



The Green Sheet

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

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Publishing Excellence Since 1983

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GS Reach Continues to Grow

The Green Sheet's Web site, GS Online, hit a huge milestone in March 2004—achieving 2,036,547 hits in one month! Our Web site traffic has increased steadily over the past several years and grew by 34% over March of the previous year.

The number of visits (a single user loading any number of pages without a 15 minute lapse) has increased, too, and the actual raw amount of data being transferred each month has dramatically grown—doubling in a year's time.

The Green Sheet, Inc. owns multiple servers, housed at our Texas site, that handle thousands of GS Online users daily. The servers are scaled to

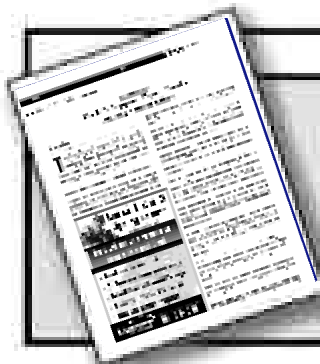
support 20 times our current traffic levels.

We made many improvements to GS Online in 2003. In June, we redesigned the Web site's general look and feel, and we also added new category headers and regrouped the pages into more appropriate topics.

We think the site not only looks better, but with its new format and intuitive design, visitors are better able to navigate through it.

In the fall, we more seamlessly integrated the login process to GS online

 See GS Online on Page 50



Notable Quote:

We all know the only people writing checks today are little old ladies, identity thieves, check-kitters and forgers. The rest of us stopped writing checks years ago, so it only stands to reason that the check has either taken its last breath or is in the Intensive Care Unit.

See Story on Page 74

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- » Audrey Blackmon-POS Portal
- » Shannon Byrne-Paradata Systems
- » Robert Carr-Heartland Payment Systems
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- » Sara Krieger-Northern Leasing Systems
- » Lee Ladd-LADCO Leasing
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- » Mitch Lau-Money Tree Services
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- » David Press-Integrity Bankcard Consultants
- » Charles Salyer-GlobalTech Leasing
- » Lisa Shipley-Hypercom
- » Dave Siembieda-CrossCheck
- » Matthew Swinnerton-Merchant Services Direct
- » Jeff Thorness-ACH Direct
- » Scott Wagner-Consultant
- » Dan D. Wolfe-Barons Financial Group



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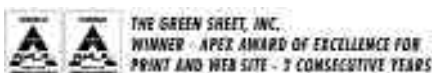
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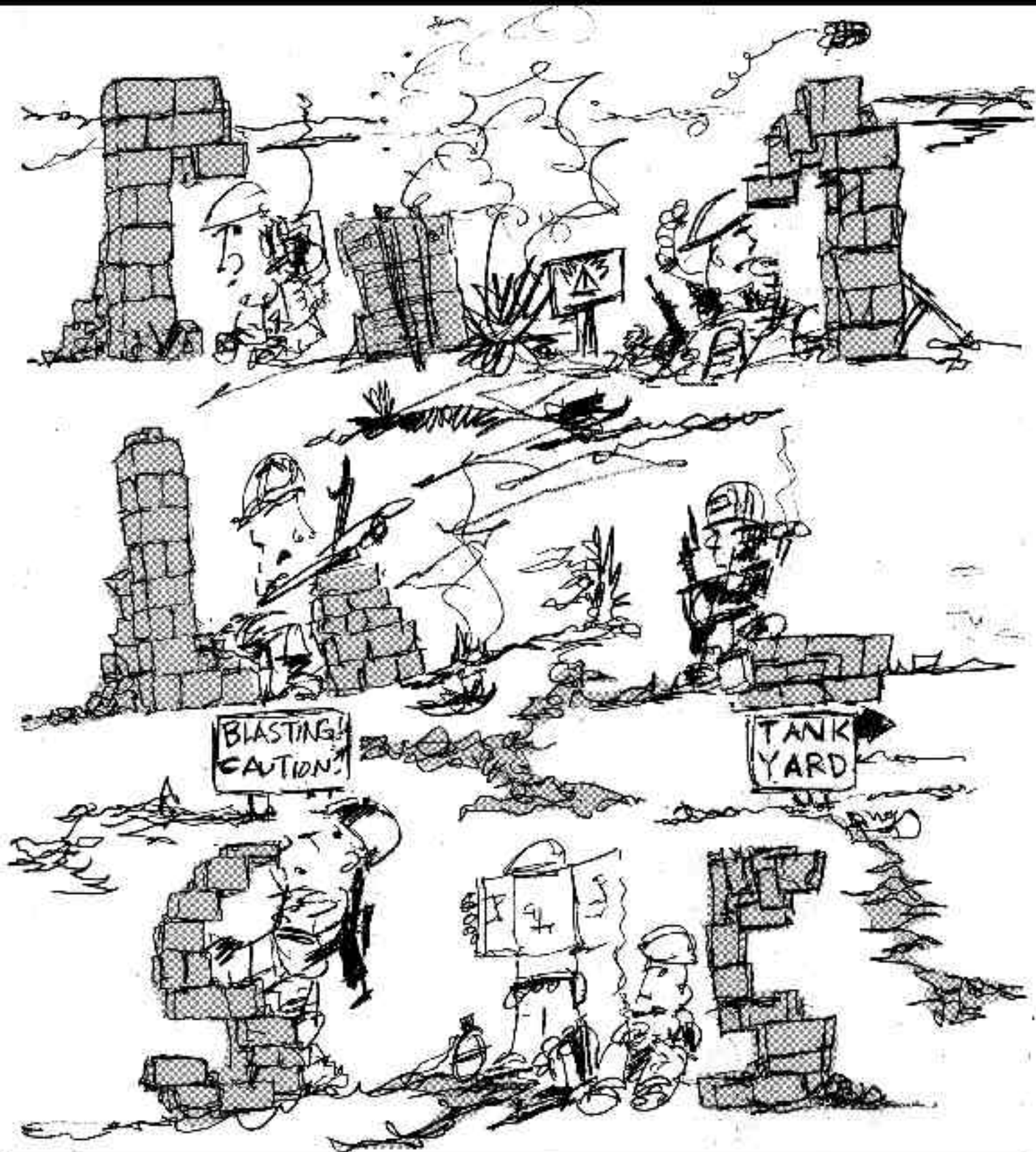
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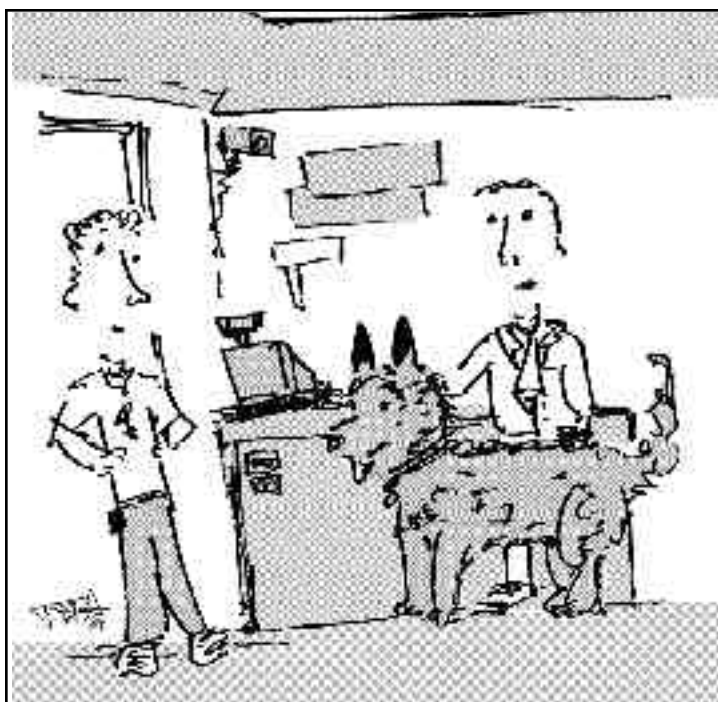
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How Many Are ISOs?

Of the 6,000-some registered users on GS Online, how many are ISOs and how many are agents, etc.? It would be nice to know the makeup of these folks. Thanks.

John McKee
MetroATM@yahoo.com

John,
We have no way of delineating our database to that level. Approximately 82% of our subscriber base are MLSs/ISOs, the rest are vendors, processors and banks. However, all of this is determined by what users choose to call themselves when they register.

Editor

A Clarification on Gift and Loyalty Software

I thought the article on gift and loyalty ("The Gifts That Keep on Giving," by Ed Freedman, March 8, 2004) in issue 04:03:01 was timely and informative. In my opinion, if MLSs are not leading with value-added products today, they are losing many sales. I would like to respond to cc guy's comments on page 61 of the article.

TenderCard is certified on all Hypercom T7 and ICE equipment with

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512k of memory. The key is to ensure that your processor will do the download or allow the ISO to so. Most processors have the ability to provide downloads. TenderCard provides download parameters for each equipment type to the entity that is responsible for the download process.

There are devices that allow partial downloads and they certainly make the process easier and quicker.

Bob Robinson, EVP TenderCard
rrobinson@imatts.com

Looking for Portfolio Consolidation Information

The Green Sheet has published several thumbnail articles over the last couple of years on companies purchasing portfolios; the articles give some basic info about the purchase, number of clients, etc.

I am looking for seven to 10 of these so I can put together a portfolio evaluation study for my company and its members. Can you help?

Thanks,
Don Saunders
don@descomm.net

Don,
The entire backlist of stories in The Green Sheet since 1995 is available on GS Online (www.greensheet.com). Our search engine, "Fast Finder," will help you locate any subject or company that we have covered. I do not have a research assistant available at this time to assist you with your project. All materials published by The Green Sheet, Inc. are protected by U.S. copyright.

Editor



INDUSTRY UPDATE

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NEWS

First Data Error Overcharges Wal-Mart Transactions

A computer hardware problem at **First Data Corp.** caused 800,000 Visa and MasterCard-branded credit and debit transactions to be overcharged—some of them double and triple billed—at **Wal-Mart** stores across the United States.

The processing errors were made on Wednesday, March 31, 2004, and were posted the following day. Staci Busby, a First Data spokesperson, said First Data corrected the error as soon as it was discovered on the company's quality control reports, and that cardholders should have seen incorrect charges reversed in their accounts by Tuesday, April 6.

