Secure Payment Systems'** (SPS) value-added products to retailers through its national and regional independent sales force. National Bank of the Redwoods is located in the North Bay Area of California with offices in Santa Rosa, Calif., Scottsdale, Ariz. and Tucker Ville, Maine, with sales agents throughout the United States.

Minneapolis-based **Winmark Corp.**, franchisor of Play It Again Sports and Plato's Closet retail stores signed an exclusive agreement for the issuance and processing of SPS's stored value gift card program at participating stores nationwide.

### SLIM CD and JR's POS Depot Bundle Up in Florida

**SLIM CD, Inc.** and **JR'S POS Depot** announced a distribution hardware/software partnership. JR's POS Depot will bundle the most common hardware accessories such as PIN pads, signature pads and receipt printers for the SLIM CD software. SLIM CD will provide its software to JR's POS Depot to complete the hardware/software bundle.



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## ACQUISITIONS

### Lightbridge Acquiring Authorize.Net

InfoSpace, Inc. announced a definitive agreement to sell **Authorize.Net**, its Payment Solutions business, to **Lightbridge, Inc.** for \$82 million in cash. Lightbridge is a provider of technology solutions that manage customer transactions. InfoSpace announced plans for the sale of Authorize.Net in October 2003 in order to focus more on its Search and Directory and Mobile businesses. Authorize.Net provides IP-based payment solutions that enable merchants to authorize, settle and manage electronic transactions. The companies expect the deal to close during Q2 2004.

### First Data Sells Stake in Global Cash Access

**First Data Corp.** sold its 67% interest in **GCA Holdings LLC**, the parent holding company of Global Cash Access LLC, to GCA's founder **M&C International Inc.** as part of a recapitalization of GCA. GCA is a leading supplier of cash access and customer relationship marketing technologies to the gaming industry. M&C International Inc now owns about 95% of GCA's parent holding company and Bank of America Corp. owns the

rest. GCA will continue to offer First Data products and services to the gaming industry, including Western Union Money Transfers and TeleCheck check guarantee services.

### TransFirst to Acquire Fifth Third Processing Solutions' Third Party Sales Merchant Biz

**TransFirst** said it plans to acquire **Fifth Third Bank Processing Solutions'** third party and agent bank merchant division. The acquisition is expected to close on April 1, 2004. In addition to the acquisition agreement, TransFirst and Fifth Third Bank Processing Solutions have partnered; Fifth Third will refer various third-party merchant-processing leads (such as agent bank, ISOs and ISCs) to TransFirst.

Fifth Third Bank Processing Solutions provides credit, debit, EBT, ACH and check acceptance services. With this acquisition, TransFirst will service more than 760 agent banks and process approximately \$18.5 billion in annual sales volume for more than 150,000 merchants.

## APPOINTMENTS

### EDC Hires Richard Crone

**Richard K. Crone** joined **Edgar, Dunn & Company's** (EDC) financial services practice as a Director. Crone has more than 24 years of experience in electronic payments. He has held senior management positions with Dove Consulting, CyberCash, Inc., Home Savings of America, KPMG Consulting (BearingPoint) and Unisys Corp.

He has consulted with leading financial services firms in their migration from paper to electronic transactions and has led emerging payment product groups in several organizations. EDC is a global strategy-consulting firm that specializes in payments and financial services.

### Cruzen and Graves on Cash Systems' Board

**Pat Cruzen** and **Gordon Graves** will serve on **Cash Systems, Inc.'s** Board of Directors. Cruzen is the CEO of Cruzen & Associates. He has served as President and COO of Grand Casinos, Inc. He was also part of the team that created MGM Grand, where he served as Senior Vice President of Finance and Administration and President of MGM Grand's casino marketing arm, Destron.

**Gordon Graves** is the President of Graves Management, Inc. He served as Chairman of the Board and CEO for Multimedia Games Inc. for nearly 10 years. He previously served as the President and CEO of Arrowsmith Technologies, Inc., and also was Vice President of Corporate Development and later President at KDT Industries, Inc.

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## John Filby Named President/CEO of ISD

**Integrated Systems Development, Inc.** (ISD), a provider of electronic payment solutions for merchants, appointed **John Filby** to President and CEO of the company. He was also appointed to ISD's Board of Directors. Filby has 16 years' experience in the software industry. In 1999, he founded eCash Technologies, Inc. (acquired by InfoSpace, Inc. in 2002), and he served as President and CEO and a board member of eCash. At InfoSpace, Filby served as Vice President in the Merchant Services Division. Prior to founding eCash, Filby was on the management team of InterTrans Logistics Solutions, which was later acquired by i2 Technologies.

## Q Comm Appoints Full Time CEO/President

**Terry D. Kramer**, interim President for **Q Comm International, Inc.** since November 2003, accepted the position of full time CEO and President. Q Comm is a provider of prepaid transaction processing and POS distribution solutions. Kramer has more than 15 years of experience with wireless technology organizations. He has most recently been serving as an advisor/board member to several wireless telecom companies including 724 Solutions, FiberTower and Sonim Technologies. Kramer also worked with Vodafone/AirTouch and

PacTel Corp from 1998 through 2000 in various executive management positions. **Paul Hickey**, Q Comm's founder, will step down as interim CEO but will continue working with the company as Executive Vice President of Business Development.

## Visa International Appoints New CEO/President

**Visa International's** Board of Directors appointed **Christopher J. Rodrigues** to serve as President and CEO of Visa International. Rodrigues is currently the Group Chief Executive of Bradford & Bingley, a UK-based financial services organization. He succeeds Malcolm Williamson, who retired as Visa International CEO after a five-year term. **William P. Boardman**, Chairman of the Visa International Board of Directors served as interim CEO and President since March 1, 2004.

## New Chairman of MasterCard U.S Region Board

**MasterCard International's** U.S. Region Board elected **Richard Srednicki** to serve as the new Chairman. Srednicki is an Executive Vice President of JPMorgan Chase's Cardmember Services—he joined Chase in 1999. From 1998–1999, he worked with Sears, Roebuck and Co., where he was responsible for the Home Services Division. Prior to that, he served as President and CEO of AT&T's Universal Card Services for two years.

Srednicki was a Senior Officer at Citibank from 1983–1996, where he worked 10 years in the credit card business and three years as General Manager of the consumer business in Germany. He also held marketing positions at Colgate-Palmolive from 1975–1983. Srednicki succeeds Richard D. Fairbank, Chairman and CEO of Capital One Financial Corp., who served as Chairman of the MasterCard U.S. Region Board since 2002.

## Global Payments Names Merchant Acquiring EVP

**Global Payments Inc.** hired **Carl J. Williams** to serve as Exec. Vice President of World Wide Merchant Acquiring. Williams will oversee the company's merchant services business outside North America. He most recently served as President and CEO of Baikal Group, LLC. Previously, he was President of Spherion Assessment Group. He was also Chairman and CEO of HR Easy, Inc., which was acquired by Spherion Inc. in 1999. He was President of the Merchant Services Division of National Processing Company (NPC); he also served as President and CEO of JBS Associates (acquired by NPC in 1993). ■



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# Magneprint: A Real Time Risk Management Tool

By Kiran Gandhi

MagTek, Inc.

Looking for indisputable proof that an authentic and unaltered card was used to initiate the transaction? This product acts as a tool to mitigate chargebacks and also addresses the crooked cardholder scenario in which the cardholder says, "I didn't do it."

## Introduction

The Magneprint risk management tool provides issuers, acquirers and merchants with an additional layer of protection against fraud in card-present credit and debit card transactions. The necessary technology to implement this tool is now available, tested and ready for use.

The purpose of this paper is to explain to a technically informed audience the tool, technology and processes behind it and the benefits card issuers, acquirers and merchants will accrue from it.

Magneprint is a card security technology that, when properly implemented, will detect skimmed or magnetically altered counterfeit cards. The Magneprint risk management tool, developed by MagTek, Inc., imposes no significant time cost and only a minimal dollar cost on the merchant at the point of transaction, and the necessary infrastructure investment is negligible in the context of the ongoing costs of fraud to issuers and acquirers.

Additionally, its success does not depend on a mass re-issuance of cards, since the cards currently in circulation can be brought into participation automatically over time in the course of their normal use.

Magneprint technology is complementary to chip technology. For the foreseeable future the magnetic stripe will remain as either the primary or fall-back (if and when chip fails) machine-readable technology on financial transaction cards. The chip will protect the chip and will not protect the magnetic stripe. However, Magneprint will protect the magnetic stripe.

Worldwide, reported credit card fraud is a US\$4 billion problem, with an unknown but likely significant additional fraud cost related to debit cards that goes unreported. Credit and debit card fraud is everyone's problem.

The costs of fraud are carried initially by issuers and acquirers, which pass them on to merchants in the form of authorization fees and discounts, who pass them on to

consumers in the form of higher prices for goods and services.

Over time, the adoption of Magneprint technology is expected to lead directly to an annual savings in the range of US\$1 billion of card-present credit card fraud that is currently borne by card issuers. In addition, there will be annual savings directly related to the elimination of currently unreported debit card fraud.

**More data yield better decisions.** It's empirically clear that the current authorization system is generally successful in keeping credit card fraud within a predictable, actuarially useful range. But the system is not perfect. As we noted above, approximately US\$4 billion worth of fraudulent transactions are cleared per year, the vast majority of which presumably represent false positives that were erroneously passed through by the authorization system.

No matter how much information is available, the decision to authorize a given transaction (to indemnify the merchant for that transaction, provided that certain conditions are met) is always a statistical judgment call—a risk management decision. The issuer adjusts his authorization algorithm to take into account all available information that is relevant, and the algorithm produces an authorization decision.

The accuracy of that decision, and its effectiveness in filtering out fraud, is directly related to the amount of information available to the algorithm. More data yield better decisions. For example, if the payers' identities and the cards they present were authenticated at the time of transaction, it would, without question, reduce the incidence of fraud.

It is in the spirit of 'more data yield better decisions' that the Magneprint risk management tool was developed. Magneprint is a way of providing another useful, reliable piece of data about the likely authenticity of a given credit or debit card. This data point can be used as an input to the card authorization process.

**The genius of Magneprint.** Magneprint uses the inherent properties of magnetic materials to provide the authorization algorithm with a reliable measure of how likely it is that the card presented is the original card issued by the issuer—not a clone, not a copy or not one that has altered data on the magnetic stripe—but the unique original.

There currently exists *no* other cost effective technology capable of providing such statistically reliable, real time authentication of the payment instrument in a credit or debit card transaction. As a result, issuers that take Magneprint into account in their authorization process should see an *immediate* and *material* decline in their fraud

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losses resulting from skimming.

### Magneprint Fundamentals

**What is Magneprint?** This technology was developed to generate a numeric value that could serve as the digital fingerprint of a specific magnetic stripe credit card or debit card. This digital fingerprint, known as a Magneprint, is a value that is determined automatically when a card is read in a Magneprint-enabled card reader.

**How is the Magneprint value determined?** Magneprint technology, based on research conducted by Washington University's Department of Security Technologies, measures the background magnetic particulate distribution on a standard magnetic stripe card and converts that distribution into a 54-byte value that is a simplified representation of that particulate distribution.

**What needs to change on the current magnetic stripe card?** There are no changes required to the manufacturing process of the magnetic stripe, the plastic card manufacturing process or the data encoded on the magnetic stripe. Also, there is no need to re-issue cards.

**Why is Magneprint useful?** Because the particulate distribution is persistent over the useful life of the card, multiple Magneprint values read at different times from the

same physical card (assuming the encoded card data have not been changed) will always be equivalent within statistical limits. In contrast, the Magneprint values read from different physical cards, even if encoded with identical card data, will always be different.

This means that the Magneprint serves as a reliable indicator of the identity of a physical card and can be used to prevent the authorization of fraudulent card-present transactions initiated from cloned, skimmed, or altered cards.

**How is the Magneprint used to screen for fraudulent transactions?** When a card-present transaction is submitted from a Magneprint-enabled reader for authorization to a Magneprint-enabled host system of an issuer, the Magneprint of the card read at the transaction point is transmitted along with the card data and other data.

The Magneprint risk management tool compares the transaction Magneprint value to a reference Magneprint value already present in the authorization database, calculates the degree of correspondence (the match value) between the two Magneprint values and makes a judgment about the authenticity of the card based on all available transaction information, including the match value.

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**What technology is required?** The Magneprint risk management tool requires a Magneprint-enabled card reader at the point of transaction, an acquirer host enabled to transport the Magneprint values to the issuer, and a Magneprint-enabled system at the issuer's host site.

The Magneprint-enabled components, which can be retrofitted into most existing card authorization systems at a nominal cost, will be available from MagTek and its partners.

**Four layers of security:** Magneprint technology offers four layers of security. These are increasingly impregnable layers that act as barriers to prevent the compromise of Magneprint technology.

The first layer of security is inherent in the complexity of the particulate distribution on a standard magnetic stripe. The Magneprint algorithm

leverages the fact that the 3.375 inches of stripe space along each card's encoding area is populated by a persistent random distribution of particles, that are, permanently fixed.

(The changes in the magnetic stripe's physical structure that occur during the lifetime of the card, e.g., by abrasion during normal use, are statistically insignificant.)

Furthermore, the likelihood that two different cards will yield identical particle distributions, given the randomness inherent in the process by which magnetic stripes are manufactured, is in the range of one in 900 million. And the hundreds of millions of particles make it statistically and practically impossible for an existing magnetic stripe to be cloned (from the perspective of particle distribution) in a way that yields an equivalent Magneprint value.

As a second layer of security,

Magneprint technology determines the 54-byte Magneprint value *in reference to the positions of the flux reversals of the encoded card data*. The data pattern is larger (by orders of magnitude) than the particle pattern. Therefore, if a valid card with a known particle pattern were to be re-encoded with identical data, it would show non-trivial variances in the way the written data pattern microscopically aligns with the physically permanent particle structures of the magnetic stripe on the card. As a result, cards with altered data can be detected with Magneprint technology.

The third layer of security is the random variations inherent in each incidence of reading a card. Each read of a card (whether the card is swiped by hand, inserted into a reader or read by some other method) is a microscopically different experience, due to the impossibility of precisely duplicating the reading

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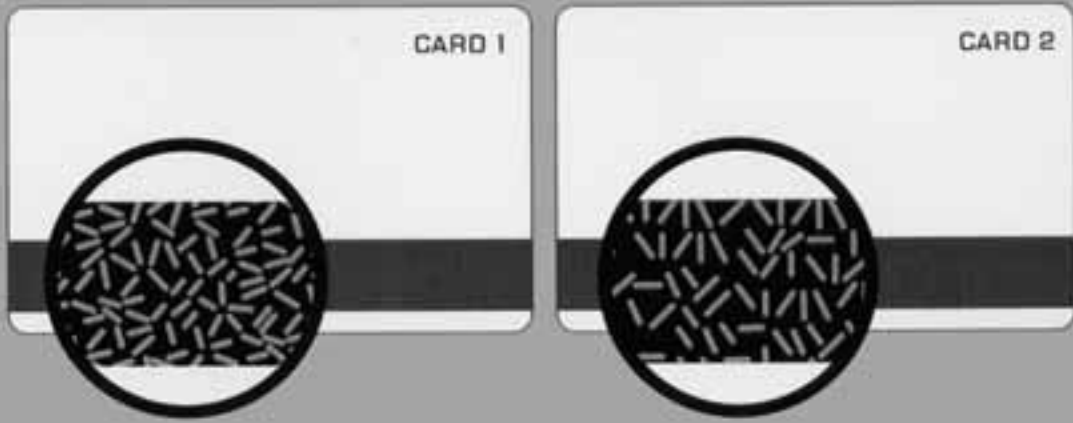
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By capitalizing on the magnetic stripe's unique and inherent characteristics, Magneprint technology brings an unprecedented level of security to magnetic stripe cards.

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process, variations in the read head among card readers and so forth.

Paradoxically, this means that a transaction Magneprint value that is identical to a previous Magneprint value on file is almost certainly fraudulent. Multiple Magneprint values taken from the same card on successive reads are expected to vary within a statistical range.

The probability of an exact match on all 54 bytes in separate card reads is in the range of one in 100 million. This inherent variability provides a statistically probable,

unique transaction number for every card read, assuring that Magneprint is very difficult to compromise.

Finally, as a fourth and ultimately impregnable security level, the Magneprint authorization process is protected against fraud by the simple fact that it depends on information that is in plain view.

There is nothing hidden about the particulate structure of the card or the encoded alphanumeric data. This means that there is no secret to the fundamental Magneprint technology that, if cracked, would compromise the system.

**Determining acceptance criteria:** It is important to understand that Magneprint does not guarantee the authenticity of the transaction. It provides the card issuer a data point representing the *probability* that a given card used for a transaction is authentic. By using this data point, card issuers can establish their acceptance criteria for a level of risk that is financially acceptable.

During the Beta Test in 2002, a run of a million transactions with an acceptance threshold set at 0.5 resulted in a false accept rate of zero (that is, *all* attempts to process fraudulent cards were thwarted) and the resulting false reject rate was only 0.027%.

In comparing a given transaction Magneprint to its reference Magneprint, the scoring algorithm assigns a match value between zero (no match) and one (perfect match).

The Magneprint authorization methodology allows each financial institution to select an acceptance threshold between zero and one for its transactions, or even to specify a threshold that varies according to the characteristics of the transaction (e.g., be more stringent for higher-dollar transactions originating from a fraud prone merchant).

As important as it is to reject fraudulent transactions, for many merchants it is just as important to *not* reject *legitimate* transactions (i.e., to not generate false rejects). In order to preserve customer goodwill, some issuers might

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wish to be more forgiving, e.g., set the acceptance threshold at 0.35, which would result in authorizing a very small number of fraudulent transactions, while statistically eliminating the incidence of false rejects and while still maintaining the robustness of Magneprint as a risk management tool.

These risk management decisions have been deliberately left in the hands of the issuer, so that each can establish acceptance thresholds that are prudent in the context of its own business and its own customers.

**Growing the Magneprint-enabled card base:** The Magneprint risk management tool depends upon the presence of reference Magneprint data in the authorization database. This allows comparison of the transaction Magneprint data and the reference Magneprint data to authenticate the card.

Reference Magneprint data should of course be collected as a matter of course whenever a card's identity is known with certainty, e.g., at the time of issuance. To avoid re-issuance costs, how can reference Magneprint data be gathered reliably on cards already in circulation without imposing an unacceptable convenience on cardholders?

Fortunately, Magneprint technology provides a built-in channel for collecting reference Magneprint data on the fly during the course of normal card use. When a transaction Magneprint is submitted as part of the authorization data set, and if no reference Magneprint exists for that card, this first transaction Magneprint is presumed to be legitimate and recorded in the authorization database with provisional status.

Henceforth, the provisional Magneprint collected at the time of this earlier transaction will be available for use as the reference Magneprint in authorizing future transactions.

The authenticity of this provisional Magneprint is not guaranteed because it was collected in circumstances in which the authenticity of the card from which it was provided was not known with 100% certainty.

However, there is a strong statistical probability (inherent in the overwhelming margin by which legitimate transactions outnumber fraud attempts in the transaction pool as a whole) that any such provisional Magneprint will in fact be legitimate, so treating all such provisional Magneprints as authoritative, in the absence of evidence to the contrary, is a statistically rational business decision.

Furthermore, if there are no disputes from the cardhold-

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**Counterfeit cards created by skimming are easily detected by Magneprint technology. The decline in skimming will lead to a decline in credit and debit card fraud losses...**

**...With the increased awareness in identity fraud, consumers are becoming concerned with fraudulent uses of their credit and debit cards.**

er regarding the transaction that was used to collect the provisional reference then the provisional status can be changed to permanent status.


### **Conclusion**

The Magneprint system as a whole has been exposed to rigorous beta test environments of statistically significant size with quantifiable positive results. Following are some of the most prominent benefits associated with the adoption of the Magneprint risk management tool.

**Decline in direct skimming.** As it begins to be adopted, Magneprint will immediately begin to have an impact on the success of skimming—a method for creating counterfeit cards in which a legitimate string of card data bytes is captured and copied to create another card.

Counterfeit cards created by skimming are easily detected by Magneprint technology. The decline in skimming will lead to a decline in credit and debit card fraud losses.

**Other benefits.** Magneprint technology will increase the confidence and goodwill among both cardholders and merchants. Although difficult to quantify, this benefit is significant. With the increased awareness in identity fraud, consumers are becoming concerned with fraudulent uses of their credit and debit cards. Furthermore, both issuers and acquirers will benefit over time in the form of lower acquisition costs, lower churn levels and increased card activity.

All the necessary components of the system (including Magneprint-enabled card readers, encoders and authorization system components) are available from MagTek and its partners. To learn more about Magneprint, visit [www.magneprint.com](http://www.magneprint.com) or contact the author by phone at 1-888-624-8352 Ext: 6122 or e-mail him at [kiran.gandhi@magtek.com](mailto:kiran.gandhi@magtek.com) 

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## Capturing the True Check Opportunity

**Michelle Graff**

*NOVA Information Systems*

**T**he paper check remains at the heart of the U.S. payments system. According to industry expert and founder of The Green Sheet, Paul Green, the earliest known check on record was written in 1659 as payment to a London goldsmith. Did you know that more than 15 billion checks are written at the point of sale each year? Did you know, too, that billions of dollars are lost every year from check fraud and uncollected funds and that on average, merchants pay about \$1.22 for each check accepted?

A closer look at returned checks finds that more than \$169 million worth of checks bounce daily in the United States; banks reject them because of insufficient funds, closed accounts or stop payment orders. The number of bad checks has surpassed 250 million annually, worth nearly \$19 billion.

Almost one quarter of all bounced checks are never turned over for collection because the dollar value of the check is too low to justify the collection expense. Of the \$5.9 billion that the National Retail Federation estimates that retailers lose to bad checks annually, 70% are for non-sufficient funds (NSF) and 30% are from fraud.

While all parties—retailers, financial institutions and consumers—have a number of reasons to remain enthusiastic supporters of paper checks, merchants and banks are well aware of the inefficiencies, high costs and risks inherent with paper checks. These include:

- Check fraud and uncollected funds—a problem that gets worse every year
- Extensive handling by retailers and banks, with the average check touched between six to 12 times, resulting in inefficient operations and increased risk
- High processing costs for financial institutions as checks move step-by-step through the payments system

### Electronic Check Opportunities Abound

In October 2003, the Check Clearing for the 21st Century Act, known as Check 21, was signed into law. It permits banks to process check information electronically. Information contained in the new electronic check can be used in cases of disputed charges or NSF.

Banks will offer lock-box services to collect merchant

checks and provide conversion services prior to electronic deposit through the ACH.

However, the entire check process becomes more efficient the closer the process gets to the point of sale. By capturing an image of the check at the merchant's POS, paper is removed from the system at the point of entry.

Electronic check conversion, which transforms paper checks into electronic files at the POS, was designed to allow consumers to continue to enjoy the benefits of writing checks, while offering numerous advantages for merchants and banks.

Today, the advent of sophisticated check imaging solutions is injecting new life into electronic check conversion, making the process significantly more efficient and cost-effective for merchants and banks.

Paper check guarantee services have been around for years; however, even though the funds are guaranteed, the paperwork and process of requesting the funds requires considerable and labor for merchants.

With electronic check services, "guarantee" means guaranteed cash flow—an electronic item is submitted and the merchant never has to worry about that item again. The transaction is processed. The funds are deposited. Period. End of the paper check. It's that simple.

### A Look at Service Options for Electronic Check Conversion

Electronic check conversion seamlessly transforms paper checks into electronic transactions, authorizes the availability of funds and automatically settles the funds into a merchant's checking account at the end of the day through the same networks used to process credit and debit card transactions.

Complete images of the checks are captured on an imaging device that is connected to the payment terminal and sent to a secure location for storage. Checks returned for insufficient funds are electronically resubmitted, and merchants rarely need to get involved.

A variety of service offerings are available in the market. Let's explore the options to best meet the needs of a merchant's business.

- **Visa POS Check or ACH:** Acquirers supporting Visa's POS Check program have the ability to actually go

## Electronic Check Service Merchant Benefits at a Glance

- **Minimized risk:** authorization and guarantee services mean merchants no longer have to worry about returned and fraudulent checks
- **Reduced costs:** eliminates the time-consuming hassle of listing paper checks and making manual deposits at the bank

- **Faster access to funds:** checks are electronically converted and transmitted like credit card transactions. Funds are available in a merchant's bank account with the same speed and ease of credit card deposits

- **Improved reporting:** payment activity is consolidated at the end of the day for combined reconciliation and funds settlement that appears on your monthly statement or can be checked online

online, check fund availability and hold the funds in more than 22,000,000 DDA accounts. This is expected to rise to include 25% of all checking accounts by the end of the year. And now, through Visa POS providers such as the NOVA Network, ISOs can offer the same programs endorsed by leading banks including US Bank, Wachovia, Key, Regions and Bank of the West. Accounts that don't have debit access are settled through the ACH.

- **Verification or Guarantee:** Most merchants prefer a guarantee service, which can eliminate the risk, paperwork and headaches associated with check collection. As stated earlier, electronic guarantee is fully automated; merchants never have to fill out forms to claim their funding. Merchants willing to take the risk can choose verification-only services.

- **NSF Service Fee Processing:** Merchants willing to manage their own risk and handle collections can opt for verification-only services and automatically collect fees for items returned for insufficient funds. NSF Service Fee processing allows merchants to electronically collect on bounced checks. Once the resubmitted check successfully clears, an NSF Service Fee may be initiated via the ACH at the state maximum dollar amount allowed.

Funds received from collected return check transactions are then automatically credited to the merchant's bank account. If funds can't be electronically collected, the merchant has an exact image of the check, including the address and any information written, such as the phone number.

- **Collection Services:** Collecting on returned checks can be outsourced to a check collections company and merchants can still collect on a percentage of the face value. And since all of the work can be done electronically, there are no additional labor costs and processing required for the merchant.

### Taking ECS to the Market

Are you armed with the knowledge necessary to offer electronic check services to your merchant customers? Do you have confidence in the electronic check service (ECS) provider you've partnered with? Let's take a look at a few things you'll need to know:

- **ECS Provider:** There are a number of check providers in the market today, giving you and your merchants a





wide variety of options. As electronic check programs continue to grow, make sure you understand the program offerings that best fit your business model.