First Data posted a toll-free number (888-893-0626) on its Web site and in Wal-Mart stores for consumers to call if they have any questions about the charges; the company has also been calling customers to inform them of the error. First Data said it has implemented more quality control measures as a result of the over billing.

products and services, is conducting two research studies in 2004: One study is on merchant loyalty/retention to the merchant service provider; the other is regarding merchant payment choices and merchant loyalty and retention. Collective Dynamics' research on these topics will address such questions as:

- Do merchants have preferences for accepting different card types? (Credit card, PIN debit card, gift card, signature debit card, check, check conversion, check guarantee, etc.)
- What payment types does the merchant currently accept and why? What are the drivers for accepting one payment type over another?
- Are merchants aware of the differences in pricing between PIN debit and signature debit?
- Are they more willing now to consider making a PIN pad available to accept PIN debit?
- What are their major concerns/issues with PIN pads?
- With the recent overturning of the "honor all cards" rule, what proportion of merchants that are taking credit and signature debit cards now will change their policies?
- Is the merchant using or considering alternative payment types such as ACH/Debitman?
- What equipment and terminal type(s) does the merchant use?

For more information, visit their Web site at www.collectivedynamics.com.

GO Software Certified to NetConnect

GO Software Inc., a subsidiary of Return On Investment Corp., announced its certification to

ANNOUNCEMENTS

Study on Merchant POS Preferences in Progress

Collective Dynamics, a management consulting and research firm specializing in payments and card-centric



- **Foot Locker Inc.** announced plans to buy about 350 **Footaction** stores from bankrupt retailer Footstar, Inc. for \$160 million.
- Voters in the city of Inglewood, Calif., rejected **Wal-Mart's** plan to build one of its Supercenters, The New York Times reported.
- The **U.S. Department of Commerce** reported U.S. March 2004 retail sales totaled \$333 billion, an increase of 1.8% from the previous month and up 8.2% from March 2003.
- **McDonald's** now accepts Visa, MasterCard, American Express, Discover and STAR credit and debit card payments at more than 3,000 stores in the United States and expects that number to more than double before the end of 2004.

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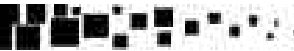


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Paymentech, LP's NetConnect, a secure, direct Internet connection to its card authorization center. GO Software's latest version of PCCharge processes merchant credit card transactions using the Internet and NetConnect.

Lynk First in Two Certifications

Lynk Systems, Inc. announced it was the first U.S. payment processor to certify **WRG Services, Inc.'s** Genesis ATM, a cash-dispensing only machine that's simple to operate and affordably priced—nearly half the cost of other ATMs, according to the company. Lynk also was the first to Class Acertify VeriFone, Inc.'s Easy ID, a software for automated age verification, on VeriFone's Omni 3750 POS terminal.

New ATM Association Forms

In response to recent legislation in Illinois that bans surcharges on Link ("EBT") card ATM withdrawals, three payments industry executives formed **The Midwest ATM Association**, a not-for-profit corporation based in Chicago. The goals of the association are to promote ATMs and their usage, raise funds for legislative lobbying and to bring together small ATM deployers. The associations' Board of Directors include:

- President: Brad Zerman, President of Qualtex Corp.

- Vice President: Robert Halperin, President of Metro ATM Management, Inc.
- Secretary/Treasurer: Mike Boyd, Project Coordinator of Rockford Tech Systems

Prospective members of the association may request information via e-mail at brad@qualtexcorp.com or by phone at (312) 280-6700 x 101.

Shift4 Corp. Opens New Data Center

Shift4 Corp. opened a new data center—now its primary center—providing credit, debit and gift card authorization and settlement processing and transaction data storage for more than 5,000 organizations worldwide and can handle at least ten times the transaction load as before. The center offers increased bandwidth, high-speed connections to multiple and diverse Internet providers, dedicated authorization processing systems, increased database storage, a full capacity generator, better UPS systems and increased AC capabilities.

SST Awarded \$6 Million in Financing

SMART System Technologies, Inc. (SST), a hosted, multi-channel provider of cashless and contactless payment and marketing analytics services, including the PowerPay cashless payment and CRM solution, announced it closed \$6 million in Series A financing from Draper Fisher Jurvetson Gotham Ventures, The Grosvenor Funds and Apex Venture Partners.

PARTNERSHIPS

Toronto Credit Union Selects EFT Canada

Toronto-based **Metro Credit Union** is offering **EFT Canada Inc.'s** Web-based electronic transaction processing solution to its members. Metro Credit Union is a financial co-operative that provides banking services to its 42,000 members, including commercial loans, lines of credit, mortgages, term deposits and other investment options.

In addition, **EFT Commerce LLC**, a Fla.-based transaction processor, acquired exclusive rights to market in the United States, all of EFT Canada Inc.'s Canadian electronic transaction processing solutions.

Global Payments and Plug'n Pay in Referral Partnership

Global Payments Inc. and **Plug & Pay Technologies, Inc.**, joined forces in a referral partnership that will enable Plug'n Pay to offer its Internet gateway and fraud protection services through Global Payment's direct sales force, agents and ISO channel.

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"I had nine merchant accounts, with a total of seventeen locations, approved in one month and was paid \$34,851.41 from AmericaOne. During my eight years of merchant services experience, I have worked with several other service providers and built many merchant portfolios, only to see them disappear without any personal benefits from their sale. I will never know that feeling again! Thank you AmericaOne!"

Michael K. Severna Park, MD

"After 14 years in this industry, someone has finally come up with a program that eliminates waiting years to get paid. AmericaOne's Upfront Cash Program is definitely one of a kind. AmericaOne is a true partner and is always there to help make every sale. I have six very satisfied customers and was rewarded \$6,827.30 by AmericaOne."

Lewis C. Worcester, MA

"I am honored that AmericaOne would offer me the opportunity to be in this ad. I had twelve merchant accounts approved in one period and I earned \$5,959.21. The AmericaOne Merchant Acquisition Program is the most rep-friendly program I have ever experienced. It is the best planned program, from the application, to the cash in my hand."

Ray E. Redding, CA

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Humboldt Merchant Services Partners with Northern Leasing

Humboldt Merchant Services announced it has formed a strategic partnership with **Northern Leasing Systems, Inc.** to provide a one-stop shop for merchant processing and equipment leasing. Founded thirteen years ago, Northern Leasing Systems, Inc. is a "micro-ticket" leasing company specializing in providing leasing and financing services for point-of-sale credit card verification equipment; it manages more than 150,000 accounts.

Ingenico Integrates Terminals with Shift4 and ECHO

Shift4 Corp. integrated Ingenico's e^N-Touch 1000 POS terminal with its Micros 8700 solution, a POS system for the food and beverage industry. Ingenico's payment terminal products are certified with Shift4's \$\$\$ ON THE NET solution, which enables merchants using Ingenico and Shift4 products to process credit, debit and gift card transactions regardless of the point-of-sale system used.

Electronic Clearing House, Inc.'s (ECHO) will integrate its check verification and conversion services on Ingenico Elite POS terminals, including the new I5300 and I7770. ECHO's services include debit and credit

card processing, check risk management services, automated clearing house processing and check conversion in the Visa POS Check program.

NPC Teams with EWI for Prepaid Offerings

National Processing Company, LLC joined forces with **EWI Holdings, Inc.**, integrating EWI's technology with its own existing POS transaction services to offer processing services for prepaid and cash payment transactions to NPC merchants.

ACQUISITIONS

Jack Henry & Associates Buys e-ClassicSystems

Jack Henry & Associates, Inc. plans to purchase **e-ClassicSystems, Inc.** e-Classic develops software, including ATM Manager Pro, that enables financial institutions and ISOs to manage the operations and accounting of their ATM networks. Jack Henry & Associates provides integrated computer systems and processes ATM and debit card transactions for banks and credit unions. e-Classic will continue to operate as a wholly owned subsidiary of the company. The terms of the transaction were not disclosed.

TransFirst Announces Another Acquisition

TransFirst acquired Newport Beach, Calif.-based Internet payment processor **Payment Resources International (PRI)** on March 1, 2004. With the acquisition of this company, TransFirst adds approximately \$1.8 billion in annual processing volume, 7,500 total merchant contracts and PRI's proprietary technology that will support the company's growth in Internet-based credit card processing, ACH/check conversion processing, recurring billing and wireless processing. PRI will now be known as Payment Resource International, a TransFirst Company.

TransFirst also recently completed its acquisition of the third party and agent bank merchant division of **Fifth Third Bank Processing Solutions**. Financing for the transaction was provided by GTCR and third-party debt sources. The acquisition of these two companies more than doubles TransFirst's size, increasing annual processing volume from approximately \$8.5 billion to \$18.5 billion.

APPOINTMENTS

GMS Adds Two to Management Team

Payment processor **GM Merchant Solution (GMS)** announced two new appointments: **Marla Freeman**

Coach Ron Tunick is here...
and Cornerstone Payment Systems has him!

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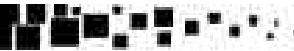
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joined the company as Director of Regional Sales. In this position she will maintain and grow GMS' presence in the Northeast. Freeman is the former Chase Merchant Services District Sales Manager. She has also worked with the Muscular Dystrophy Association and Paychex Payroll Systems.

In addition, the company hired **Gregory Owens** as Director of Corporate Sales. Owens has more than 25 years' experience in the payment processing industry. He previously worked at Sovereign Merchant Services (First Data), where he was responsible for Corporate Sales, and at American Express Co. in various management positions, including Director of Merchant Sales.

U.S. Merchant Services Appoints CFO

Stuart-Fla.-based **U.S. Merchant Services** (USMS) appointed **Debra Millar** to the position of Chief Financial Officer. Millar most recently held a similar position with Big Brothers, Big Sisters of Martin County.

In addition to her duties at USMS, Millar will also be responsible for the financial proceedings of US Advance, the latest addition to the USMS companies. Through US Advance, USMS offers capital funding against future credit card sales to its new and existing merchants.

TransFirst Has New Independent Sales Services Division

TransFirst launched the TransFirst Independent Sales Services, a new division that is focused on ISO/ISC and agent partnerships. **Nancy Newton** will serve as President of the new division. Newton has more than 20 years of experience in the payment processing industry.

Prior to joining TransFirst, she served as Senior Vice President and National Sales and Operations manager for Compass Bank; and as Vice President, ISO Management and Support Services and Group Manager of Third-party Sales and Support for Paymentech Merchant Services Inc. She was Senior Vice President of Merchant Sales and Support at AmStar Systems Inc. and Assistant Vice President and MPACT Installation Manager at Affiliated Computer Systems.

CardSystems Hires President/CEO and CFO

John M. Perry joined **CardSystems Solutions, Inc.** as President and CEO. Perry has more than 15 years of experience in the payment processing industry. Prior to joining CardSystems, he served as President and CEO of InterCept Payment Solutions, a wholly owned subsidiary of InterCept Inc.; and worked with Spectrum EBP, NOVA Information Systems, First Data Corp. and Visa.