• **Bank-endorsed or Third-party:** Do you have the confidence in your provider to know that it is backed by leading banks in the industry to provide debit and credit processing services? Or is it a third-party company that competes with the banks? Is the provider well funded and established? Who assumes the financial risk if something happens to their business?

As a merchant services provider, you want to sell services that will not be problematic for you or the merchant.

• **End-to-end Service and Support:** Does the merchant have one number to call for any questions regarding their electronic check program? Does the service provider you've partnered with provide end-to-end programs from POS to verification to settlement and reporting?

• **Target Markets:** Though retail businesses of all types accept checks, the following have been identified as ideal candidates for electronic check conversion, either because of the quantity of checks accepted, or because

of the risk associated with selling high-ticket items. Below are some key businesses that should be targeted:

- » Appliance Sales/Service
- » Automobile Service Shops
- » Beauty/Barber Shops
- » Car and Truck Dealers
- » Consumer Electronics Dealers
- » Dry Cleaners
- » Independent Grocers/Food Stores
- » Medical/Dental Service Providers
- » Veterinary Services

Electronic check is certainly a program that payment providers can confidently sell to merchants. Not only are labor and processing costs reduced, but also peace of mind is guaranteed, and merchants will never have to handle another consumer's paper check.

This is an application that is still in its infancy. As major retailers come on board, make sure you are partnered with the right provider for the long haul. ☑

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*Michelle Graff is Vice President of Marketing for NOVA Information Systems. E-mail her at [michelle.graff@novainfo.net](mailto:michelle.graff@novainfo.net)*

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In Search Of ...**More Customers, More Knowledge Mean More Sales****by Lisa Shipley***Hypercom Corp.*

**Y**ou've probably heard the adage that knowledge is power. When it comes to ISOs in search of more sales, customers and profits, knowledge is everything—especially these days.

Here's why: You can't sell what you don't know. The old-fashioned plain vanilla, one-dimensional card payment terminal is now a multi-function, multi-application, profit-generating transaction machine capable of building profits for you, your customer and—your competition.

Just as telecommunications companies have added games, calculators, cameras and Web access to cell phones, card payment technology companies have rolled out powerful value-added capabilities and profit-building software applications that consumers and merchants want. They let the consumer do more at the point-of-transaction, they generate new revenues and profits for storeowners and most importantly, more profits for ISOs/MLSs.

These value-added capabilities include gift and loyalty cards, check conversion, signature capture, PIN-based debit, pre-paid product such as cards and phone time—and even browsers that let you, the ISO, manage terminals over the Internet. These new applications represent an enormous opportunity for you to generate new sales and build your and your customers' profits and significantly increase your installed base as well.

But you have to know what you're selling.

If building revenues isn't important enough, there's another big motivator for you to learn about these new profit-generating applications: If you don't know how to demonstrate this new and growing array of value-added capabilities and applications, you can be sure that your competitor probably will.

Think about it: You have a great and reasonably loyal installed base, yet here comes the competition with a dozen ways for your merchants to increase revenues and profits and increase consumer loyalty to their own businesses.

Will any merchants in their right minds pass up easy, new ways to generate revenues and profits? Of course not. Not only are you missing out on the new profits now, you also have merchant defections to deal with.

You're fighting harder than ever to keep what you've got, and the new profit-generating terminal technology is working against you because you haven't taken the time to check it out and try it out.

Net-net: The market has reached a new level, and you really need to learn it and get up to speed, or you're going to lose out to your competition.

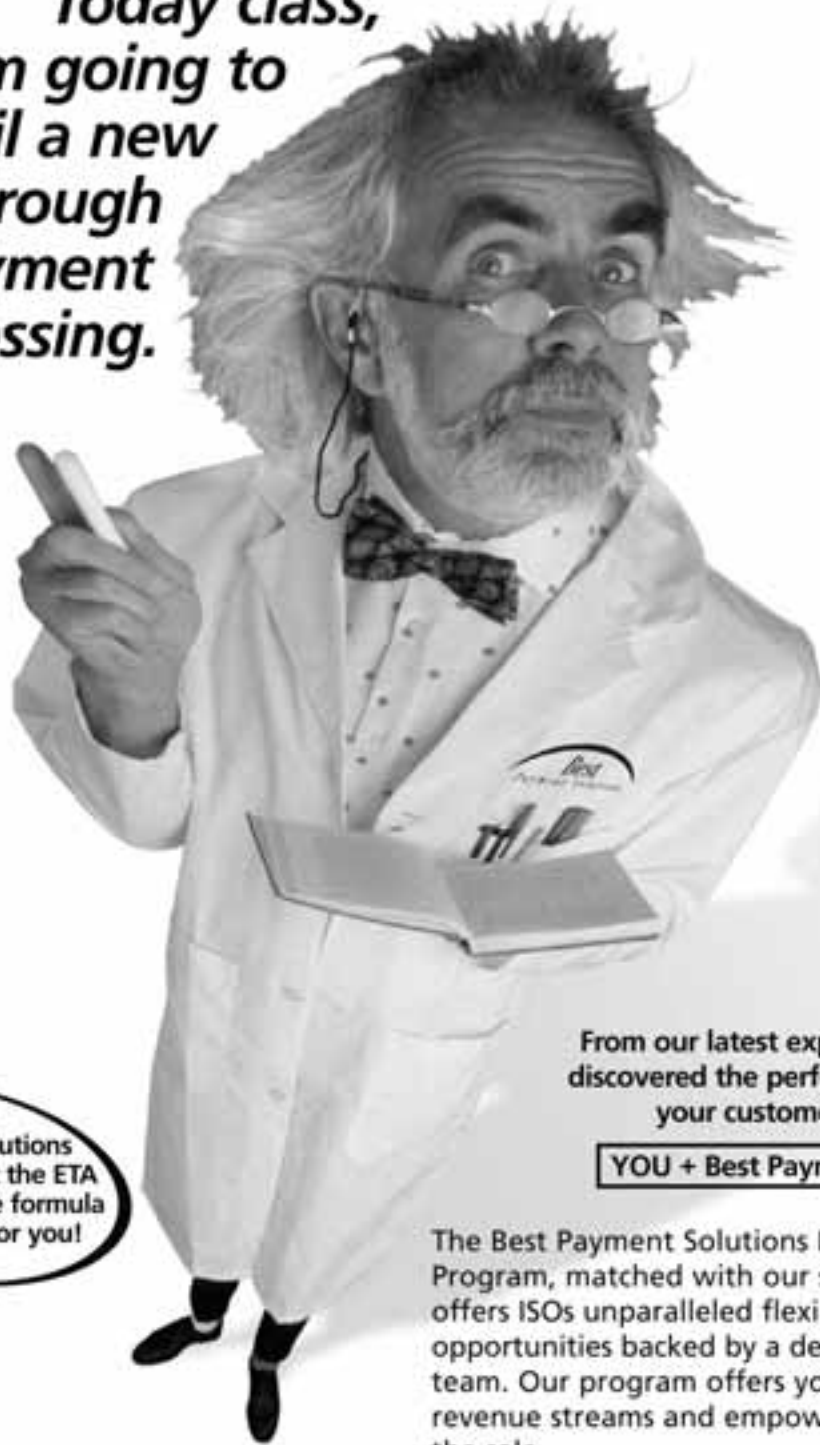
You can't cash in without the knowledge and understanding of what the new value-added capabilities are and how they work. Don't worry—it's not rocket science.

Few people in our industry are 'techno-wizards.' All that's necessary on your end is the willingness to spend a little time to get the information and hands-on training needed to demo these new value-added, profit-building applications to your merchants.

You're not that far away from being ready to get this going. It's not difficult; it doesn't require inordinate amounts of time. The payoff, though, is that you will



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Once you're ready, you'll find there are many sources for getting the information and hands-on training that you need to maintain and build your business.

One of the first places to go to get both the knowledge and hands-on experience is the card payment terminal technology providers. (Warning: The hands-on part should not be considered an option—you won't be successful without it!) The leading payment terminal technology providers have every motivation (equipment and/or software sales) to empower you with the know-how to successfully sell in these new value-added, profit-building applications. So do the processors. They also want you to be successful for all of the right reasons.

Indeed, you should be able to go to the terminal provider Web site of your choice and quickly access the critical information needed to install, train and trouble-shoot your merchants. The best Web sites are intuitive and easy-to-use. The information is out there.

Don't forget the industry associations. There are new rules and regulations coming out every day. To keep up with all of them, you have to know where this information can be found—the vast majority of it is right there on the associations' Web sites. They want to help their members be successful—that's why they exist.

There are many organizations, such as the regional acquirers associations and trade organizations whose focus is the individual reps on the street. One benefit they provide is hands-on training for successful sales efforts.

According to Paul Martaus of the Institute for Payment Professionals (IPP), "The best estimates are that there are anywhere between 10,000 and 18,000 independent contractors on the streets at any given time. Turnover is 'guess-timated' at around 3–5% per month within the ranks, totaling a whopping 36–60% turnover per year.

"Having said that, there is an apparently never-ending supply of talent entering the business every day, including former sales reps from the insurance, real estate and other sales-related segments," he said. "The typical rep on the street gets handed a terminal, a rate sheet and is sent out to conquer the world. Others, however, are provided with excellent training. The IPP was founded to try to level the playing field by helping those with little or no training get up to speed, sharpen their skills and sell successfully."

To get your 'feet wet' selling the new value-added card payment terminal applications, an easy pitch is the new PIN pad technology. Increasingly, more types of card-

based transactions will require a PIN number. Check conversion is also exploding, as are gift and loyalty programs. The entire pre-paid sector, as well as time and attendance, is taking off, and that's really just the beginning.

By now you're probably holding The Green Sheet in one hand and visiting an industry Web site to begin the learning process. Or maybe you're one of many who is comfortable enough with what you know and what you've been selling.

Now hear this: Ladies and gentlemen, it's not the old days anymore. It's a new world of many card payment applications and transaction types at the POS, which is quickly expanding to the point-of-transaction. If you're in search of growth, added customers and more revenues, or if you're staying awake at night, fearful that your installed base may go away, it's time to see what's new out there and get the hands-on training you need to sell it. If you don't get up to speed, your competition certainly will. ■

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*Lisa Shipley is Senior Vice President at Hypercom Corp. You can reach her at [lshipley@hypercom.com](mailto:lshipley@hypercom.com)*



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## Target Ending Use of Smart Cards in Loyalty Program

**O**n March 2, 2004, Target Corp. announced plans to phase out the use of smart card technology from its Target/Visa-branded card loyalty program over the next 12 months because of limited use.

Target's loyalty program, introduced several years ago, enabled consumers to download electronic coupons from the Internet onto the cards from their PCs (with the use of an attached reader) or from in-store kiosks. The coupons could then be used for savings on purchases made in Target stores.

Target was the first major U.S. retailer using smart card technology in a loyalty program capacity, and many in the payments industry were watching it closely—believing its success would determine whether or not smart card technology would be implemented by other major credit card issuers.

"In Target's case, it's not a smart card problem," said Aneace Haddad, President and CEO of Welcome Real Time, a provider of smart card software for payment

transactions. "The problem is the marketing value proposition. It was just too cumbersome to search coupons online and then go to a kiosk.

"The vast majority of consumers just will not take the time to do this. We recommend presenting the card at the POS terminal and simply triggering loyalty points and surprise promotional offers directly at the POS at the moment of purchase."

Catuity, Inc. is the provider of the loyalty software for the Target/Visa smart card program.

"We are disappointed this specific program will not be going forward," said Michael V. Howe, President and CEO of Catuity. "Catuity is fortunate that our loyalty software supports a variety of consumer identification devices.

"While in this instance it was smart chip technology, the system works equally well for mag stripe, contactless, RFID or bar codes, and we are hopeful that we can continue to work with Target in the future." ■



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# COMPANY PROFILE ◀◀◀



## Batten Down the Hatches and Circle the Wagons: It's Time to Protect Financial Data

### Ambiron

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**MLS contacts:**

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Bob Russo, Payment Services Program  
718-721-3478  
brusso@ambiron.net

**Company address:**

566 W. Adams Street, Suite 401  
Chicago, Ill. 60661  
Phone: 312-669-1234  
Fax: 312-669-1250  
www.ambiron.net

**MLS benefits**

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- Qualified Forensics Provider
- Qualified Scanning Vendor
- Cost-effective audit and compliance services for acquirers, processors, gateways, merchants

**C**ompliance with the card associations' regulations for securing transaction information—from where it originates, over the systems it travels, and on to its destinations—is the hot topic in payments. Acquirers, issuers, processors, hardware manufacturers, ISOs/MLSs and merchants are all concerned with not only meeting the new standards, but in keeping data out of the wrong hands.

What's the best way to approach the process of securing your company's financial data? Call in the experts.

A good choice would be Ambiron, a Chicago-based consulting firm with wide-ranging expertise in information security. The company specializes in making business systems safe in industries where the integrity of financial data is imperative.

Ambiron offers a full suite of information security solutions covering everything from complex Virtual Private Networks (VPNs) and security management to relatively simple remote office firewalls.

Founded in 2002, Ambiron is an independent information security advisory firm providing enterprise information security and compliance solutions to large- and mid-sized businesses.

The management team is composed of individuals who are experienced in information security with tenure at companies such as VeriSign, Sun Microsystems, Internet Security Systems, Accenture, Deloitte and Exodus.