CardSystems also hired **Michael Brady** as its Chief Financial Officer. Brady most recently served as the CFO for First National Bank of Omaha's Merchant Service Division. He has also held a variety of positions with Citibank, Harbridge Merchant Services and Deluxe Corporation.

Heartland Appoints New Board Member

Heartland Payment Systems, Inc. appointed **George Raymond** to its Board of Directors. Raymond has served as President of Buckland Corp., a consulting company to the information technology industry, since 1989. Prior to that, he founded and served as CEO of Automatic Business Centers, Inc., which merged with ADP in 1989.

Raymond served on the boards of several companies, including Concord EFS, First Fidelity Bank, Balance Bar Co. and Atlantic Data Services. He currently is on the boards of BMC Software, DocuCorp International, Emtec Inc. and Analytical Graphics, Inc.

Wachovia Elects Chairman of The Clearing House

G. Kennedy Thompson, Chairman and CEO of **Wachovia Corp.**, was elected Chairman of the Board of The Clearing House. He will serve a one-year term. Thompson is the 71st head of The Clearing House Board in its 150-year history.

He succeeds **Victor Menezes**, Senior Vice Chairman of Citigroup. Menezes served two terms as Chairman and will continue to hold a seat on the Board. Thompson led the First Union-Wachovia merger, which formed the nation's fourth-largest financial services company.

AB Member Starts New Company

Scott Wagner, a member of The Green Sheet Advisory Board since its inception, announced he has started a new company: Scottsdale, Ariz.-based **GO DIRECT Merchant Services, Inc.**

Wagner has extensive sales experience in the payments industry. Previously, he served as an agent of Card Establishment Services (CES). He then started his own ISO, registered through Chittenden Bank in Vermont. Wagner reunited with CES and then later worked at First Data Corp. After leaving First Data, he joined Hypercom Corp., and served five years as Sales Director; he was responsible for product sales to all First Data entities in the West.

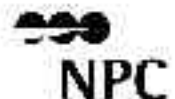
Wagner said GO DIRECT Merchant Services will initially be an agent of Cornerstone Payment Systems. For more information, visit their Web site www.godirectmerchantservices.com .

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ment successes at driving down interchange in Europe and Australia (see "Around the World, No Cease Fire in the War of Words Over Interchange," by Patti Murphy, *The Green Sheet*, March 22, 2004, issue 04:03:02) practically guarantee it, he insists.

McPherson also sees PIN-less debit gaining favor in this environment. "I do expect PIN-less debit to become more widely used and to contribute to the replacement of off-line debit transactions by online debit transactions," he told me in a recent e-mail exchange.

Issuers in Pursuit of New Revenue Streams

Card issuers have grown addicted to interchange. The Boston Consulting Group, consultants to some of the largest U.S. banks and banks abroad, estimates that interchange accounts

for one-third of card-issuer revenues in the United States today.

As those revenues diminish, new applications like PIN-less debit become critical. And given recent trends (the Wal-Mart settlement resulted in huge reductions in off-line debit interchange), there's no question that acquirer revenues will diminish.

PIN-less debit is a logical step, but probably only a stop-gap measure. Card issuers will also find it necessary to scale back on perks (like rewards programs) that have been driving at least some of the growth in check card usage.

What makes PIN-less debit particularly noteworthy in banking, however, is that it supports efforts on another critical payments front: automatic bill pay.

Bankers have been pushing automatic bill pay since before most even heard the acronym ATM.

Twenty years later, nearly everyone in the country who wants an ATM card has one, and many use these cards at the point of sale, but very few Americans are paying bills electronically, with or without debit cards.

The Dove/ABA study reference above indicates that automatic payments (a telephone-based option) and online payments, combined, account for only 29% of consumer bill payments today; checks account for 60%.

"Bill payment remains the last bastion of paper-based payments—at least for the time being," the report notes.

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automatic payments, most (92%) used direct debits from checking or savings accounts, which usually clear through the ACH. Only 28% of consumers said automatic payments were posted to their checking accounts, and 9% initiated automatic bill payments using debit cards. Clearly, there's a lot of room for growing the debit card share of this payments pie chart.

Paymentech and First Data Corp. are two companies focused on growing debit card usage with PIN-less debit. At the annual NACHA Payments conference in March 2004 executives from both companies presented on the topic. (This, in itself, is worthy of note, since the NACHA show has been used traditionally to showcase ACH payment applications.)

Leslie Michelassi, a Senior Vice President with First Data Merchant

Services, presented some pretty compelling statistics. For example, she said data collected by First Data suggest online bill payment users pay an average of 6.5 bills a month online; and as a whole, online households pay an average 12 bills a month—online and off-line.

She also said a staggering number of online bill payers—70%—initiate online payments via biller Web sites. The driving factor: "Clearly, it's convenience," Michelassi said.

Larry DePalma, Director of Product Management at Paymentech, LP, said, "the cost savings can be profound," when comparing PIN-less debit to more traditional online methods of bill paying.

Depending on the EFT network used, the basic fee for PIN-less debits ranges between \$0.41 and \$0.50, regardless of the payment amount;

plus, there are authorization fees imposed by processors.

A \$50 payment accepted by these same businesses (telecomm, insurance, etc.) and processed through Visa costs \$0.65; a \$150 transaction costs \$1.45. MasterCard fees closely mirror Visa interchange.

This is potentially a huge savings not apt to be ignored by many of these "regulated" businesses.

Accepting ATM cards for bill payment is clearly a winning proposition for these emerging card acceptance markets and something that will demand greater attention from acquirers and ISOs in the months and years ahead. ■

Patti Murphy is Contributing Editor of The Green Sheet and President of The Takoma Group. She can be reached at patti@greensheet.com



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'Buy and Fly' or 'Buy and Build'

Defining the ISO/MLS-Acquirer Partner Relationship



By Michelle Graff

NOVA Information Systems

Merchant level salespeople (MLSs) hold a unique position in the vast world of payments, spanning card associations, issuing banks, terminal manufacturers, processors and settlement banks. But by definition, all along the chain, MLSs have the most contact with merchants.

MLSs connect merchants and acquirers through a complicated web of interchange, discount rates, spreads and chargebacks for the purpose of giving consumers peace of mind as they shop. This position sometimes requires striking a delicate balance between two opposing goals: a flair for winning business and an ability to manage risk.

Many ISOs/MLSs go through this industry with a 'buy and fly' mentality: Get in, get out and watch for the land mines. But, as Bob Dylan so eloquently put it, "The times they are a-changin'." To succeed in the rapidly evolving world of payments, MLSs should adopt a 'buy and build' approach to business.

The first step in this philosophy is to earn a merchant's business by presenting a valuable variety of services; the second is to build a solid merchant portfolio by profitably

managing the business with long-term growth objectives. The front lines are never safe, but knowing that you have the backing of an army of resources and skills makes it easier to advance with a sure step, always looking forward. Let's look at the criteria necessary to build a strong acquirer-partnership relationship.

The Formula for Success

The one-size-fits-all solution for merchant card acceptance no longer exists. A winning formula requires an understanding of a merchant's business and the ability to present a payment solution that best fits a particular business need.

ISOs/MLSs need to offer services designed to meet the needs of all types and mixtures of retail commerce—from POS to MOTO and Internet. Credit cards alone rarely cut it these days; savvy merchants demand value-added payment services, such as online debit, electronic gift cards and electronic check conversion.





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In order to succeed, ISOs/MLSs must partner with the right acquirer and employ processes to get their merchants up and running quickly, ensure that they remain customers for the long haul and yield profits. A strong acquirer-partner must offer a full range of flexible services to support these goals and help ISOs/MLSs achieve success.

Stability

Many acquirers pay lip service to ISOs/MLSs, promising a lot up front—but delivering far short of expectations. An acquirer-partner provides dedicated service on everything from proposals to pricing to training and support. If you want to grow merchant relationships built on trust, choose an acquirer that will honor all contracts (and get it in writing!).

In this era of Enron-itis, it's important to make sure you're doing business with a company that is financially secure and diverse enough to withstand the shifts in bank business lines, while not taking its eyes off the business of managing risk.

Flexibility

Getting a merchant set up quickly and easily is the necessary first step to building a reputable business; the sooner your merchants are processing, the sooner you'll be earning money. Make sure that the acquirer you choose has a dedicated underwriting team designed to meet the specific needs of ISOs/MLSs. A confident and reputable acquirer employs an open door policy and welcomes merchants from all types of business.

Make sure the acquirer offers tools like online applications to streamline the boarding process; verify that it offers a variety of 'on ramps' to processing including equipment, software, value-added applications, VAR interfaces and e-commerce solutions. New businesses open daily; ISOs/MLSs should partner with acquirers that are adept at scoring and managing risk instead of hiding behind generalized 'one-size-fits-all' rules.

Serviceability

A strong acquirer-partner understands that there is no one-size-fits-all formula for providing customer service to ISOs/MLSs or merchants. To be successful, it is important to partner with an acquirer that provides a dedicated ISO/MLS support center, as well as multiple ISOs/MLSs and merchant resources for reporting, account approval status and marketing materials.

If you've ever felt that you can't reach anyone at your current acquirer interested in servicing your business, it's time to find a more responsive processing partner.

Profitability

The final cornerstone of a successful ISO/MLS acquirer relationship is that of profitability. Let's face it: Merchant processing is not a non-profit business and is

full of opportunities to succeed financially.

The true acquirer-partner will extend flexibility in pricing models to ISOs/MLSs. Forget about tricky wording in buy-rate programs or split programs—partner with an acquirer offering pricing plans based on pass-through interchange to allow you to take advantage of fluctuations in the market.

Again, you know your business, you know your portfolio and you should have the ability to structure pricing programs to meet your goals. A good acquirer-partner gives ISOs/MLSs the opportunity to share in the profits and the flexibility to adapt pricing structures in a very competitive market.

At the end of the day, success in merchant account sales is determined by the way ISOs/MLSs manage and serve their customers. It's essential to align with an acquirer that looks to you as a partner. Read the fine print, test the customer service centers and make sure you build a relationship on trust. 'Buy and build' is the path to a more profitable portfolio. ■

Michelle Graff is Vice President of Marketing for NOVA Information Systems. e-mail her at michelle.graff@novainfo.net.



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How to Raise Money When The Banks Are Closed: The ISO Fear Factor

By Mitchell Levy

Cynergy Data

My introduction to the electronic payment industry was as an investor. I was with an organization that had capital to invest, and we were attracted to businesses capable of delivering annuity-based revenue streams. Credit card residuals seemed perfect.