Several vertical markets, including payments, securities trading and real estate have discovered that bringing in the experts at Ambiron to ensure the safety of their data makes sense.

But with so much attention being drawn to the protection of data in payment processing—and with compliance deadlines passing or on the horizon—Ambiron's services are more relevant than ever. As a result, the company has built a payment services practice that currently manages the compliance of thousands of payment-oriented businesses on an on-going basis.

"The need for compliance in the payments space is increasing," said Robert McCullen, Ambiron Co-founder and Managing Partner. "Financial losses resulting from identity theft and fraud, coupled with the possibility of association fines for non-compliance, have caused acquirers to mandate that their merchants become compliant."

Ambiron is a qualified Visa Cardholder Information Security



**When systems are  
compromised, Vital Signs  
subscribers have access to the experts  
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through e-mail and a toll-free phone number.  
... If cardholder data are accessed, Ambiron's  
Cyber Forensic team springs into action.  
Incident response and forensics support  
include assistance with containing,  
preserving and reporting details  
to the appropriate authorities.**

Program (CISP) assessor and is also a qualified vendor for MasterCard's Site Data Protection (SDP) program; it is one of only a few assessors qualified for both. It also offers its own Multi-Card Compliance Program (MCCP) that enables businesses to comply with other card associations' information security regulations.

Additionally, Ambiron customizes compliance programs for acquirers, processors and other entities to help them manage their merchants and the implementation of the various industry data security requirements.

McCullen said that despite the challenges in meeting compliance standards that everyone in payments faces, the programs that Visa introduced are meant to benefit acquirers and merchants. It's up to them to educate themselves on what it all means.

According to Visa's Web site, "Service providers are any Member or Non-member organization that processes, stores or transmits Visa cardholder data.

"Members are responsible to ensure that their merchants use service providers (that process, store, or transmit Visa cardholder data) that are CISP compliant. Merchants and service providers must contractually require all associated third parties with access to cardholder data to adhere to CISP data security requirements."

This means that everyone along the way has to take steps to ensure transaction data are secure. While it can seem overwhelming, seeking the advice of security specialists who bring the value proposition of "knowledge capital" to each client makes it easier to meet standards.

Acquirers, for instance, might seek help overseeing compliance programs throughout their portfolios. "They're looking for someone who can step in and manage thousands of merchants," McCullen said.

At the same time, "It's hard on merchants, too. They may think they're not at risk or that they're doing things the right way."

Ambiron has simplified a complicated process for acquirers and merchants through customized management programs and a new automated system. In January 2004, it introduced its trademarked Vital Signs system, a security tool designed specifically to address the compliance needs of the payments industry.

One key element of Vital Signs is that it integrates the regulations mandated by Visa USA, Visa Canada, MasterCard International and other card associations into a single Web-based interface. Each of the security requirements is embedded and users are able to run a self-assessment.

An integrated scanning feature gives Vital Signs subscribers monthly analyses of their environments and details areas where weak points might exist.

After each self-assessment and vulnerability scan, remediation reports are generated and include step-by-step instructions to fix the security issues that were identified.

Vital Signs subscribers also receive a cyber insurance policy issued by Lloyds of London to help offset expenses from forensic investigations and any necessary data repair and recovery.

When systems are compromised, Vital Signs subscribers have access to the experts at Ambiron's 24/7 help desk support through e-mail and a toll-free phone number. If on-site support is required, Ambiron has offices located throughout the United States and can respond quickly; industry-certified staff members are located in Chicago as well as Charlotte, N.C.; Dallas; Los Angeles; New York City; and Seattle. It also has offices in Toronto and London.

If cardholder data are accessed, Ambiron's Cyber Forensic team springs into action. Incident response and forensics support include assistance with containing, preserving and reporting details to the appropriate authorities.

When Ambiron is called in to conduct an assessment or audit for Vital Signs subscribers and other businesses, it

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set up forms and instructions, PDF files of sales materials, forms, data sheets, instruction cards and policies.

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- Greg Dailey, iPayment

"Congrats on 20 successful years in the industry."

- Debbie Elizondo, Paymentech

"A true saint of the bankcard business."

- Chris Kittler, Frontline Processing

"Mitch has great follow through. A very honorable man. If he says it, he means it. A quality man that keeps his word. A pleasure to do business with."

- Mike Grossman, Lipman

"Mitch Lau is one of the true good guys in this business. I have known Mitch for quite some time, and have a tremendous amount of respect for not only him as a person, but for the successful business units he has built over the course of his career. Aside from being a good businessman, he is a good person and a good friend. Thanks Mitch, for the contributions you have made to the merchant acquiring industry and for the friendship we've developed through the years."

- Vaden Landers, CEO ProfitPoint

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- The Green Sheet Staff

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- Tex Chen, Money Tree Partner for over 10 years.

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follows a three-stage process to find holes in security systems, fix them and keep them resistant to future compromises.

In step one, the 'Discover' stage, scans and penetration tests are conducted to find and mark weaknesses and misconfigurations. Ambiron's 'Discover' services range in scope from reviewing the entire IT environment to a specific area.

In step two, 'Deploy,' based on thorough reviews of a client's IT system, solutions including firewalls, SSL, anti-virus and anti-spam software, and authentication are installed to negate those holes and shore up weak areas. Ambiron will train the client's personnel on the application and management of these solutions.

In step three, 'Defend,' the digital forensics work begins. Evidence must be collected and preserved

properly and it must happen quickly for accurate remediation, including cleaning up disc drives and recovering data, as well as resulting prosecution and litigation to take place.

Ambiron has a direct sales force that contacts end-user consumers. The company also has strategic relationships with information security technology firms that provide avenues to market its services. And there has been a great deal of interest in security compliance recently coming from the payments industry. "We've seen a great deal of activity in this space lately," McCullen said. "Security is very hot."

Ambiron is a member of Electronic Transactions Association (ETA); representatives from the company will speak on data security issues as they apply to payments at the 2004 Annual Meeting and Expo in April.

He said it's important for payment services providers—and their customers—to see where they fall within the big security picture.

"Many businesses—particularly small merchants—don't have a security professional or a security team on staff. Therefore, it's incumbent upon them to take charge of their own security," said McCullen. "Attending events, such as ETA, and interacting with security professionals can be a good first step in understanding how to secure their vital business information. An educated merchant is a secure merchant."

"Our clients consider Ambiron to be a 'trusted advisor' when it comes to information security. We have received positive feedback from merchant clients and prospects saying we make security easy to understand." ■

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## How to Spot the Truth: The Top 10 Lies in the Processing Industry

By John Martillo

Cynergy Data

In the Feb. 23, 2004 issue of The Green Sheet, Marcello Paladini called for honor and integrity in the processing industry ("How to Stop the Churn and Burn: A Call for Integrity in an Unregulated Industry," issue 04:02:02). He asked each of us to step up to the plate and assume responsibility for how we conduct our businesses.

To do that, I believe we have to pay attention to some of the promises we make. In the name of marketing, we don't always say what we mean or mean what we say. So here, for the benefit of our agents and our industry, I'd like to identify what I consider to be the leading *misleading* promises.

Armed with the falsehoods—and the truth—our agents should now be able to identify sales pitches that really are no more than sales pitches, and read between the lines to

get to the fine print. When fact is separated from fiction, all of us will be forced to speak the truth. And the entire industry will benefit.

So the next time an acquirer makes one of the following promises, call him to task, and make sure you know what he really means.

### 1. The residuals lies:

"We pay residuals."

"We pay residuals on time."

"We pay lifetime residuals."

The truth is, you'd better check your contract carefully before you sign it. You have a right to residuals on your accounts for as long as the business is with the processor.

Even if it is only one account, you are entitled to be paid on that account. No processor should make you chase them for the money you've earned and that they owe you. But the truth is, many will cut off your residuals the minute you stop sending them business.

### 2. The interchange lie:

"We give you a true 50-50 split."

The question is, a 50-50 split on what? All card types, or just one? Sometimes a processor will give you a very low rate on quals, but charge much steeper fees on mid- and non-quals. And then, without saying a word, the processor passes this on to merchants in the form of fees you never knew about. So make sure you know what your true 50-50 split applies to.

### 3. The ownership lie:

"This is your account. You own it."

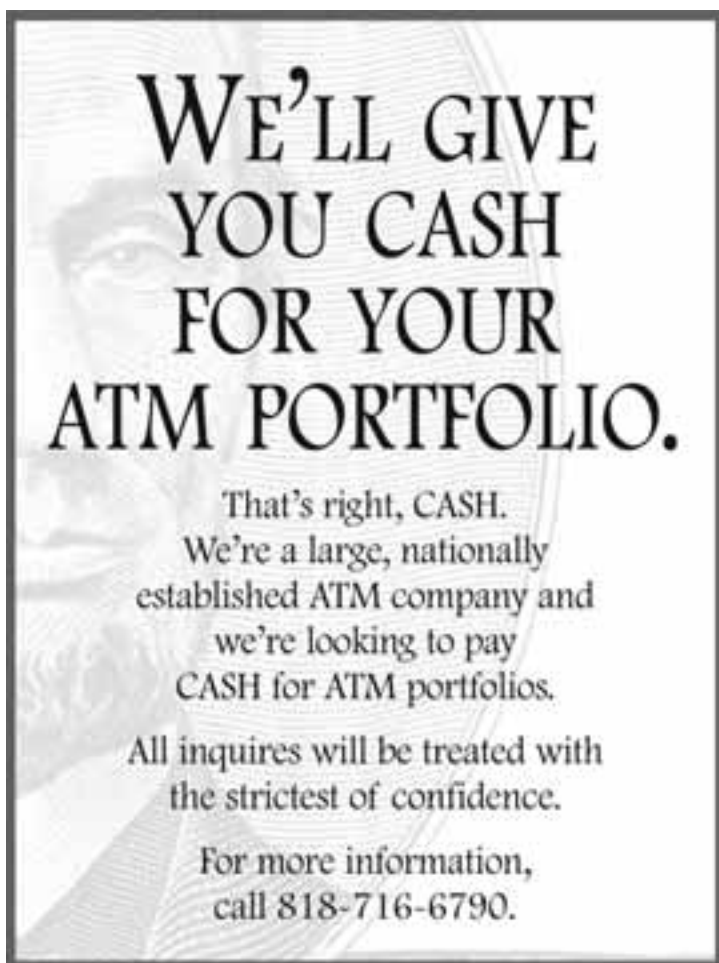
The fact is there is a difference between owning an account and owning the income that the account generates. So read the fine print. Because if you don't own the rights, title and interests of the account, your processor really owns the account.

And that means you can't move it or assign the rights to anyone else. In fact, it means the processor can sell it at any time—despite your so-called ownership.

### 4. The guaranteed approvals lie:

"We approve every application."

The bad news is, this might be true. And if it is, watch out. Every application should be reviewed individually



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and underwritten according to its risk. If all apps are being approved, there will most certainly be a price to pay. Funds will likely be held, delaying payment to the merchant. The frustrated merchant will turn to the ISO that, at that point, will have lost a good bit of its credibility, not to mention its residuals. Guaranteed approvals on all merchant types almost always guarantees bad processing.

**5. The fastest approval process lie:**

**"Your merchant is approved and ready to process in minutes."**

The issue is in the meaning of the word "approved." If it means, "we'll issue a merchant ID number," then it's true. But will the merchant be ready to process? Usually not. A lot of systems need to be turned on and coordinated for a merchant to truly be live. And that takes time. So make sure that when your merchant is "approved," he's ready and able to process transactions.

**6. The benefits lie:**

**"We give you health insurance."**

This can work in several ways. Some companies give you health insurance by giving you a telephone number to call. Whether that call translates into reasonable

health insurance for you and/or your family is really up to you, and the deal you can negotiate. Some companies hook you up with their insurance company and then deduct the premiums—with a little padding—from your residuals.

**7. The technology lie:**

**"Our online system gives you complete access. It's so easy to use. You won't need training. It does it all."**

We spent many hours chasing that story down. And the fact is we could find no system that really gave agents the tools they needed at a price they could afford. All modesty aside, Cynergy raised the bar on that one. And we don't know of another system that truly gives real-time access and control with the breadth of features our Vimas system has. So don't commit to a system until you really see it, use it and know what it can do.

**8. The customer service lie:**

**"Our customer service is unmatched."**

I laugh sometimes when I see this promise in an ad, because often the company is saying it outsources its customer service. So how do they know how good it is? Do they get accurate measurement reports? Do they

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know how long their customers are on hold, or how accurate the responses are, or if their customers are truly satisfied with the service? In my experience, customer service has to be monitored and explored all the time in order to be sure your responses are what they should be.

#### 9. The service lie:

**"We care about you. And we value your #1 customer: your merchant. So we give you everything you need to service that merchant 24/7 and in four languages."**

Translation: there is a 24/7 voice recording and a Spanish-speaking person in App Processing, but they'll get her only if you really need her. When it comes to service, you need to really use your head: Are the people who run the company honest, respectable people? Do they value service above profit? Ask around. We all talk to each other. And about each other. You should know the truth about service before you sign.

#### 10. The trust me lie:

**"We are not for sale. Don't worry, it won't change anything."**

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and your portfolio. Just in case. Better yet, you should give your business to acquirers with a proven history, with a demonstrated commitment to staying in the industry, with financial strength and with management committed to long-term growth and value.

The bottom line: If it seems too good to be true, it probably is. Let's use our heads, spot the lies and stop propagating the myths. An industry based on the truth is a better industry—for all of us. ■

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**T**he Green Sheet has reported on the mergers and acquisitions occurring throughout the financial services industry, as well as on concerns about the privacy of consumer financial information.

We've also reported on identity theft, fraud prevention and issues around compliance with card association regulations for protecting payment information. With the ongoing consolidation of companies within the industry, the instantaneous transmission of consumer data across networks and the unauthorized selling and sharing of the information are raising more concerns than ever with consumers and legislators.

In January 2004, the Consumer Federation of California (CFC) Education Foundation issued what it says is the first published report of financial industry privacy practices. The CFC surveyed the practices that the largest banks, insurers, brokerage firms and credit card issuers in California have put in place, and that go beyond the minimum requirements of federal law, to protect their customers.

The CFC assigned 51 financial institutions letter grades—

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<b>B-:</b> Wells Fargo Bank	
<b>C+:</b> Discover Card	
<b>C:</b> Union Bank of California	

from 'A' to 'F'—based on the controls they voluntarily place on the sharing of their non-public personal information. The grades are meant to give an indication of the entities' privacy practices and the level of control consumers have over their own information. Two-thirds of the financial institutions surveyed received poor or failing grades.

California currently has the strongest consumer financial privacy protection in the country; in September 2003, the California Financial Information Privacy Act of 2003 was passed. In December 2003, however, President Bush signed federal legislation that is expected to overturn a major portion of the state law. To read the entire report, visit [www.consumerfedofca.org/edufund.html](http://www.consumerfedofca.org/edufund.html). ■

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## Interchange from Page 1

\$3,300,000,000

Visa Interlink online debit card traffic - January 2004

\$50,000,000

Approximate interchange fees paid in 2003

the Reserve Bank over the regulator's decision that both companies' credit card operations were subject to its regulation, the same as other financial enterprises ("Not Going To Be a G'Day For Credit Cards Down Under," The Green Sheet, May 27, 2002, issue 02:05:02.)

In the end, both Visa and MasterCard were forced to open up participation in their respective card programs, slash interchange fees and eliminate rules against merchant surcharging. (MasterCard doesn't operate a debit program in Australia, so it's not involved in this latest regulatory skirmish.)

Doesn't this all sound familiar?

MasterCard, Visa, and all retail payments networks for that matter, are under attack from regulators and anti-trust lawyers worldwide. In addition to Australia, actions are being contemplated or already have been filed against one or both of the credit card giants in the United States, the United Kingdom and the European Union (EU).

Meanwhile, the U.S. Department of Justice (DOJ) has let it be known that it's looking closely at mergers involving payments networks, as evidenced by its reaction to the acquisition of Concord EFS, Inc. (a large debit/credit card acquirer) by First Data Corp. The deal went through, but only after First Data agreed to divest its debit card network, NYCE.

When the dust settles from these worldwide offensives, you can be sure revenue streams flowing from merchants to acquirers will be significantly diminished. A new model for acquiring revenues may even emerge.

It's not a stretch. Interchange fees, by their nature, are tough to justify in a free market economy, since it has many of the markings of collective price setting.

### The Many Dimensions of Anti-trust Law

Anti-trust law is serious business. It's not just about mar-

ket size, competition or pricing. These laws have a lot to do with politics: the politics of blame; the politics of economics, the politics of survival.

If the small guys can't compete, they can't survive financially, and that's not good economics.

Economies everywhere are struggling today. If you need any more evidence than your list of friends or acquaintances who are now out of work, consider this factoid: U.S. consumer confidence dropped six points in February 2004, according to the Conference Board. Similar drops in confidence have been reported elsewhere around the world, too, including Australia.


Consumer confidence—which in this market includes small business confidence—is the juice that keeps economic engines running. When governments can't magically improve economic conditions, perceptions can take on significant importance. There's a perception that, I suspect, when economic times get tough, consumers can be mollified by government actions against a few big businesses that are perceived as not playing fair.

Remember the break up of AT&T in the early 1980s, when unemployment was high and so was inflation? The break




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up was portrayed as being good for consumers. Are current economic conditions prompting regulators and anti-trust lawyers to look at POS interchange pricing similarly? Possibly.

### Payment Cards in Perspective

Payment cards certainly are big business—credit cards as well as debit.

In January 2004, Visa reported a huge spike in Interlink PIN debit card activity; compared to January 2003, there was a 39% increase in transactions and a 43% rise in dollar volumes. Visa, which has been promoting Interlink heavily during the last 12 months or so, says it saw \$3.3 billion in Interlink online (PIN) debit card traffic in January 2004.

With more than \$1 trillion a year in U.S. sales alone, Visa already has a huge market in credit card, and offline (signature) debit card transactions. Add MasterCard's totals—15 billion credit card transactions worth \$1.27 trillion, worldwide last year—and you're talking \$50 million, at a minimum, in interchange fees paid by retailers for transactions involving these two card brands alone. (This is a rough calculation based on base interchange rates.)

Retailers say they have no choice but to pass along inter-

change costs to their customers. It's become their battle cry to lawmakers and regulators, in fact. The Reserve Bank of Australia said it took on Visa and MasterCard because of complaints it received from consumers and small retailers.

The EU says pressure from retailers prompted it to attack Visa and MasterCard on pricing. The European Commission (EC), the EU's competition watchdog, ordered Visa to slash cross-border interchange in 2002; last year the EC initiated similar action against MasterCard. Meanwhile, the UK's Office of Fair Trading has described card interchange as a "tax on retail transactions" and has vowed to take action in order to curtail the fees.

### Lessons Learned

Retailers are a large constituency in the U.S. market, especially small independents. And recently, a contingent of independent grocers asked the Federal Trade Commission (FTC) to look into Visa's interchange practices, in particular any special pricing arrangements it may have with large, national retailers.

Under the settlements announced last year between Visa, MasterCard and nearly every retailer in the country, the card associations were required to re-price debit inter-

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**The original concept behind interchange was to compensate card issuers for the risks associated with extending credit. But that hasn't been the case in a number of years—certainly not since Visa and MasterCard began "incentive pricing" to push retailers toward electronic authorization.**

change beginning in January 2004. Another result of the settlements was that several large retailers (among them, Wal-Mart) got to renegotiate debit card rates, securing sweetheart deals that, according to reports, dramatically undercut published prices.

The National Grocers Association (NGA), a trade group representing independent grocers, brought up the issue last month at a hearing on mergers and competition conducted by the FTC and DOJ lawyers.

Contending that there was "no evidence that Visa's favored retailers" were passing on lower debit interchange costs to consumers, the NGA urged federal anti-trust lawyers to investigate the situation and "take appropriate remedial action."

With all these forces coming down on interchange, it may be a good time for Visa, MasterCard, and all

payment networks for that matter, to seriously examine interchange strategies. The original concept behind interchange was to compensate card issuers for the risks associated with extending credit. But that hasn't been the case in a number of years—certainly not since Visa and MasterCard began "incentive pricing" to push retailers toward electronic authorization.

If interchange is about making money—and I don't believe anyone would dispute this assertion—then let's be frank about it.

And let's not lose sight of the fact that in a free market, the marketplace should dictate prices—not just the sellers, or, for that matter, the buyers. ■

*Patti Murphy is Contributing Editor of The Green Sheet and President of The Takoma Group. She can be reached at [patti@greensheet.com](mailto:patti@greensheet.com)*



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## It's Time to Cut the Cord

**T**his column is dedicated to all those MLSs who are afraid to venture away from selling only traditional credit card and debit processing services. Poor babies! Is the competition leaving you behind? Or are you upset because you don't have access to training and your merchants want solutions that meet their needs today...not 10 years ago? Stop your whining and "cut the cord!"

I will help you cut that cord and free yourself to sell wireless processing solutions. Like it or not, wireless processing is here to stay. In our continuing commitment to learn how to sell a new value-added service this year, let's leave our comfort zone and embrace wireless products and services.

Let's look at the basics such as what exactly wireless processing is and how it works, and then explore some of the options available in the marketplace.

Also known as mobile commerce (m-commerce), wireless processing offers merchants the capability to accept credit cards anywhere and anytime with a wireless merchant account. Whether merchants have a service business that works at a customer's location (e.g. plumbers, contractors), or if they take their retail businesses on the road (e.g. taxicabs, swap meets), wireless processing is an easy and cost-effective way for merchants to accept credit cards wherever transactions happen to occur. Additionally, if a merchant's landline terminal or computer modem is tied up, a wireless option can supplement these other processing systems.

Many different types of businesses in certain mobile industries find wireless processing particularly appealing and enjoy tremendous success with it. These merchants find that wireless terminals are increasing sales, saving time and reducing operating expenses. They include:

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- Home Maintenance: carpet cleaning, contractors, heating and air, locksmiths, plumbers, electricians
- Mobile Services: door-to-door, tool trucks
- Retailers: craft and art fairs, mall kiosks, outdoor markets, newsstands, souvenir stands
- Sports and Entertainment: amusement, theme parks, arenas and concert halls, golf courses, racetracks, stadiums
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With m-commerce, there is no need for phone or electrical outlets. Transactions take only a few seconds to complete. Wireless credit card processing terminals are available in retail form (to swipe cards) or for real-time card-absent transactions (to key cards).

Wireless processing, isn't all that new. The acceptance method has been around for a few years, but it's really starting to have an impact on how merchants do business outside of the typical brick and mortar environment.

Starting with wireless terminals at the point of sale, m-commerce has evolved to cellular phones and PDAs. Because of the nationwide popularity of these devices, manufacturers have made significant improvements to their equipment and have added features to attract more customers and meet the demands of the marketplace.

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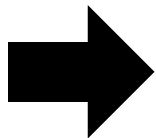


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Those demands translate into benefits for merchants and MLSs. Before wireless solutions became available, collecting funds for transactions made on the road required accepting cash or checks, or manually writing down credit card information to process back at the office or retail locations—risky business, to say the least. Cash and checks get lost. Unsecured credit card information is subject to theft. These problems are resolved with secure, cost-effective wireless solutions.

In addition to reducing risk, wireless processing improves cash flow and speed of transactions. Secure credit and debit card authorizations are done within a matter of seconds. Credit card fraud and chargebacks are reduced. All this has been accomplished through the ability to conduct business where phone lines don't exist.

Two companies at the forefront of wireless technology are Comstar Interactive Corp. and Lipman USA. Recently, I had the opportunity to discuss the world of wireless with them and ask their opinions on MLSs selling their products. I asked the following questions:

- Which wireless products would you recommend MLSs include in their packages?
- What sets your wireless products apart from others?
- What are the major selling points of your wireless products?
- How would you recommend MLSs present your wireless products?
- How do MLSs benefit by selling your wireless products?

Here's how they responded:

JD Gardner, CEO of Comstar, recognizes that there are a number of wireless terminals in the marketplace that MLSs might consider. He recommends MLSs think about their target merchants' needs for wireless solutions, identify a few terminals that fit those needs and then spend time learning the products' features and benefits so they can be passed along to the merchant.

For example, MLSs might consider including Comstar's CHARGE ANYwhere for customers who want a hand-held solution for credit card transactions. Other examples include the Lipman NURIT 8000 or 3010 that have a self-contained printer and can be used for credit and debit card transactions in wireless or dial-up modes and LinkPoint's wireless products.

Gardner stressed that another area, wireless gateways, can be used with the devices in order to offer more value-added services, such as check services, gift card services, wireless device management and real-time transaction management and reporting and capabilities.

Gardner said MLSs should be aware that the CDPD wire-

less networks operated by Verizon and AT&T that were once the standard for processing in the early days of wireless POS are being phased out beginning with AT&T in June 2005 and Verizon in 2006.

The wireless devices that operate on the CDPD networks will cease operating at that time. There is presently no way to economically upgrade a CDPD terminal to allow it to continue to operate after the networks shut down.

Comstar's CHARGE ANYwhere is a hand-held device that can complete a swiped credit card transaction in five to seven seconds. It can also be used as a merchant's transaction processing center for capturing business-critical information via a secure Web site for use later for authorizations, forces, voids, sales or returns, check services—and for gift card/private billing card services to be offered in the near future.

Transactions are encrypted before they are sent over the air. A store-and-forward feature is available when merchants are beyond coverage areas. Receipts can be sent wirelessly to an e-mail address or a fax machine or printed via a portable printer connected through the device's serial port.

Merchants can configure their devices over the air from the Web, to set passwords, change printer receipt headers and fraud protection controls, and view their transactions in real time online. With Comstar's built-in virtual terminal, merchants can also perform transactions via a Web browser. Comstar's product also does double duty for wireless e-mail, using Cingular or Motient's two-way messaging service, making it a good choice for mobile merchants.

Comstar sees several benefits for MLSs selling their wireless products. New products to sell equal new hardware commission opportunities for MLSs. More services at merchant locations equal more residual revenue streams and reliable business partners that will support the MLSs' sales efforts. Gardner believes MLSs will greatly benefit from selling a Comstar solution because it creates a long-term relationship between the merchant and the MLS. At the end of the day, that's a win-win-win proposition.

The other wireless provider I spoke with, Lipman USA, offers a full line of wireless solutions for payment terminals. The company's recommendation for MLSs is the NURIT 8000Secure terminal.