The industry was unregulated and misunderstood—great profits at high margins were easy to envision, especially to my then uneducated mind. With capital to invest, lining up scores of highly professional, loyal sales representatives to produce rapid growth and an attractive return on investment was going to be a breeze.

How naïve I was.

After our initial investment, I moved into a business development function with the ISO we had funded; now I was responsible for delivering the returns our investor expected. I was to work closely with management to execute the business plan, hire and retain independent sales representatives, develop lead generation and tracking systems and understand interchange and pricing to deliver sufficient margins to the owners.

So we battled with compensation plans, negotiated with potential sales representatives and office managers, began utilizing technology for merchant proposals and interviewed processors looking for the perfect partner. We hired sales representatives and developed a training manual. We began signing merchant contracts and watched as our monthly residuals began to grow.

Within a few months, we were generating an average of fifty new contracts per month. But then our reps wanted advances and bonuses. We needed staff to review residual reports and to calculate commissions. We had merchants willing to convert provided we paid their termination fees. We needed computers and software to implement our systems. And the rent had to be paid.

Simply put, we were confronted with the same growing pains other businesses faced: We needed to establish sufficient infrastructure to grow our business.



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As our revenue grew so, too, did our expenses. And while we continued delivering new merchant contracts, we realized how competitive this industry was. With profits measured in basis points, we could not afford to make mistakes with high risk merchants (we took on some liability with our processor), or to adopt an aggressive compensation plan as a recruitment tool (we wanted to pay upfront bonuses and to offer buyouts to our reps).

We continued modifying our business plan to adapt to an ever-changing industry. Our investor, actively assisting us, did not understand why every lead did not close and cringed when we took losses.

Then we started to run out of money. We needed more. And my real education began.

In short order, I found that our industry faced a dilemma: The inability of small- and mid-size ISOs to approach the capital markets could hinder future growth. Since then, I have been determined to find a solution.

Residual Sales

An ISO seeking capital does have some options. Many small ISOs choose to sell their residual streams to generate capital. Processors, banks and individual investors

will often buy the monthly cash flow generated by merchant contracts at a multiple between 12 and 24 times the monthly residual, after factoring in historical attrition in the merchant portfolio. It's a relatively simple process and can occur quickly.

But if investors are anxious to acquire residuals, is it good business for an ISO to sell? If you assume the average life of a merchant is five years, is it wise to sell for one-third of the income a merchant is expected to generate over its lifetime? Not unless it's an absolute necessity.

Selling residuals might be the simplest and quickest manner of raising capital, but the money is expensive and it can take significant time for a selling ISO to rebuild its residual base.

Loans – Traditional Institutions

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They see a tiny business in a highly competitive industry, whose only assets are residuals, intangible until future payoffs and not even visible in financial statements.

An ISO's "collateral is air," says David Putnam of Resource Finance Company, and air doesn't sell to a bank. Banks look at balance sheets to assess collateral, but residuals are an off balance sheet asset. Worse, banks are conservative by nature, and they assume an ISO's merchants will leave or fail. While we may educate individual value investors, until the banks understand the true value of residuals, this preferred method of raising money would remain off limits to ISOs.

Equity Investments

Some ISOs bypass the loan option in favor of seeking equity investments. An ISO seeking to raise equity may turn to a private investor, or venture capitalist. The venture capitalist requires equity in the form of ownership in the business, plus double-digit returns in a short period of time. These investors are rarely passive. They buy not just board seats and financial reports, but also the license to make changes when business is not running optimally.

The decision to seek an equity investor is a difficult one. You are trading your idea, your dream and your vision—

for cash. You are inviting a third party who may not understand your industry to question how you operate. As a former investor in ISOs, I know that I was capable of interfering and disrupting operations, even though my intentions were honorable.

I do believe that equity investment is a viable mechanism for an ISO to raise capital—provided that existing management remains in control of operations for as long as the business is performing in accordance with the budget.

The Future – Alternative Funding Options

Given these funding options, what is a cash-strapped ISO to do? The best option, I believe, is to look to our own industry.

At Cynergy, we are committed to finding solutions that help our ISOs grow, and that includes helping them raise money. We have partnered with a lender to offer Cynergy Loan Solutions, a program that allows our ISOs and agents to borrow money, usually up to ten times their monthly residual. The borrowing ISO's loan payments are paid monthly from its residuals until the loan is paid off. The ISO, by not selling, has retained 100% of its original residuals plus 100% of its growth.

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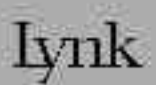


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Like the program we offer at Cynergy, there is an emerging trend of loan solution programs run by businessmen who understand the business we're in, have capital to loan to developing ISOs and will lend based on—and against—residuals. Without having to sell your residuals, give up equity and control or embrace an added business partner, you can borrow and grow.

You can borrow from lenders who assess your residuals history and recover loan amounts from your monthly earnings. When the loan is repaid, the ISO is left with its residuals, the addition of new accounts and their respective residuals and the increased business value generated by putting the borrowed capital to good use.

As this type of loan solution gains recognition and popularity, it will hopefully grow as affordable as it is practical. As these new products become more developed and competitive, their costs will come down and ISOs will have more leverage when negotiating terms.

How can we in the industry effect this change? It is vital that we start formalizing our businesses. We must produce thorough financial reporting, detailed business plans and accurate, realistic budgets. And we must work together to educate those who control capital—both

financial institutions and private investors. A well-documented, well-defined ISO business model will find it far easier and far less expensive to raise the capital needed to grow. ■

Mitchell Levy is the Executive Vice President and Director of Business Development for Cynergy Data.

Background

Cynergy Data is a merchant acquirer that provides a wide array of electronic payment processing services while continually striving to develop new solutions that meet the needs of its agents and merchants. In addition to offering credit, debit, EBT and gift card processing, along with check conversion and guarantee programs, the company offers its ISOs the ability to borrow money against their residuals, to have Web sites designed and developed, to provide merchants with free terminals and to benefit from state-of-the-art marketing, technology and business support.

Founded in 1995 by Marcelo Paladini and John Martillo, Cynergy Data strives to be a new kind of acquirer with a unique mission: to constantly explore, understand and develop the products our ISOs and merchants need to be successful and to back it up with honest, reliable and supportive service.

For more information on Cynergy Data contact Nancy Drexler, Marketing Director at nancyd@cynergydata.com.

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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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COMPANY PROFILE ◀ ◀ ◀



Planet Payment

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Thomas J. DeLuca, SVP Corporate Development
516-670-3200, ext 118
Fax: 516-706-9592
tdeluca@planetpayment.com

Company address:

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- Important value-added service that allows merchants to close more international sales

Dynamic Opportunities in Currency Conversion

The Internet has created a global marketplace for businesses and consumers—and accompanying it, a lot of expectations. People making purchases online with a credit card expect secure and speedy transactions, and they want to compare prices and complete transactions in their local currency—in real time. And if they can have all this today from e-commerce merchants, why not expect the same from brick and mortar merchants?

Privately-held Planet Payment, a trade name and trademark of Planet Group, Inc. and its subsidiaries, offers payment-processing solutions that enable both virtual and physical merchants and cardholders to complete credit card transactions in each party's preferred currency.

The company provides these solutions to acquirers, processors, gateways and directly to merchants.

When Planet Payment was founded in 1999, the company provided e-commerce merchants with credit card processing and currency conversion capabilities for their Web sites. One of its first major customers was acquirer The Bank of Bermuda. In October 1999, Planet Payment signed its first merchant selling in U.S. dollars—an e-tailer in New Zealand, Jennifer Ann Lingerie.

"We were ahead of the market in 1999 and 2000," said Philip D. Beck, Chief Executive Officer for Planet

Payment. "There wasn't a lot of [transaction] volume in the virtual world at the time, so we decided that we were going to take our experience and apply it to the physical world, too."

Planet Payment now offers multi-processing and time-of-sale currency conversion capabilities to brick and mortar merchant locations such as hotels, restaurants, airport vendors and retailers.

Planet Payment's time-of-sale currency conversion services, also called Dynamic Currency Conversion (DCC), convert the purchase amount from the merchant's local currency to an amount in a cardholder's local currency in real time and at the point of sale—there's no waiting for monthly credit card statements.

When cardholders use their credit cards to make purchases in a currency different than their own, the credit card associations and providers have usually handled the currency conversion. They also added fees (an exchange rate plus 1–4%) to the purchase amount for this service, but typically did not disclose them to cardholders in any meaningful way.

With Planet Payment's service, cardholders can see the purchase amount in their home currency right at the point of sale, together with the original transaction amount quoted in the merchant's currency. While still at the POS, cardholders can



"If you [want to] localize price, you can localize it in a store, or in a hotel or restaurant as well as online. The whole retail experience is going to change—I'm talking about mainstream retail."

— Philip D. Beck
CEO, Planet Payment

decide whether they want to pay the amount converted into their home currency at the exchange rate provided by Planet Payment, or to pay in the merchant's currency and wait to see the currency conversion on their monthly credit card statement.

In addition to multi-currency processing, Planet Payment offers two services within its suite of currency conversion solutions: FX Transact enables the display of currency conversion information on the transaction receipt generated at the point of sale. It provides merchants with a completely integrated localization solution that is supported through merchants' existing point-of-sale technology.

FX Assured converts each transaction at a currency conversion rate that is guaranteed to be less than the rate at which the credit card provider would have converted that same transaction.

Over the past five years, the company has built partnerships with acquirers, credit card processors, payment gateway providers and ISOs to bring its offering to merchants.

Planet Payment signed an agreement with First Horizon Merchant Services Inc. (FHMS) to develop and implement DCC services for hospitality merchants such as hotels and resorts, and launched this initiative in 2002.

Last year, ISO Humboldt Merchant Services, LP partnered with Planet Payment to bring dynamic currency conversion to its e-commerce and MO/TO merchant customers, and Fifth Third Bank signed with the company to bring these services to its national retail customers.

Planet Payment also has alliances with Vital Processing Solutions, Synergy Corporate Technologies, Ltd., Shift4 Corp., Servebase Computers Ltd., MICROS Systems Inc., Plug & Pay Technologies, Inc., Integrated Systems Development, Inc., and Hotel Information Systems.

In March 2004, the company announced an important initiative with Internet gateway Plug & Pay Technologies, Inc. and VeriFone, Inc. that brings DCC to a POS terminal. Plug & Pay is using VeriFone's SSL and IP/Ethernet-enabled Omni 3750 to offer Planet Payment's DCC solution at the retail merchant's point of sale.

When customers' cards are swiped through the terminal, the Plug'n Pay software identifies foreign-issued credit cards. Using Planet Payment's DCC solution, cardholders are presented with a choice on VeriFone's Omni 3750 to complete the transaction in either the merchant's currency or the cardholder's local currency.