Through its NURIT line, Lipman currently offers its fifth generation wireless terminal in the U.S. market. The latest model, the NURIT 8000Secure, offers multiple wireless network choices depending on customer needs. It is fully compatible with other NURIT products and this compatibility feature enables the same application currently used

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for dial-up terminals to be used on the NURIT 8000Secure, minimizing support costs and training. MLSs already familiar with NURIT products do not require additional training on a new platform.

NURIT terminals are designed to accommodate various market needs and support a wide variety of wireless network technologies within a product. MLSs can choose from Mobitex-Cingular, Datatac-Motient, GPRS or CDMA technologies and offer different configurations for each wireless provider to merchants.

The store-and-forward feature enables merchants to accept payment, even if the terminal is out of network coverage. Moreover, transaction speed is much faster compared to a dial-up terminal, where the transactions are processed in between five to 12 seconds depending on network coverage and strength.

Lipman urges MLSs to identify the needs of the specific customer. Sometimes this is mobility—namely, the need to run transactions on the go or at the doorstep of a customer. Other times it may be the speed of the transaction that provides the merchant with value.

According to Lipman, MLSs should also understand how merchants plan to use the device. Whether merchants will use the terminals within a specific area or use the terminals in different cities may affect the choice of the wireless network provider.

After I spoke with these providers, I asked MLSs for their opinions on selling wireless products and services. I posted the following questions on The Green Sheet Online's MLS Forum:

- What benefits do you get from offering wireless services?

- Do you offer this for financial gains or to improve customer satisfaction and retention?
- If you don't sell wireless products/services, what is the reason?

Here's what a few MLSs had to say:

"I tried to sell a few wireless units, but found that most of the merchants became disinterested in the product.

"They did not understand why they had to use a phone service to accept credit cards and the monthly cost was generally too high for a customer just starting to accept credit cards. The one wireless unit I did sell was a nightmare.

"The merchant did tradeshows in areas where the unit wouldn't work and the back-end help was non-existent. I ended up exchanging the wireless unit for a wall unit. I have

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stopped offering wireless units unless asked because of the headaches involved." —jmartin

"I would love to offer more wireless solutions at an affordable price but I seem to be in a 'dead' area for service. I've tried everything from Comstar to Palm Pilot PDAs." —destin5440

"Wireless payment processing solutions have become the focus of our sales strategy. With the introduction of products such as AirCharge and Creditel, we can now utilize Nextel, Verizon and Sprint PCS data networks, which are much more robust than Cingular Data and Motient, which have been handcuffing the wireless merchant until recently. Both printing and swipe-only solutions through cell phone processing have opened the door to markets that have been deprived of suitable coverage for so long.

"The introduction of 'solid' wireless gateways such as eProcessing Network has rid us of the issues related to duplicate transactions due to faint or lost signals and the addition of real-time, Web-based reporting and online transaction processing complete the package." —Eric Eichlin, President, ePay Management

"We have sold many wireless solutions in the past but have backed away from doing so this year because we feel that there is not a solid solution out there. The list of problems that wireless presents is bigger than the benefits.

"We will start to promote wireless service when the terminal manufacturers make a more sturdy, robust terminal that can handle the abuse of a services man or contractor.

"Also, there are many areas where there is no signal to run the transactions. Last month at the Visa Acquirer Educational Settlement Workshop meeting in Foster City, Calif., Visa mentioned that it recently asked the large terminal manufacturers to address these issues formally." —Matthew Swinnerton, Merchant Services Direct

I agree with many of these comments...for instance, you must select a terminal that works and meets the needs of your merchant and you must have coverage in the area where the merchant is located.

If you do your homework, this market can prove to be very lucrative. Reliable wireless service is available nationwide. Here are three sites that will help you check if coverage is available in your merchant's area:

- [www.motient.com/find/](http://www.motient.com/find/)
- [www.cingular.com/business/mobitex\\_map](http://www.cingular.com/business/mobitex_map)
- [www.attwireless.com/personal/plans/plans.jhtml?planpage=onerate](http://www.attwireless.com/personal/plans/plans.jhtml?planpage=onerate)  
(then click on coverage map).

One thing I found interesting was the statement from Comstar's Gardner: CDPD units (the coverage that was originally sold when wireless first became available a few years ago) will soon no longer work. When this happens, all those merchants who signed up for that service and still need a wireless solution will have to start all over again and find a new terminal and a new service provider.

Here is a huge opportunity for both new equipment sales and signing new merchants for credit card processing services. Make sure mobile merchants are aware of this.

Establish a target market plan to attract merchants that will benefit from your wireless solutions. Approach organizers of trade shows, swap meets and flea markets. Contact taxi and limousine service trade associations and groups.

Look at service industry associations and unions for electricians, plumbers, locksmiths or computer service/repair; another proven lead generator—chambers of commerce. The next time you attend a chamber mixer, introduce a new member benefit geared toward potential wireless customers. The goal here is to turn these relationships into lead-generating machines.

Once you've generated leads and set up meetings, start your presentations by asking questions that will bring out the potential savings that come from discount rates and phone service.

Ask merchants if they'd like to save about \$50 per month by eliminating a dedicated local phone line. Ask them if they'd like to eliminate the need to rent a phone line at trade shows. Ask them if they'd like to not have to use their cell phone service when calling in for expensive voice authorizations.

And ask them if they'd like a better discount rate with savings of at least 75 basis points by swiping instead of keying. With a merchant doing \$10,000 per month in sales, that's \$900 per year in savings—less than the cost of a new terminal.

The key to closing a wireless sale is making sure you compare the cost of the merchant's continued landline use versus wireless, as well as the money saving feature of obtaining a swiped rate versus a keyed rate. Include the benefits that wireless services provide such as real-time credit card processing, mobility, faster transaction speed, ease of use, flexible floor plans—and of course, saving money.

Help merchants understand they will no longer have to make time-consuming telephone calls for voice authorization. Help them realize they will no longer have to

remove their POS terminals from their stores or rent a phone line at a remote location. Let them know they won't have to connect their POS terminals to cellular telephones in order to complete a sale. Tell them they will no longer assume the risk of making credit card sales without on-site real-time authorization. Tell them they will save money.

You can see that I'm quite excited about wireless opportunities. And you should also be excited about selling wireless equipment and services.

This is an untapped market where you can make substantial upfront revenue while building long-term residual income. At the same time, your merchant ends up with a money-saving solution. Bottom line—get out there and start selling this stuff.

My next column will take you on a trip to a virtual world where you'll discover real opportunities on the information superhighway. We'll examine e-commerce products and services, including Internet gateways.

Look for my upcoming post on the MLS Forum. As always, I'd love to hear from you. Please send your comments on this and any other topic to me at

streetsmarts@totalmerchantservices.com. I cannot stress enough that your voice needs to be heard.

**Learning is not attained by chance, it must be sought for with ardor and attended to with diligence."**

—Abigail Adams

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.*

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## Legal Ease Personality and the Law

**By Adam Atlas**

*Attorney at Law*

**W**hen two parties are getting along well, a very bad situation can usually be settled without difficulty. When two parties are not getting along well, a minor issue can become catastrophic for the relationship.

As I review the columns I wrote during 2003, I notice that in almost every one I mentioned something about the importance of personal relationships—from a legal perspective. I have decided to devote this column exclusively to that topic.

Notwithstanding what appears below, the importance of the legal relationship between two parties and the specif-

ic wording of contracts between these parties must never be overlooked. With a disclaimer out of the way, here are 10 points to keep in mind—from a legal perspective—concerning the importance of personal relationships:

### **1. Exercise of Rights is Not Mandatory**

If you are in serious default under a processor or ISO agreement, the bank or processor that is the other party to the agreement usually has (as you are very likely aware) a broad range of remedies available to recover the damages it has incurred and sometimes to penalize you for the default. I recommend taking this range of choices into consideration throughout the term of your agreements in this business.

In the unlikely scenario that the party opposite you has to decide on which remedies to exercise against you, your personal relationship with the key players in that party is at least as important, if not more important, than the substance of the dispute between the parties.

I do not mean to reduce the confidence of processors or ISOs out there, but merely to have them step back for a moment to consider that decisions are made by people at the end of the day and not by written procedures or contracts.

### **2. Misunderstandings Cause Half of All Disputes**

Although based only on an informal review of issues I have seen in the electronic transactions business over the past few years, I am confident in saying that more than half of the disputes arise from misunderstandings.

I define a misunderstanding as one party not knowing the true facts of a situation at the time when they should know those facts.

For better or for worse, a number of safeguards in our business are exercised by automatic computer systems that, for example, close a merchant account following the processing of more than a prescribed amount within a given month.

As a consequence, the machinery of our business can be ground to a halt when the parties operating that machinery had no intention of interrupting the ordinary flow of business. To avoid these kinds of misunderstandings,



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*"Last week, one of my accounts called the help desk for copies of past statements. After customer service spoke with the merchant, I was copied by your agent notification system and decided to contact the merchant. I then found that a competitor was in there attempting to earn their business. Fortunately, I was able to save the account and was, in fact, able to schedule a meeting next week to discuss our gift card program. **Thanks, Nationwide.**"*

E.M.  
Brooklyn, NY

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develop a keen knowledge of the limits for each ISO or merchant in your business, and share as much information as possible—wherever possible—in real time.

### 3. Most People are Reasonable

Perhaps this is just my optimistic personality speaking; however, it is my experience that most participants in our business are reasonable people, especially when they are in a good mood. This is not the kind of advice to take to the bank, nor is it the kind of advice you usually hear from a lawyer.

As much as it is important to be legalistic and careful with your legal obligations and contracts, I am also very sensitive to the need to be realistic and grounded in the real world to solve the kinds of complex problems that arise in the electronic transactions business.

This point would be incomplete without mentioning that there are some characters in our business who are extremely negative and destructive of trusting relationships. Steer clear of these personalities.

### 4. Suing is Too Expensive

Litigation is more often a losing proposition, even when significant amounts are at stake. Litigation in our busi-

ness often requires education of the attorneys involved as well as the judge presiding in the case. This important and time-consuming education is over and above the usual time and expense related to bringing a legal claim to trial.

### 5. Drafting Good Contracts: Preventive Medicine

Even the most well-intentioned individuals occasionally forget the specific terms of an agreement that they have made. This is why even the most trusting and optimistic individual is advised to take time to carefully negotiate in draft all commercial agreements. I am trying to avoid being blunt, but do speak to a lawyer once in a while.

### 6. Leverage your Good Relationships

Good relationships leverage themselves. If your business counterparts like and trust you, then that appreciation and trust is like compound interest on a bank account: it works for you while you sleep. Don't make the mistake of underestimating this hidden upside of good business relationships.

### 7. Small Problems Grow

Most big issues begin as very small issues. Many issues can be nipped before they get out of hand.



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**The electronic transactions business is very much a business about sales. And as a sales professional, you come to know personalities. Use this knowledge to your benefit and get involved only with people you trust.**

### 8. Electronic Transactions Requires Good Relationships

Because of the complexity of the electronic transactions business, it is important to be sensitive to the personal relationships surrounding your business and legal deals—maybe more so than in other businesses.

### 9. Take Notes

Whenever you are negotiating a business deal, or having a telephone conversation concerning a menu issue that could become significant, get into the habit of taking notes.

Your notes should include the name of the parties at the meeting or conversation, the date, the time and the substance of the conversation. At a

later date, these notes may be used as evidence to determine the intent of the parties at the time of the formation of an agreement. The notes will also serve to remind you of the deals you have made.

### 10. Bad Apples

Creating good business relationships is not all about improving yourself. Half of the task is improving your ability to determine whether the party opposite you is suitable as a business partner for you.

The electronic transactions business is very much a business about sales. And as a sales professional, you come to know personalities. Use this knowledge to your benefit and get

involved only with people you trust.

I also advise entering into business relationships with people you trust and admire. In a word, be friendly, and know who your friends are.

As my mother has always told me, it's never too late to make enemies.



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## A Way for Merchants to Avoid Losses in Wave of Online Fraud

By David H. Press

*Integrity Bankcard Consultants, Inc.*

**T**he FBI recently reported that online merchants experienced another record year in 2003 for online fraud. The fraudster's targets ranged from small merchants working out of their homes to the largest online marketers.

The fraudsters use clever schemes to mask their identities and actual locations. They pretend to be in the United States using free e-mail addresses, but are actually operating elsewhere. On a recent visit to one of our clients, an online marketer of consumer products, we discovered a number of fraudulent transactions where the customers claimed to be in the United States but were really in Malaysia.

This was costing our client plenty. Not only was our client

responsible for the chargebacks from the fraudulent transactions and the loss of its product, it was in jeopardy of losing its merchant account and being placed on the MATCH [list of risky merchants] due to excessive chargebacks.

The merchant's ISO dramatically increased its reserve account and the client's chargeback rate was approaching the card Associations' chargeback thresholds and potentially facing huge fines.

We expected to work with the client simply to improve its processes and procedures to reduce chargebacks, but found that many of the chargebacks were due to fraudulent transactions.

Fortunately, we had just completed another engagement with one of our merchant customers that was using Network Merchants iSpyFraud software and had virtually eliminated chargebacks for fraudulent transactions from its operations.

From our past experience with available fraud prevention solutions, we found that most companies offered only brick and mortar solutions. They assign a score to the transaction based on merchants' locations and frequency of purchases. These safeguards failed to address online transactions where customers purchase products routinely from a vast number of merchants in varying locations.

By prohibiting transactions that appear risky, these brick and mortar fraud protection companies were throwing out the baby with the bath water. They would leave customers without the merchandise, unhappy, and merchants without the sale, frustrated.

We recommended the Network Merchants iSpyFraud software to our client and within seconds of activation, with the help of Network Merchants' customer support, we discovered dozens of fraudulent transactions.

One feature this software offers is that the user can establish multiple rules that either deny the transaction immediately or flag it for review later. After analyzing the types and locations of the fraud our client was experiencing, we set up a number of traps that caught fraud instantly.

In less than a month, our client was able to reduce its fraudulent transactions to levels well below the established standards.

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**Phoenix Financial, LLC**



I spoke with **Matt Schmidgall**, one of the chief architects of Network Merchants Software to learn about the genesis of its operations:

**Question: How did you get started in fraud prevention?**

**Schmidgall:** A few years ago, I was contacted by an accredited Internet Domain Name Registrar who was experiencing about \$44,000 a month in fraudulent transactions. They were told by their ISO that their account was in jeopardy. The company was using a conventional type of fraud software, but still had an 11% charge-back ratio.

I started working with their programmers to develop a system that could quickly help them out of the trouble they were in, and the end result after modifications and enhancements is the iSpyFraud product.

**Q: What made your solution work and how is it different?**

**S:** iSpyFraud is different than most of the other options available because the fraud rules can be adjusted specifically to each individual company. It works great whether you process 10 transactions a month or 10 mil-

lion. It works for all online transactions regardless of the product. Currently the domain company has a charge-back ratio of less than 0.3% and processes more than 14,000 transactions a month. Many of our other merchant clients have experienced similar results.

**Q: How does iSpyFraud software work?**

**S:** Fraud filters eliminate the majority of fraudulent transactions in real time. The selected filters can be customized for each merchant, which are continuously updated to keep the merchant one step ahead of the fraudsters.

The iSpyFraud management tools give merchants quick and user-friendly control over their online fraud security system.

The control panel allows merchants to maintain their own good and bad customer list, edit filters, restrict access by banning IPs and set up and maintain filter controls.

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**Q: How can ISOs and MSPs benefit from the iSpyFraud software?**

**S:** ISOs, MSPs and financial institutions that sign up with iSpyFraud earn residual commissions on every transaction scanned by the software. You set the fee for the service and make the difference from the small transaction fee we charge. For a limited time our affiliates can earn 100% of the set-up fee.

**Q: Besides the fraud protection services, do you offer any other products?**

**S:** Yes. Network Merchants offers a fully functional gateway that delivers a host of other services including ISO and MSP private labeling, free recurring billing, load balancing between multiple merchant accounts and electronic check processing.

**Q: Can you explain what makes you different from other gateways?**

**S:** We private-label ISOs and MSPs so that they can offer gateway services directly to their merchants. They set the price for the services and we pay them the difference from what we charge. ISOs and MSPs generate revenue on set-up fees, per transaction fees and monthly fees.

**Q: Does Network Merchants have any other affiliations or accreditations?**

**S:** Network Merchants is proud to be one of the only certified PAGO gateways in the United States for international transactions, which allows us to accept multiple currencies. We have also teamed up with Western Union to offer Swift Pay, where customers can pay for online purchases with cash at any of more than 40,000 Western Union locations nationwide.

The iSpyFraud software has worked so well that we continue to refer our e-commerce merchant customers to Network Merchants for its gateway services and iSpyFraud software. Fraud is not going anywhere soon. iSpyFraud software is a great tool to help the merchant cut down on chargebacks for online fraud, which can make the difference between the MSP and ISO losing a high volume income producing merchant and being exposed to chargeback losses and fines from that merchant. For further information regarding iSpyFraud or any other Network Merchants services, visit them directly at [www.networkmerchants.com](http://www.networkmerchants.com) .

*David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. Phone him at 630-637-4010, e-mail [dhp@integritybankcard.net](mailto:dhp@integritybankcard.net) or visit [www.integritybankcard.net](http://www.integritybankcard.net).*

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## Understanding the Perspectives of Chargebacks

By Jared Isaacman

*United Bank Card*

Chargebacks are one of the most misunderstood components of the bankcard industry. A common misconception is that chargebacks are synonymous with fraudulent or 'bad' merchants. While that is a good rule of thumb to follow, the reality is that perfectly legitimate and sincere businesses can be plagued by unfounded chargebacks.

The purpose of this article is to provide you with a better understanding of a merchant, cardholder, processor and bank's perspective on chargebacks. (The word "processor" will have a dual use for any entity ISO/MSP or processor that holds the risk and liability on a merchant account.)

As most of you are aware, Visa and MasterCard have always favored their issuing banks, which, in turn, creates favoritism for their cardholders. The April 2004 interchange increase is a classic example of this. I believe the motivation for the latest increase is entirely issuer-focused. We can also apply that same logic to cardholder and merchant disputes.

The Associations will typically favor cardholders over merchants on disputed transactions. Of course, we all want to see consumers protected from unfair and deceptive business practices, unfulfilled purchases or gross misrepresentation. But who protects the merchants? Merchants can do everything correctly and still lose chargebacks. This leaves them little recourse through costly collections outside of the Associations' control.

From a processor's perspective, chargebacks have more than one face, but the biggest concern is with the bad merchants. These are the merchants that set up "bust-out" accounts and run stolen credit cards, use card skimmers, sell a misrepresented product, engage in deceptive business practices or simply just don't fulfill a product or service that was promised.

The environment these merchants create will result in chargebacks and an increased liability to their processor. This is where risk management would get involved and help minimize the exposure.

Processors are responsible for paying all chargebacks if the merchant is unable to pay. This concept alone is the

basis for all underwriting and risk management criteria adopted by this industry. The merchant agreement and the Associations' rules and regulations have provided the framework for controlling the processors' inherent exposure.

From the perspective of most processors, chargebacks bring something more serious than monetary losses; chargebacks bring Visa's and MasterCard's Chargeback Monitoring Program. Previously, the Chargeback Monitoring Program was brought in with a 2% exception (chargeback/retrieval) rate or excessive refunds. That limit was lowered to 1% as of October 2003.

The monitoring program extends over 12 months, but almost never exceeds the third month. The reason for this is a barrage of fines from Visa and/or MasterCard to the amount of \$50 per chargeback in addition to a \$5,000 review fee and a possible audit by the Associations. No processor or bank welcomes the fines or audit, so they will almost always terminate a merchant account before they complete the third month of the monitoring program.

With the understanding of chargebacks as they relate to bad merchants, the monetary losses for which processors are liable and the consequences from the Associations, the other side of dealing with chargebacks is 'What about the good merchants?' Is it possible for good merchants to have chargebacks? Is it possible for good merchants to wind up on the chargeback monitoring program? Absolutely. There are certainly plenty of good merchants out there that are unfairly taken advantage of by cardholders.

Without a doubt there is a percentage of cardholders who understand how to work the system. Knowledgeable cardholders can bend the chargeback rules in their favor quite easily. Unfortunately, there are industries that are targeted for this and have ultimately wound up on most processors' list of unacceptable merchants.

Are travel agents considered bad merchants? Not necessarily, but why are they always on unacceptable merchant lists? Travel agents can do everything correctly: swipe the card, get an imprint and a signed invoice. But they can still lose a chargeback. The cardholder goes on a vacation and plays the 'services not rendered as described' game or another chargeback reason code—and most likely wins.

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There are several examples of this including e-commerce, service industries, businesses involved with futures or memberships, etc. These businesses can play by the rules exactly and still lose chargebacks. As a result the processors must protect themselves from the monetary liability and the involvement of Visa and MasterCard by preventing both good and bad merchants from becoming chargeback problems.

This has been hammered out over the years through unacceptable merchant lists and risk management flags geared toward historically problematic SIC codes.

While processors, merchants and cardholders are exposed to both perspectives of a chargeback, banks are often only concerned with Visa and MasterCard. Unless banks are actively involved with the transaction processing, their only responsibility is to their membership with the Visa and MasterCard Associations. The fines, audits and phone calls from Visa and MasterCard all hit the banks first. The banks, therefore, are most concerned with their reputation and positive standing within the Associations.

A sponsoring bank will almost always side and push in favor of the Associations. This is perhaps one of the biggest dilemmas of the industry. The acquiring banks

and the issuing banks have their distinctive roles with the purpose of creating a balance.

As it pertains to chargebacks, the reality is that the issuers have the most clout while the sponsoring members usually assume an attitude of "not rocking the boat." That leaves processors in a very difficult situation—but not so unusual that the same model above applies to multiple aspects of the bankcard industry.

In the big picture, chargebacks have only negative ramifications for merchants, processors and banks. Although there is certainly a percentage of legitimate merchants unnecessarily caught up in the process, the system does far more good than bad. On all levels, understanding the different perspectives of chargebacks is critical for communication and risk management.

While some good may be caught up in the bad we are an industry of averages and percentages. The actions of all parties involved are based on the averages in which the bad outweighs the good. Hence, the common misconception is that chargebacks are synonymous with bad merchants. ☒

*Jared Isaacman is Director of Operations for United Bank Card, Inc. Reach him by calling 908-638-5326 ext. 120 or email him at [jared@unitedbankcard.com](mailto:jared@unitedbankcard.com)*

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## Use of Wireless LAN Technology for Secure and Customer-convenient Electronic Payment

By Michael W. English

Ingenico

### What is a wireless LAN?

A wireless LAN (WLAN) is a local area network without wires. WLANs have been around for more than a decade, but are just beginning to gain momentum as a result of falling costs and improved standards. WLANs transfer data through the air using radio frequencies instead of cables.

Some wireless LANs can send data over a radius of 500 feet indoors and 1,000 feet outdoors—with antennas, transmitters and other access devices extending the area served.

### Key electronic payment WLAN attributes

There are several factors merchant sales reps should be

aware of when selling a short-range wireless payment terminal LAN. Those are:

- Square footage of average restaurants is 6,000 feet with dining areas of 4,000 square feet requiring the terminal to operate with an average radius of 75 feet
- The payment terminal must be lightweight, durable, operate six to eight hours and hold 100 to 200 transactions per terminal before batching out
- The LAN must provide a primary terminal that holds a single batch with backups available on each secondary terminal
- The LAN should provide a single hi-order communications using with traditional dial, IP over dial or broadband with dial backup

### What WLAN technologies could be used for electronic payment acceptance?

There are two types of wireless technology that offer a solution for retailers, restaurants and businesses that need customer-convenient payment: WiFi (802.11b) and Bluetooth.

A new standard created by the Institute of Electrical and Electronics Engineers (IEEE) called 802.11b or WiFi transfers data at speeds of up to 11Mbps (million bits per second) in the 2.4 gigahertz radio band where a license is not required for this band.

Bluetooth is the name given to a wireless technology using short-range radio links to replace the cable(s) connecting portable and/or fixed electronic devices. Its key features are robustness, low complexity, low power and low cost. Bluetooth also operates at 2.4 gigahertz radio band with transfer speeds of about 720kbps (kilo bits per second).

### What are the differences between WiFi and Bluetooth?

In relation to the needs of a retailer, restaurant or business accepting electronic payment, there are four areas that are critical to successful wireless payment acceptance: coverage distance, transmission reliability, security and power consumption. Transmission speed is not a significant factor in selecting either WiFi or Bluetooth since the average authorization message is only 200 bytes and the average application for downloading is 250K bytes.

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Even though there is a substantial difference in transfer speeds between WiFi and Bluetooth, the small data transfer amounts will not account for any significant difference in transaction authorization speed.

### Coverage Distance

Bluetooth is specified to operate at about 30 meters, which is a little over 110 feet. WiFi operates at about 300 feet. Being that the average restaurant requiring multiple payment points is 5,000 square feet and that multiple terminals will be implemented, selecting Bluetooth will not impair wireless coverage. Engineers have successfully tested Bluetooth for up to one-quarter mile in distance.

### Transmission reliability

Designed to operate in noisy frequency environments, Bluetooth uses fast message acknowledgement and a frequency-hopping scheme in order to ensure that wireless transmission is robust and successful.

Bluetooth radio modules operate in the unlicensed ISM band at 2.4GHz and avoid interference from other signals by hopping to a new frequency after transmitting or receiving a packet.

Compared with WiFi, which continually operates in the same frequency band, Bluetooth is more efficient in data packet transfer. Use of WiFi in establishments where people use PDAs, cellular phones and other wireless devices and where other area WiFi networks are located nearby may experience transaction authorization difficulty.

As the popularity of WiFi grows and if too many people or businesses in the same area have WiFi WLANs, then the band of air in which they transmit signals can become overcrowded. Problems with signal interference are already occurring and there are fears that the airwaves will become overloaded.

### Security

A small research group from the University of California at Berkeley recently released a report stating that they found flaws in WiFi (802.11b). In the report, the researchers said that they were able to intercept transmissions over the wireless network.

These transmissions were encrypted, but the encryption was broken. Through its frequency-hopping and use of SSL (Secure Sockets Layer provides authentication and confidentiality to applications), Bluetooth technology makes it more difficult to intercept wireless transaction



transmission. Bluetooth is a highly-secure radio technology, well suited to transmit confidential data. Each Bluetooth address is unique—changing 'channels' 1600 times a second makes eavesdropping difficult.