If cardholders opt to pay in their home currency, the receipt displays the amount of the transaction in both currencies and the exchange rate, and cardholders' credit cards are billed in that amount.

David Price, President of Plug & Pay, said merchants were asking his company for enhanced services such as dynamic currency conversion at brick and mortar stores.

Using the Internet, transactions are sent first to Plug & Pay's gateway service and then on to the merchant's payment processor.

This solution is targeted to brick and mortar merchants

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• Greg Dailey, iPayment

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• 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

'Congrats on 20 years of success. We are honored to have been a part of it and trust that there are many more years to come.'

• The Green Sheet Staff

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

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Beck thinks this is a significant step in what's to come at more and more retail merchants. He said physical world retailers have their Web sites targeted to particular geographic regions, with prices quoted in the customers' local currencies. "If you [want to] localize price, you can localize it in a store, or in a hotel or restaurant as well as online," he said. "The whole retail experience is going to change—I'm talking about mainstream retail."

Planet Payment's headquarters are in Long Beach, N.Y., but the company also has sales offices in Atlanta, Fort Lauderdale, Fla., London and Singapore. It has a small direct sales force, but Beck said, "We principally work with sales channels. Our job is to work with acquiring and processing partners and help their sales people sell the product into their existing relationships."

"We're also doing 'merchant awareness.' We explain the product as best as we can to merchants so they are knowledgeable about it, and they can talk with their acquirer, processor or with their technology company," he said.

Planet Payment's FX Transact displays currency conversion information on the transaction receipt at the POS.



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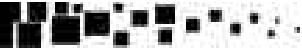
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Beck said Planet Payment's customer service department is on-call to respond to any inquiry on a 24/7/365 basis.

Planet Payment's services provide an opportunity for ISOs/MLSs to offer a new solution to their new and existing merchant customers and to earn additional revenue on transactions processed by merchants within their portfolio.

In Planet Payment's currency conversion process, a small margin is earned on the conversion, which Planet Payment shares with ISOs/MLSs selling DCC services, the merchant using the services and Planet Payment's processing partners.

The company uses buy-rates and provides residual income to ISOs/MLSs. It also offers ISOs a referral/sales agent program that

allows them to offer DCC to their merchants as their own product.

"The acquirers and ISOs can sell it as theirs—and it is 'Powered by Planet Payment,'" Beck said.

Planet Payment is compliant with Visa's Cardholder Information Security Program (CISP) and is a registered third-party processor with Visa; the company is also a Merchant Service Provider for MasterCard.

Visa and MasterCard were sued for their currency conversion practices, and in April of 2003, a California court ordered the associations to refund millions of dollars in exchange fees to cardholders for not properly disclosing the fees on their statements.

"The product that we're offering is the answer to the lawsuits," Beck

said. "The courts and the regulators are looking for competition and more transparency to the cardholder and more informed decisions at the point-of-sale.

"But we don't think in terms of the lawsuits. We truly believe there is a better way to use the existing system.

For international travelers that are using their cards overseas, it is much more helpful to see pricing localized in your home currency as well as the local currency.

Beck said the difference is disclosure and choice for the cardholder, and that the whole retail experience is going to change.

"If a retailer wants to attract a foreign customer, then they need to appear local," Beck said. ■

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In Search of... **When It Comes to Terminals, It's Out With the Old, In With the New**

By Lisa Shipley

Hypercom Corp.

Have I got a deal for you! A refurbished name-brand laptop with a 386 processor. Interested?

All right stop laughing. Nobody in his or her right mind would buy a computer—new or refurbished—with a 386 chip, considering we're in a world of hyper-fast processors running at 1.5 – 2.5 gigahertz that do more, do it faster and more dependably.

Why in the world would you sell a terminal that is the equivalent of that old, slow technology (it is, after all, a mini-computer) to your merchants?

I know it sells for less—and some will try to convince you that less is better—but here's a reality check: That cheaper, older terminal is probably costing you more, and costing the merchant way more, than the perceived savings. If that weren't enough, neither of you can take advantage of the incremental profits that newer terminal technology offers.

New terminals on the market today sell for the same or nearly the same price as both older and re-built units; new models also come with warranties of up to five years.

If you're an ISO or Merchant Level Salesperson (MLS) In Search Of ways to cut costs, increase merchant retention, gain more of a competitive advantage, grow your profits and build a whopper portfolio that sells big when you're ready to go fishing, then I encourage you to read on.

Keep in mind that terminals are computers and remem-

ber that nobody stays with old computer technology for very long. New systems speed things up and allow you to do more in less time with fewer operating problems. Apply this thinking to selling, keeping customers, growing profits and managing your portfolio.

Looking at the cost side of selling old terminal technology, let's focus on the number of calls you and your help desk receive. If you're like many ISOs/MLSs, you're probably spending way too much time putting out little fires.

Even when you provide excellent help desk support, your merchants often want to speak with their agent—YOU. When they're calling you about a lot of simple things, you're not selling when you're on the phone explaining basic functions such as loading receipt paper.

Tally up how much time you spend helping merchants versus selling. Add to that amount your help desk expenses per hour: people, technology, phone line usage costs, office space and so on. What if you could cut those costs by 10, 20, 30 or 50%? What would that do to your bottom line?


Keep this in mind, too: Your merchants won't buy you champagne if they're plagued with terminal problems—but they may very well have a drink with your competitor.

Let's look at other causes of that annoying "drip, drip, drip" (sometimes a gush) of lost dollars with old-technology terminals. It's not cheap to hire, train and retain your help-desk staff; they may end up spending too much time and too much of your money handling basic problems. The number one help-desk call has to do with basic operational issues. In my experience, simple 'how-to' questions add up to nine out of 10 calls.



There is one thing that old terminals will definitely do for you: They'll make *you* look like a 386 chip—and we all know where those end up. ...

It's time to start thinking 'value proposition,' not 'old' and 'refurbished.' When it comes to POS terminals, older is not better.



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Think how this overhead expense eats away at your profits. One major benefit of newer terminal technology is that it has intuitive software designed for 'dummies'—simple ATM-like functionality, user-friendly prompts, foolproof, jam-proof paper loading and so on. You'll be the merchant's hero when you demonstrate how newer terminals will simplify and speed things up and increase profit opportunities.

There are other kinds of expenses and losses you and the merchant might have to absorb when staying with old technology terminals. If you have to replace the hardware of an old unit, you'll spend a minimum of \$125 and the merchant will understandably be furious over the downtime. There is also the telco expense from re-loading terminals—"drip, drip, drip," more money down the drain.

Transaction times on older terminals take too long to process, resulting in more phone time—and more money out of your pocket. New terminal technology gets the job done in less than six seconds because many terminals now use an Internet connection as opposed to a phone line to communicate transaction data.

Beyond the pure costs associated with old terminal technology, old units will not help you or your merchants

increase profits. They do not offer the capability to integrate value-added programs, including pre-paid and loyalty cards, signature capture or check processing, that new terminals do.

One more key problem with old terminals—and this may be the most important of all—is that they make your portfolio vulnerable to competitors. Here's why: Old terminals have the memory capability of an amoeba (256k or less), so you'll be hard pressed to offer the value-added applications that need lots of memory.

Potential profits and customer loyalty for both you and your merchants are eliminated right off the bat.

If your competitors approach your merchants—and they will—you'll end up as the odd one out. That could mean you'll retire with far less money in the bank than you'd hoped for.

Let's focus on the opportunities and profits that happen when it's out with the old and in with the new. If you're the ISO/MLS who brings merchants new technology that their employees can learn quickly and offers equipment that doesn't jam up, break down or run out of steam, along with a dozen new profit opportunities (with a chunk of those profits for you, too), you will surely end up on top.

Not only can new technology at the point of sale be as simple to use as an ATM, its multi-year warranties and the 'curb appeal' will help you make the sale.

It's time to start thinking 'value proposition,' not 'old' and 'refurbished.' When it comes to POS terminals, older is not better.

These old devices won't help you keep customers, reduce your help desk and repair costs or increase sales and profits. They won't reduce complaints or help your merchants reduce employee errors and speed up their checkout lines.

There is one thing that old terminals will definitely do for you: They'll make you look like a 386 chip—and we all know where those end up.

If you're In Search Of ways to cut costs, maintain and increase your merchant base, add incremental profits, beat the competition and build a portfolio that will give you the lifestyle you want, then join the 21st century. Life will be easier and profits will grow for you and your customers. ■

Lisa Shipley is Senior Vice President, Hypercom Corp. You can reach her at lshipley@hypercom.com.

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From GS Online on Page 1

content with the MLS Forum database and added drop-down menus for each of the general headers. All of these changes have altered (in some ways dramatically) how readers use our Web site.

While the MLS Forum remains the most visited section of GS Online—more than 11% of our online readership access it—other pages also command a great deal of attention, including News From the Wire and the GSQ.

The GSQ section is growing. With the inception of the new page design, visits nearly doubled overnight and tripled by the end of the year. The Green Sheet Resource Guide and Current Issue are also in the list of most-read pages on GS Online.

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We have seen a significant interest in The Green Sheet Paperless Edition on the East Coast. Hundreds of people, who have been loyal readers of GS Online, are now registered subscribers to the Paperless Edition, exclusively.

Our mission at The Green Sheet has always been to support the individual sales professional in the payment-processing arena. We have consistently developed and delivered "best in class" support tools for the merchant level salesperson, available to you at no cost. We strive to bring you the Right Stuff, in the Right Way and the Right Time—Now!

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The Channel Shuffle

By Ann All, Editor

ATMMarketplace.com

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Card issuers appear to be in the midst of a phenomenon all too familiar to those in the ATM business—saturation.

For the first time in 2003, Americans made more in-store payments electronically than they did with cash or checks, according to a Dove Consulting/American Bankers Association study. Cash and checks accounted for 47% of in-store payments in 2003 versus 52% for purchases made with debit and credit cards, according to the study.

Most of the electronic growth came on the debit side, with credit's share relatively static at 21%. Ruth Ann Marshall, President of MasterCard's North American Region, in an address at last October's ATM&Debit Forum, noted that there were 650 million credit cards in 2003, an average of six per household—with that number likely to fall in the next decade.

While debit is still experiencing double-digit growth, Marshall predicts that will change. "Debit will reach saturation far more quickly. Few people need or want six debit cards," she said.

More Momentum

Debit could maintain—and even gain—momentum with the introduction of new card-based products and services that open the market to those without traditional bank accounts.

For instance, about 2.2 million payroll cards are currently in use, double the number in circulation in 2003, according to the Financial Insights market research firm.

Research Manager Aaron McPherson expects the number to grow to 3.5 million cards in 2004 and to 7 million cards by 2006. Among the companies using them to pay some of their employees are McDonald's, Sears and FedEx.

Jackson Hewitt, the country's second-largest tax preparation service, is offering refunds on prepaid cards at its 4,500 offices in 2004. The largest tax preparer, H&R Block, is testing them in three cities.

The state of Oregon recently began offering the option of receiving unemployment benefits on a prepaid card; so far, 500 benefits recipients have opted to do so. Several states, including Colorado and Minnesota, are distributing child support payments on prepaid cards.

Card issuers may not be the only ones who could benefit from the growing number of prepaid cards. In the past 18 months, a small number of ATM deployers have begun offering prepaid services, including wireless phone top-ups, at their machines. Transaction numbers remain small, however—at least partially due to the fact that many prepaid purchases are paid for with cash.

Cash In Hand

For that reason, among others, most prepaid products and services today are purchased at point-of-sale terminals. Ron Ferguson, Executive Vice President of Euronet Worldwide, said his company offers prepaid wireless top-ups and prepaid long distance under the PaySpot brand on about 7,000 POS terminals and 500 ATMs in the United States.

Ferguson said Euronet has a total of 45,000 ATMs under contract with deployers to offer PaySpot. Processors Core Data/Concord EFS, Innobeta and eFunds have certified PaySpot transactions; certification efforts with Genpass Technologies are under way.

PaySpot POS terminals, which are located mostly in convenience stores, average 60 to 70 top-up transactions a month. "In comparison to POS, the ATM numbers are very small," he said.

The ATM numbers will grow, Ferguson believes, as more prepaid cards are issued and as more teenagers and young adults—a key target market of wireless carriers such as Virgin Mobile—begin using prepaid services.

"They may have indirect access to a bank account through a parent's ATM card," he said.

While cash withdrawals will remain the "bread and butter" ATM transaction, Ferguson believes offering prepaid services can add up to "a generous helping of jam" for deployers.

Because many likely users lack a bank card, ATM-based prepaid wireless top-ups can currently reach between just 50% and 65% of the potential market, said Ed Kountz, a Tower Group Senior Analyst and author of a report on prepaid top-ups at ATMs.

On the positive side, Kountz's research shows that consumers in the 18–24 age category and the under \$25,000 income category—two demographics considered likely to use prepaid top-ups—are somewhat more likely to have conducted an off-premise ATM transaction than other cardholders.

Kountz categorized wireless top-ups and other prepaid services as "an important exploratory opportunity for ATMs" but predicted that ATMs



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will remain a small part of service providers' overall delivery strategies. By 2007, he expects ATM transactions to account for 7% of the total U.S. top-up market.

During the same period, Kountz expects POS' share of the prepaid top-up market to drop from 72% to 31%. While carriers are interested in the ATM, he said, they are investing more effort in promoting solutions in which prepaid customers use the Internet or the phone itself for top-ups.

With these methods, top-ups are usually based on pre-set parameters—once a month, for example, or when accounts reach a \$5 threshold. Prepaid ATM volumes could rise significantly if manufacturers added cash acceptors to their machines, Ferguson said.

Kiosks Coming

Hamed Shahbazi, chairman and

Chief Executive of Info Touch Technologies, which offers prepaid services at 250 standalone ZapLink kiosks it owns and operates in convenience stores and wireless stores, agreed that offering cash acceptance gives kiosks an edge over ATMs. In addition to prepaid wireless and long distance, ZapLink kiosks offer prepaid WiFi, money orders, money transfer, bill payment and other prepaid mobile content such as ring tones and games.

Info Touch is adding prepaid services to 100 kiosks it owns and operates on U.S. military bases and expects to add another 100 kiosks to new locations in the next four to six weeks. The company just announced an agreement to deploy 34 ZapLink kiosks at Mac's Convenience Stores in Canada.

It's difficult to add new services to ATMs, Shahbazi said, as most are built on an OS/2 or proprietary

embedded operating system. In contrast, kiosks are typically based upon more flexible platforms such as Microsoft Windows or Linux.

Transaction times are another factor, said Steve Hensley, Executive Vice President of Worldwide Sales for software developer KAL, which is working with both ATM and kiosk deployers to offer prepaid services including wireless top-ups. "People are generally more tolerant of variable length transactions on a kiosk," he said.

For that reason, Hensley said he expects to see more environments in which both ATMs and kiosks are available. "I think you'll see more dual self-service offerings in which kiosks may be used for e-shopping, ticket purchases and lengthier transactions, and ATMs are used for quicker, more intuitive transactions."



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Enter the ATM

As more financial institutions begin to introduce prepaid cards, it makes sense to begin offering prepaid services at ATMs, said Michael Struttman, Director of National Sales for EWI Prepaid Services, KAL's partner on a pilot with a credit union in which prepaid wireless top-ups will be offered at several ATMs on college campuses.

Struttman said FIs could offer prepaid services on their Web sites, as well as at ATMs and possibly in branches. "There are some excellent cross-selling opportunities there," he said. ATMs, particularly those owned by FIs, enjoy advantages, Struttman said.

"The ATM industry has done a great job of going in and locking in good locations and good contracts. We greatly covet that real estate."

Some 80% of EWI's current prepaid business is conducted via POS terminals, Struttman said, but he expects an uptick in ATM and kiosk transactions in the next 24 months. James Anderson, Vice President of Payment Services for Boston Communications Group (bcgi), agrees that FI backing will be necessary to advance the concept of prepaid services such as top-ups at ATMs.

"I'm a big believer that you need a strong brand, such as a bank brand, somewhere in the equation," he said. Working with both E*Trade Access and with NCR's iATMglobal subsidiary, bcgi currently offers Wireless Wallet top-ups on several hundred ATMs in retail locations.

Late last year bcgi moved its focus from third-party ATMs to those owned by banks, Anderson said, and began working with ACI

Worldwide to develop an interface to its BASE24 transaction processing software, which is used by many FIs. A pilot to offer Wireless Wallet top-ups at ATMs owned by an unnamed FI will begin this summer, Anderson said.

Among the ATM's biggest strengths as a delivery channel for prepaid services, Anderson said, are consumers' comfort levels with using the machines and ATM owners' strong desire to leverage a fixed-cost asset by introducing new services.

The company recently announced an agreement with enTrac Technologies to interface its cash accepting device recharge (CAD) interface with enTrac's ExpressPay system, with an eye toward adding Wireless Wallet top-ups to kiosks. A handful of kiosks in office supply stores are currently testing the service, Anderson said.

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Coinstar partnered with bcgi to add Wireless Wallet to its coin-counting kiosks, which are typically found in large grocery stores. The service has been introduced on some 600 Coinstar kiosks and will be rolled out across Coinstar's network of 10,000 kiosks in the next 36 months, said Steve Verleye, Coinstar's General Manager of Electronic Payment Solutions.

Coinstar intends to offer prepaid products and services at kiosks like this as well as at POS terminals. In addition to prepaid wireless top-ups and prepaid long distance, Coinstar is testing bill payment, prepaid debit cards, other wireless content such as ring tones and electronic services for holders of payroll cards at its kiosks. While the fate of the other services is still being decided, Coinstar intends to add prepaid wireless and prepaid debit cards to all of its machines.

"It makes sense to add this functionality to existing kiosks," Anderson said, "but I'm not sure there's a strong business case in deploying dedicated devices. In a typical retail environment, I think it makes more sense to look at integration with existing POS devices or ATMs. Now, if you can offer a really rich bundle of services at a kiosk, that could change the equation."

POS Power

In addition to its kiosks, Coinstar is making a POS play with its recent purchase of CellCards of Illinois, a distributor of prepaid products with a major presence in check-out lanes at drugstore chains like CVS, Eckerds and Walgreens.

Mike Herold, CellCards' President, said that POS has been the predominant distribution point for prepaid services to date because of its low start-up costs and retailers' comfort levels with the terminals. However, he believes that use of other channels will grow.

"It's not an either/or deal in my opinion," he said. "Retailers may be comfortable keeping the quicker transactions at their counters because they're paying those cashiers anyway. But they'll want to keep the more complicated services like bill payment off their desks."

POS has "the power of incumbency," agreed ATM veteran Sam Jonas, who recently signed on as Vice President of Business Development for CellCards. As demand for prepaid services grows, however, fewer prepaid customers will want to "wait in line behind the guy buying a couple of six-packs of soda," Jonas said. "They'll go to a self-service device instead."

The increased issuance of prepaid and stored value cards will boost adoption levels, Jonas said. "You've got a new group of people with a growing degree of trust in the electronic delivery of financial services."

At least one major ATM operator, Kahuna Business Group, is also adding POS distribution of prepaid services to its product line-up, via a partnership with Prepaid International Network (PIN) of Green Bay, Wisc. Among the services offered will be guaranteed check cashing in all 50 states, which is accomplished by loading payroll and government checks onto a prepaid debit card, said Ernie Beckman, Director of Sales for Kahuna, which has some 5,000 ATMs under contract.

Also offered are a number of other prepaid services, including wireless and long distance and Internet access, as well as traditional credit card processing—all through a single VeriFone 3750 terminal. "A lot of these locations have two to four terminals offering the different products on their counters. They want to free up valuable counter space, and they don't want to have to train their employees on all of the different terminals," Beckman said.


Tom Mortimer, Kahuna's Executive Vice President, said Kahuna wants to offer its distributors (which it calls affiliates) another tool to improve relationships with retailers. "If they don't have a value add like this, another guy is just going to come along and offer the merchant more interchange."

He added, "This isn't a quick sale where you're going to go out and never come back. You can offer some of the prepaid services to the merchant and prove they work, then come in later and offer more services. It's a great way of continuing that relationship."

Beta tests were recently completed with the new terminals, and results are promising, Mortimer said, with prepaid wireless top-ups performing especially well. For now, Mortimer believes it makes more sense to offer these types of services behind the retail counter rather than at an ATM or other self-service device.

"Retailers can use card displays and other advertising media to direct customers to the counter, and let's face it, when people are in doubt, they're going to ask a clerk for help," he said.

While he thinks the ATM may grow in popularity as a distribution point for prepaid services, especially if manufacturers add cash acceptors to their machines, he said the real winners will be companies like his which offer multiple distribution strategies.

"Ultimately, the consumer will determine what's convenient for them," said bcgi's Anderson. "I think you'll have different products and services available through different channels." 

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Taking It To The Next 'Level'

The most recent "Street Smarts" series focused on new offerings that MLSs can add to their tool bag for achieving maximum revenue success and merchant satisfaction. We reviewed value-added products and services such as check conversion, gift and loyalty cards, wireless products and Internet-based services, and we looked at their respective benefits and optimum selling approaches.