The user can request authentication through a remote device (exchange of secured link keys) using PIN verification of up to 16 bytes. All transmitted data are encrypted with security increased at the application level. Bluetooth also offers two levels

of (optional) password protection. WiFi has all the security risks associated with other networks, once someone has access to one part, he or she can access the rest.

### Power Consumption

Bluetooth has a smaller power requirement than WiFi and Bluetooth communication modules are physically smaller, making Bluetooth a good choice for consumer electronics devices. With a requirement to operate a terminal for six to eight hours, terminal power consumption used during transmission and printing may become a major factor.

### Ease of Installation

Using Bluetooth, a single terminal can be connected to up to seven other terminals at the same time. WiFi is more complex—requiring the same degree of network management as any comparable wired network.

This may extend the time required for a merchant sales rep to install the WLAN payment system—reducing customer satisfaction and merchant sales rep profitability.

### Summary

Wireless technology removes the impedance to successfully selling and implementing LAN-based payment systems by eliminating the need for wiring. Of the two major choices available to terminal providers today, Bluetooth offers the most attractive solution for short-range wireless payment terminals, providing advantages in coverage distance, transmission reliability, security and power consumption. ■

*Michael English is the Director of Marketing and Communications for Ingenico, the global leader in payment terminals, operating in over 80 countries. Ingenico is also a leader in wireless payment technology, shipping over 200,000 wireless terminals in 2002. For more information about Ingenico and our wireless payment products, visit our North American Web site at [www.ingenico-us.com](http://www.ingenico-us.com)*



## Parlin, Levy Join Board

By Julie O'Ryan-Dempsey

*Vice President and General Manager, The Green Sheet, Inc.*

**T**he Green Sheet Advisory Board has gained two new members and broadened the industry expertise of the group. Each brings a wealth of industry experience and a different perspective to contribute to the comprehensive information we provide our readers.

### Mitchell Levy - Executive VP and Director of Business Development, Cynergy Data

Mitchell Levy is responsible for new business development at Cynergy Data. Before coming to Cynergy, he had gained impressive experience in law, business and investments, including leadership positions at Ark Restaurants Corp. and New Tech Capital, where he served as Vice President of Business Development. He also practiced law at Salomon, Green & Ostrow.

Levy's high-energy style and entrepreneurial spirit, honed during the time he spent as a successful venture capitalist, will serve him well in the payment processing industry. He brings a unique perspective to Cynergy,

which he has agreed to share with our readers through the Advisory Board questionnaires.

### David T. Parlin - President, The ATM Exchange, Inc.

David Parlin is founder and owner of The ATM Exchange, Inc., based in Cincinnati. The company opened for business in 1979 and concentrates on global remarketing of ATMs to third party service companies, financial institutions and ISOs. In 1993, Parlin formed a separate company called ATM Plus, a full-service ATM and traditional bank equipment provider. Today, ATM Plus has a business base that includes more than 2,000 ATMs at more than 300 financial institutions in Ohio, Kentucky, Indiana and West Virginia.

Parlin's experience includes executive roles and experience in marketing and sales with companies Proctor & Gamble, Ohio Knife Co. and Cincinnati Carbide and Cutting Products. We are pleased to have an ATM-specific voice on The Green Sheet Advisory Board and look forward to sharing Parlin's insights with you.

If you have questions to post to The Green Sheet Advisory Board for upcoming articles, please write to [julie@greensheet.com](mailto:julie@greensheet.com) .

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It also supports custom applications. Hypercom's HyperWare FPE toolkit enables software developers and systems integrators to build, customize and integrate their own applications into existing POS systems.

This terminal provides merchants with branding and marketing opportunities at the point of sale. With its in-mold decoration (IMD) technology, retailers can use their own distinct colors and vibrant full-screen graphics for logos and coupons.

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## Making Payment Possible for the Unbanked

### Product: Pay-Ease PayStation

Company: Pay-Ease, Inc.

For consumers without bank accounts, paying bills can often be a hassle. Mount Prospect, Ill.-based Pay-Ease, Inc. is offering the 'unbanked' a convenient and secure way to make payments and conduct other financial transactions—all from one location that is accessible 24 hours a day.

Anyone can use a PayStation kiosk to pay a bill, but the products are targeted to customers who pay their bills in cash at payment centers or currency exchanges—by some estimates about 25% of people in the United States.

Pay-Ease's PayStation kiosks offer full-service ATM cash dispensing and banking functions such as deposits, transfers, check cashing and foreign money wire transfer services. The machines will accept personal and business checks and cash payments—no deposit envelope required. They also accept payments by credit, debit and smart cards.

PayStation accepts bill payments for many major utility and other service providers including electric, gas, telephone, cell, cable, credit card, insurance, parking tickets, water bills, rent and other occurring monthly obligations.

Many of these types of payments take days to get posted to accounts, but Pay-Ease, Inc. said its payment transaction are updated hourly, so no more cancellations of services or bad credit marks from late or unpaid bills.

A convenience fee is added to the amount of the bill the consumer is paying, and then it is deducted from the payment Pay-Ease, Inc. makes to the biller (a services subscriber). Customer payments will appear on their statements.

Pay-Ease, Inc.'s payment processing systems and network are behind each PayStation ATM. Using the ACH, check payments become e-checks; the check's are truncated and returned to the consumer. A third party partner of Pay-Ease, Inc. processes credit/debit and cash payments.

ISOs and MLs can add more transactions (and more revenue) to their overall transaction volume with a Pay-Ease PayStation at merchant locations such as grocery and convenience stores. They also have the option to own or lease PayStations and service the kiosks themselves, or contract through a third party.



Some of the features of the PayStation kiosks include a touch screen; multi-language support—customers can select instructions in English or Spanish; a currency acceptor (up to \$100 bills); a check reader; a bar code scanner; cash dispenser for \$20 bills—no change is given; a credit/debit/smart card reader; receipt dispenser—receipts print the date, time and amount that was paid in checks and cash; and a keypad.

In 2003, Pay-Ease signed a contract with the State of Illinois Department of Human Services to distribute Illinois Welfare Benefits. The company is also collecting payments for the City of Milwaukee.

### Pay-Ease, Inc.

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— Ben Stein

## Making the Most of Trade Shows

It's that time of year again. The industry's largest trade show of the year, Electronic Transactions Association (ETA) Annual Meeting and Expo, will be held April 20 – 22, 2004 in Las Vegas. Whether you're a first timer or an old pro, there are some preparations you should make for this spectacular event—or any other trade show you might attend this year.

### Set Goals

When you registered for the conference, you probably had a good reason in mind for attending. Remind yourself of it and then take some time to decide what you would like to accomplish while there.

You can make new ISO contacts, find new equipment vendors, network with your colleagues or become better informed on changes in the industry. If you make a list defining clear goals for the show, you will be able to focus your time more effectively.

If your goal is to make contacts with new ISOs, be sure to set up some appointments ahead of time. While you will meet new contacts at the exhibitor booths, you may not have their full attention, or you may not be able to speak with the person with whom you really should be. If you set up appointments ahead of time, you will have the full attention of the right person. It also shows the contact that you are a serious professional.

If you are looking for new equipment vendors, prepare yourself with a list of your needs and some key questions to ask at the show. This will help you eliminate the products that do not fit your criteria and help you focus on the best ones for your customers.

If you have a specific problem with a merchant, you may be able to find a vendor to help you with a custom-tailored solution.

Most people at this tradeshow will want to network with colleagues. While it is a good idea to set up some meetings ahead of time, make sure you leave time available for



impromptu gatherings. You never know whom you might run into or meet at these shows.

Read through the ETA's program ahead of time and decide which sessions would be most interesting and beneficial to you. Don't try to cram too much into the day. Pick a few key sessions and go in fresh and ready to assimilate the information presented.

### Budget

Before you go, it is advisable to formulate a budget for your trip. Trade shows can be expensive affairs, but they are also a good way to accomplish a lot of business in a few days' time. Preparing a budget can take some of the stress out of spending. If you budget prior to registering, it can also help you to decide if this trip is worth the money you will spend.



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Be sure to include the following in your budget:

- **Registration Fees:** There are fees for the show and also for any special events or extra workshops you may wish to attend.

- **Transportation:**

Air, Mileage, Train etc. – If you plan far enough in advance, you can get a better price on commercial travel.

Taxis, Shuttles – Don't forget the trip to and from home and getting around town at the show.

Rental Car – You may want to call your hotel and ask if a rental car is a good idea. Some cities can be very difficult to get around in by car and you may be better off in a taxi or on foot.

- **Lodging:** Find out if the event has scheduled a block of rooms at the hotel. Good rates may be available, but book early because these rooms always go fast. Staying at the same property as the show may offer good networking opportunities, but can also be a more expensive choice. If you stay off property, be sure to stay within an easy walking distance.

- **Meals:** Make sure you know what is included in the price of your registration. Some events will include a

meal. Skipping one meal is fine, but you do need to keep up your strength. The days can be very long at a trade show.

- **Entertainment:** Keep in mind the number and type of appointments you have set. You don't have to spend a fortune to make an impression. More important than the price is the location. Is it easy to get to? Can you have a conversation without yelling over the outside noise?

- **Tips:** For trade shows in the United States, it is customary to tip cab and shuttle drivers, bellhops and sky-caps; it also considerate to leave a tip for the hotel's housekeeping staff.

## First Impressions

Remember, the first impression you make will be a lasting one. Trade shows are business functions, not vacations. Although you typically do not meet with merchants, you do meet with other professionals in your field.

Many trade show brochures include dress suggestions. If you are unsure, call the event coordinator. Most trade shows are business-casual; include something for a dressier occasion, too.

You may want to attend an evening reception or go to a restaurant that has a dress code requirement. Also, don't forget to check the weather of the city to which you will be traveling. Shopping at the last minute for a coat can be expensive.

It's easy to get caught up in the party atmosphere of a large event. However, you do want to remember the people you meet and the conversations you have, so watch your alcohol consumption. By all means have a good time, but pace yourself and make sure you eat.

## Business Cards

Before you go to the show, check your business cards. Are they up to date? Do you have enough? Don't underestimate the number you will need to have on hand—they go quickly at shows.

Be sure to collect business cards from every contact you make and every booth you visit. As you collect them, make notes on the back about the company, the product or service offered and any promises you make to the person you collected the card from. This will be invaluable when you return home and begin your follow-up.

Make sure you have a business card file binder or box so that you can organize the cards when you get home. You may want to keep a separate file for each show you attend and label it with the show name and dates.

If time permits, you may want to enter the contacts into

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## Electronic Transactions Association 2004 Annual Meeting and Expo

**Highlights:** This is the biggest event of the year for the electronic payment processing industry. Nearly 2000 attendees from across all segments of the industry—from sales agents to CEOs—from all over the country and around the world are expected at this year's ETA Annual Meeting and Expo.

Network with strategic partners, vendors and third party suppliers; learn about the latest technology, trends, products and services. Four educational tracks include sessions in operations, sales and marketing, emerging markets and technology; more than 130 exhibitors will participate. Relevant keynote presentations, general sessions, the President's Dinner, receptions and a golf tournament are also important event components. This year, ETA offers specially discounted one-day registration to all independent 1099 MLSs—attend Wednesday or Thursday for \$185.

**When:** April 20 – 22, 2004

**Where:** MGM Grand, Las Vegas

**Registration:** Visit [www.electran.org](http://www.electran.org); phone 866-ETA-MEET

## 13th ACA International Internet & Check Services Conference & Expo

**Highlights:** The Association of Credit and Collection Professionals Conference and Expo will provide a wealth of information including an overview of the Check 21 Act; a business case for moving to Internet collections and accepting payments via the Internet; an update on the recent amendments to the Fair Credit Reporting Act; how to collect from co-debtors in bankruptcy, a panel of representatives from the three major consumer reporting agencies; a panel of MAP attorneys, and an overview of the NACHA rules.

The Expo will showcase the latest in technology and services to aid you in your check business or Internet collections. The Expo will allow you to meet some of the most knowledgeable business people in the credit and collection industry.

**When:** April 21 – 23, 2004

**Where:** Wyndham Miami Beach Resort, Miami Beach, Fla.

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

your computer address book; most e-mail programs include an address book.

### Follow-Up

It is important that you complete your follow-up as soon as possible after returning home. This should include:

- **Thank you notes** to anyone with whom you had a scheduled meeting. Usually, just a quick note thanking someone for the time spent with you can be enough to make you stand out.
- **Phone calls** to any contacts with whom you conducted business. These calls can include further discussions or follow-up to assure satisfaction with services or products you may have provided.
- **Letters to contacts** with whom you have projects. Include a description of what was discussed at the show and the steps you intend to take to accomplish any goals that were set. Also include expectations you have for their follow-through.

Remember all those business cards you collected. Now is the time to sort through them and fulfill any promises you made.

If you promised to send someone a contact name or informational material, do it now. You want to make sure the contact remembers who you are and why you are sending them information.

### Evaluation

Finally, you should evaluate your attendance at the show. Did you accomplish your goals? Write down what you achieved and weigh it against the actual cost of the show. Balancing the value against the cost will help you decide if you should attend this show again.

If you do decide to go again, think about any changes in strategy you may want to make. Did you achieve enough or can you do more with some planning? A little time spent before the show can be a great aid in getting the most out of your trade show dollars.

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