In our continued commitment this year to learning new solutions to sell, let's explore taking our business to the next 'level'—namely, Level-3 processing.

Any merchant accepting government or corporate purchase cards and MasterCard business cards requires Level-3 (or Level III) processing (a purchase card allows employees to make purchases related to the business).

These merchants provide goods and services mainly in the business-to-business (B2B) marketplace, and they include maintenance, repair and operating (MRO) suppliers, IT vendors, attorneys, machine shops, fleet suppliers and electrical equipment dealers.

Many of these merchants get requests from their customers to supply specialized data. How many merchants? Consider this statistic: Level-3 processing service provider GSA SmartPay's Federal purchase card program had \$18 billion in activity in 2003.

Level-3 processing differs from Level-1 and Level-2 processing in that Level-3 is a data addendum that incorporates Level-1 and Level-2 information and adds invoice level and line item details to run with MasterCard or Visa transactions. Purchase card issuers provide electronic statement tools to cardholders in order to review these transactions.

In simple terms, Level-1 includes basic consumer-grade information—what you'd get with a knuckle buster or basic terminal—including merchant name and address, cardholder name and account number, expiration date

and transaction amount.

Level-2 data, the first business card enhancement addendum, includes sales tax, freight and customer codes. Level-3 data include information such as quantity, unit of measure, item ID, item description, commodity code, unit price and extended price.

Both MasterCard and Visa's interchange rates and fees for Level-3 data processing (as of April 2004) offer substantial savings:

- MasterCard's Corporate Data III rate (applies to business cards and purchase cards) is 1.65% + assessments
- Visa's Commercial Level III Data rate (new category) is 1.70% + \$0.10
- Visa's Purchasing Large Ticket rate for transactions over \$5,000 (requires Level-3 data for qualification) is 0.95% + \$35
- MasterCard's Corporate Large Ticket rate is 1.20% + \$40

If the required data are not processed, or 'passed,' then the transactions are usually downgraded to a "non-qualified" status. From an interchange cost standpoint, these transactions downgrade to a Corporate, or Commercial, standard rate of 2.70% + \$0.10 for both MasterCard and Visa, respectively.

MasterCard's Corporate Data Rate II is 1.95% + 0.00, and Visa's Commercial Level II Data rate is 1.90% + \$0.10.

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Whether the transactions are MasterCard or Visa, you still need to set up a merchant with either a small ticket or large ticket program.

A typical Level-3 transaction is handled in the following way: First, merchants must have a processing tool that transmits Level-3 data into the credit card system. The tool can be a Web-based virtual terminal such as 3Delta Systems, Inc.'s EC-Zone; it can be PC-based, such as Global Payments Inc.'s Retail @dvantage PC; it can also be a system-to-system product such as 3Delta's EC-Linx and EC-Batch, which receive information from order entry or enterprise accounting systems.

For SSL providers such as 3Delta, authorization time is similar to any MasterCard or Visa transaction—with response times in the range of two to three seconds. PC-based

products generally use a dial-up modem for authorization and are somewhat slower.

The Level-3 data are appended to the settlement record and forwarded to the merchant processor—this is where initial interchange qualification occurs. The transaction is forwarded to the association, then to the issuer's processor—usually TSYS or EDS—and then to the issuer to make it available for its e-statement system.

It generally takes a couple of days for the transaction to be available on the e-statement versus the monthly cycle used by consumers. Account holders still get paper statements, but the statements contain only Level-1 and Level-2 data, and of course, they are considerably behind the e-statements.

When did I become such an expert

on Level 3? After I had the opportunity to speak with Rick Ricker, Director of Operations for 3Delta, a Level-3 service provider.

Ricker said MLSs not only need to understand how a Level-3 transaction works, but they should also know how a Level-3 type merchant operates. These merchants are often more sophisticated and require a longer sales cycle than regular retail merchants.

There are a limited number of processing platforms that can handle Level-3 transactions, and MLSs will need to have an agent relationship with one of them. The major players for MLS-centric sales channels are FDMS North and South platforms, Global Payments Inc., Vital Processing Services and NOVA Information Systems.

Ricker said application service

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providers (ASPs) such as 3Delta require no additional or distributed software so all that a merchant would need to start processing transactions are an Internet connection and a browser. PC-based applications usually require additional software, which requires installation and support.

3Delta, like many other gateway providers, is compliant with Visa's Cardholder Information Security Program (CISP) and MasterCard's Site Data Protection (SDP) program, while many of the distributed software products are not.

Ricker said there are many advantages for MLSs selling Level-3 processing; one of these is product differentiation—the ability to offer a service not available everywhere. This level of processing provides MLSs with greater credibility by offering a product for more sophisticated merchants and making realistic proposals in instances when their competitors can't.

He said Level 3 is more like a "systems sale" than a terminal sale, both in terms of cycle time and/or acumen. Like all channels/market segments, it has its own language. But once learned, MLSs will find a teeming potential market that is vastly under-penetrated.

Ricker asked, "How many sales calls do you think a typical professional services firm gets that is doing government business and has zero retail presence?" The answer, "Next to none!"

This means there is less competition and margins can be a bit higher. Ricker suggested MLSs differentiate themselves on elements other than price. If MLSs continue to provide service, then their Level-3 merchants should stay around for a long time.

The other obvious benefit is revenue. Aside from regular account revenue, there are mark-ups possible on the gateway fees or software packages. Ricker said that B2B merchants usually have lower transaction counts, but much higher average tickets.

3Delta has experienced the common practice of its resellers offering an implementation package that has several thousands dollars of "IT consulting" or related fees—understanding that in many organizations, they will track card processing costs down to the last three basis points, then round their IT implementation costs to the nearest \$5,000. What budget would you rather work with?



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3Delta is uniquely qualified to service and support Level-3 processing. It provides three gateway interfaces called EC-Zone, EC-Linx and EC-Batch and offers small to mid-market merchants transaction processing on a subscription basis.

All sales are through resellers and ISOs to whom 3DSI provides sales support and customer consultation. 3Delta provides complete, person-to-person training on all its products and offers telephone support during business hours.

The company also hosts a specialized information portal (www.GSA-SmartPay.com) that provides merchant and partner information about government purchase card use; there are some excellent general-purpose articles and information posted to the site, too.

I'm sure you're curious how many of your colleagues sell Level-3 processing. In order to get a definitive answer, I posted the following on The Green Sheet Online's MLS Forum:

"How many MLSs have merchants who accept government credit cards and are required to support Level-3 processing? What are the chal-

lenges you face in dealing with this specialized market? Are there opportunities and benefits for MLSs in working with Level-3 processing merchants?"

Here's how the street responded:

"The main problem I face is trying to explain to merchants they will need two accounts. One for the bigger transactions and one for the smaller transactions because the per transaction interchange price goes from cents to several dollars. It would seem there would be a way to include the correct interchange level on one account.

"Education is definitely lacking in the data rate avenue. I pretty much educated myself...this seems to be a stepchild of the industry. It would be nice if Visa would jump on the bandwagon and offer a better deal for the smaller under \$5K purchase card transactions. Currently there is no lower interchange for those types of transactions." —Tazman

"The type of merchant that accepts government procurement cards is the easiest type of merchant to sign. They are not used to accepting credit cards in the normal scheme of their business. Therefore they will sign with

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you regardless of the fees just so they can meet the requirements of the client they are serving." —Steve Norell

The processing of Level-3 data is a terrific niche market with great financial potential and hardly any competition. Why is there no competition? Most MLSs know nothing about this market, and they're afraid to approach merchants with these solutions. Most are not out there actively marketing to this group of merchants. There is a lot of processing potential here, and someone is going to get it. Will it be you?

First, I'd like to say that there's nothing to be afraid of. This is not complicated stuff. 3Delta's Level-2 and Level-3 processing data virtual terminal/gateway product is very similar to other virtual terminal/gateways you're already comfortable selling such as VeriSign, Plug'n Pay

and Authorize.Net. The only difference is that a virtual terminal gives the user the ability to pass a significantly larger amount of data fields.

Total Merchant Services is a reseller of 3Delta's virtual terminals. We have set up many merchants and we've had no problems. From a pricing standpoint, it's similarly priced to other high-end virtual terminals (e.g. \$50 setup cost, \$20 monthly gateway fee and an extra \$0.10 per transaction).

Now that I let the secret out, and you're thinking, "This is not that complicated! I want to go after this market," the next step is to figure out how to get started.

This is my advice to you:

Ask yourself the following questions: Who issues corporate procurement cards and government pur-

chase cards? What banks issue them and which corporations use them?

For example, General Electric uses procurement cards. This means that all vendors billing them for, say, less than \$30,000 must have a merchant account and pass Level-3 data to get paid. These companies have both new and existing vendors that are not set up yet. So, what do you need to do? Contact someone at these companies and get a list of new or non-compliant vendors so you can offer your assistance to get them set up and running.

Imagine you are now working with this list. How does your phone call sound? Like this: "I'm calling to inform you that General Electric will no longer be able to do business with you as of XYZ date if you are not set up with a merchant account that passes Level-3 data. I am calling to assist you in getting this type of a

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merchant account so you can get paid in a timely manner and continue to work as a compliant vendor with General Electric."

After this introduction, you should be off and running. If they're already set up, then you can talk about rates and the type of software they're using.

The bottom line—all you have to do is the legwork. Find companies or government agencies using these types of cards. Get their lists of new or non-compliant vendors and offer your assistance. Once you have that list, the rest really sells itself. For those of you who read this article and take action to earn some real money in this niche market, please make sure you drop me a line and let me know how this plan worked for you.

I'd like to take this opportunity to thank 3Delta Systems for their invaluable contributions to this column. My next column will discuss one of our more forward-moving MLS organizations—NAOPP. I'll report on what this group accomplished during its first year of service, how well it achieved its initial goals and what's planned for the coming year. Here's your chance to share your experience and opinion of NAOPP.

Look for my upcoming post on the MLS Forum. Or, send your comments on this and any other topic to streetsmarts@totalmerchantservices.com. Thanks for your continued support and participation. 📧

**"It is not enough to have a good mind.
The main thing is to use it well."**

—Rene Descartes

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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▶▶ EDUCATION [CONTINUED]

Helping Merchants with Retrievals and Chargebacks

By David H. Press

Integrity Bankcard Consultants, Inc.

In working with our issuing bank clients and our MO/TO merchant clients to help them resolve their chargeback problems, we have observed some troubling practices from the acquirers' chargeback departments.

With the ongoing implementation of Visa's Re-Engineering Disputes Initiative (RED), designed to streamline the dispute resolution process, now may be the time to re-examine how acquirers/processors interface with merchants regarding chargebacks.

Retrieval Request Issues

When issuers want to see transaction receipts, they ask for retrieval requests. These include a paper copy or facsimile, or an electronic version of the hard copy. An acquirer must provide the issuer with a copy of the requested transaction receipt or will probably face a chargeback.

The issuer must accept a 'substitute transaction receipt,' or substitute draft, for certain transactions including automated dispensing machines, self-service terminals, automated fuel dispensers, recurring charges, MO/TO, e-commerce and preauthorized health care transactions.

When merchants involved in transactions like those listed above receive a retrieval request, they don't know how to respond. Because it relates to transactions with cardholder signatures, the information received along with the retrieval request from the acquirer does not help.

The acquirer should submit substitute transaction receipts for these types of merchants. If it is unable to do this, or does not make it its practice to do so, merchants must provide the acquirer with the required information to protect themselves from chargebacks.

When setting up these merchant accounts, it's important to include all the required data for each transaction. The issuers are able to make substitute drafts from the transaction information provided. Since the issuer has to pay the acquirer for fulfilled retrieval requests, and these costs have recently been raised substantially by Visa, the 'best practice' for issuers is to verify whether the substitute

draft information is available before sending out a retrieval request to the acquirer. A properly set-up merchant will generate substantially fewer retrieval requests.

Chargeback Issues

A chargeback is a transaction that an issuer returns to an acquirer. This is generally assumed to be for something merchants did incorrectly. Chargebacks are usually equated with 'bad merchants,' but the problem also results from poor merchant training or improper set-up of merchants by the ISO/MLS.

However, many chargebacks are caused by some of the complex requirements in the regulations. Merchants must be trained how to obtain an authorization for each transaction; ISOs/MLSs should not assume that just providing merchants with a terminal and software is enough for them to get started.

The acquirer (and the merchant) has a right to re-present a chargeback to an issuer through a 're-presentation.' The information provided to merchants, along with response documentation for re-presentation, is geared toward retail merchants.

For card-not-present transactions, the information provided is often misleading or just plain wrong. The 'best practice' in these instances is to supply the merchant with the information necessary to rebut the chargeback based on the reason code.

In working with our merchant clients, we show them how to respond to chargebacks under each reason code. Merchants such as hotels, car rental agencies, MO/TO and e-commerce have special processing rules that must be followed to prevent chargebacks. Most chargebacks fall into a limited number of reason codes so teaching them how to properly respond to their most common reason codes is not difficult.

The biggest challenges for merchants are the oddball reason codes that really don't apply to their situations. These often result from issuer error or cardholder confusion. For example, we've had merchants receive chargebacks for "Cancelled Recurring Transactions," when the transaction was a one-time-only charge.

Some processors change the Visa/MasterCard reason codes they receive or put another number in front of the



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reason code, so it is difficult for the merchant to determine what the chargeback was for and how to respond. This can be particularly difficult when merchants change processors.

Some processors do not supply cardholder letters. Without knowing the reason for the cardholder's dispute with a merchant, it is difficult to properly respond to the chargeback for re-presentation to the issuer. All the dispute information received from the issuer should be forwarded to the merchant.


The merchant will then be able to determine how to respond. Cardholder letters will often include information refuting a chargeback right; these situations might include the "I changed my mind" scenario when a merchant has properly notified the cardholder of a 'no refund' policy.

Since Visa eliminated the second chargeback cycle through RED, it will be very important for merchants to fully respond to cardholder complaints. Without second chargeback rights, these cases may have to go to arbitration at Visa, which will cost the losing party a lot of money.

The pre-arbitration function Visa implemented will now take the place of second chargeback rights; instead, issuers will now send acquirers pre-arbitration notifications. If the re-presentation is not responsive to the chargeback or is not processed correctly by the acquirers' chargeback departments, acquirers will be forced to either accept the loss in pre-arbitration, or accept the loss through arbitration and pay the required fees.

Acquirers should clearly and consistently communicate RED operational changes and requirements to their merchants including:

- Best practices for their business type
- Contact number for questions
- Training opportunities for merchants/staff
- Training materials
- What the move to the new dispute resolution process means to Visa merchants/processors
- New timeframes for sales draft and/or documentation processing
- Support documentation changes and requirements

Visa offers a plethora of reference and education materials on procedures and processes. Contact your member bank for assistance in ordering materials for your use and to distribute to your merchants. 

David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. Phone him at 630-637-4010, e-mail dhp@integritybankcard.net or visit www.integritybankcard.net.

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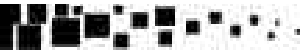
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►► EDUCATION [CONTINUED]

Beyond Bankcard On Life Support, Paper Checks Making Valiant Effort

By Steve Eazell

Secure Payment Systems, Inc.

Well it's over: The check is dead. It bit the dust, headed to that great clearinghouse in the sky, kicked the bucket. It's gone, finis, finito, no más.

The final paper check in America has officially been written. Although I'm not sure who gets to claim the distinction of submitting that last one, we all know it happened, right?

Hold on a minute: If the check's not dead, it's definitely on life support.

Even the federal government recognizes that the delivery

mechanisms we have in place for clearing these silly things has become ridiculous. The Check Clearing for the 21st Century Act, or Check 21 for short, was just signed into law, highlighting this fact. We all agree that this will literally do away with the paper check altogether, don't we?

We all know the only people writing checks today are little old ladies, identity thieves, check-kiters and forgers. The rest of us stopped writing checks years ago, so it only stands to reason that the check has either taken its last breath or is in the Intensive Care Unit.

Because the Check 21 initiative in effect signed the 'Do Not Resuscitate' order, I say we pull the plug on those archaic relics of 18th century technology and embrace the cashless society that everyone has been talking about and waiting for.

Let's just ignore the fact that the passing of Check 21 acknowledges that we really are still writing a lot of checks. Pay no attention to the fact that two of the largest electronic payment companies, Visa and STAR (owned by First Data Corp.) have each implemented elaborate systems to process paper checks and convert them into EFTs.

Most importantly, let's also ignore the fact that following cash, the paper check, with all of its antique and manual methods of delivery, is still the easiest form of payment to accept. If I write you a check, you don't even need a bank account to cash it.

If you're a business owner and I write a check to the business, you still don't need anything more than your own bank account to cash it—you don't need a merchant account or to be sponsored by an ATM network. The funds for that check will probably be available in one to two days.

Perhaps we haven't seen the last check after all. Maybe us high-brow electronic payment types assumed incorrectly that all of the more efficient alternatives on the market today brought about the demise of that archaic payment mechanism.

I am here to tell you that we should wait on getting out our black funeral wear; instead, we should look at what is happening to the check and what the future holds for it.



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I am not saying that Americans have slowed down, much less ceased, writing paper checks on a regular basis. Today we have debit and credit cards, electronic bill payments, recurring ACH and ARC lockboxes. I write very few checks, and I know that you do, too; however, there is a veritable slew of Americans who continues to do so.

The Federal Reserve Board reports that businesses and consumers in the United States wrote approximately 42.5 billion checks in 2000.

This figure was included in a study conducted in 2002 polling banks and credit unions on their check data. There is no way for the Fed to track precisely how many checks were actually processed; one reason, for example, is that financial institutions such as smaller independent banks and credit unions do not want to share their numbers because they are member-based organizations.

However, while it is important to note that the Fed is not entirely certain when check usage peaked, it estimates that check usage began to decline sometime in the late 1990s.

In my opinion, we are headed toward a new and different phase in the world of checks, and it's a direction to which

you should pay careful attention. In reality, check writing is only moderately on the decline, and this is a powerful point. Since those of us who have stopped writing checks are no longer included in the staggering numbers that I mentioned here, who is still writing them?


Could it be there are people who would like to continue taking advantage of that last remaining right called 'float' (and remember, float is an American right)? Do check writers like knowing where each and every penny goes?

Could it be that supporters of those relics of antiquity, those naysayers of progress, simply do not want to change the way they make payments?

We are presented with interesting new developments in the payments front, including:

- The Check 21 initiative
- New electronic services that offer real-time check holds such as Visa's POS Check and STAR CHEK Direct
- The rising expense of credit/debit card acceptance to merchants

What does this mean to retailers and consumers? Retailers will certainly benefit from the check initiatives,



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but I believe these will not be the panacea most purport them to be.

Until somebody shakes the trees, Visa POS Check and STAR CHEK Direct will probably service only about 50% of U.S. checking accounts because of decisions made by the banks, credit unions and savings institutions.

Retailers will benefit only if they are supported by third parties guaranteeing checks when they are declined for lack of funds; this will drive up the cost of check acceptance without guarantee.

Problems for consumers will arise when checks are declined because of lack of current funds (for example, when the customer's deposit has not yet posted to the account). When consumers have negative experiences, they search for alternative payment methods.

Check 21 will not really have an impact on merchants or consumers, but there will eventually be less float for those consumers who need it most. If that particular portion of the population evolves into a riskier group of individuals stretching float, not qualifying for credit or becoming crooks, there will be more risk involved for merchants.

We can all agree that the cost of processing credit and debit cards has skyrocketed recently. I don't think it takes the wisdom of the imperial wizard to figure out that retailers are not happy about this. This factor alone might affect check usage one way or the other; checks could become the low-cost darling of payments.

It is imperative that we remain vigilant in our efforts to keep our offerings to merchants current—after all, they pay the freight for what we call

profits. Payment card acceptance is not what it used to be, and if we do not evolve, we will perish.

I submit for your consideration that we need to offer the right services to our merchants. If you are not aware of value-added services including check guarantee, check conversion, Visa POS Check, STAR CHEK Direct, gift and loyalty cards, time and attendance, and check verification, you are doing your merchants a disservice but you are also leaving those accounts wide open for the competition. ■

Steve Eazell, a 15-year veteran of the payments industry, is the Director, National Sales and Marketing for San Diego-based Secure Payment Systems, Inc. (SPS), a national provider of value-added services, including electronic check and stored-value gift card services. For more about SPS, visit www.securepaymentsystems.com, or e-mail seazell@securepaymentsystems.com

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▶▶ EDUCATION [CONTINUED]

Scrip Machines: A Legal Minefield

Adam Atlas

Attorney at Law

Why are merchants forced to either keep a cash box on their premises or pay for POS-based ATM transactions?

A scrip machine is the size of a typical POS device, and it is used instead of an ATM at a merchant location. Customers swipe their debit cards in the scrip machine, enter their PIN and then carry out typical ATM-type transactions such as transfers, bill payments, cash withdrawals, etc.

When customers want to make cash withdrawals using a scrip machine, they key in transactions as they would at an ATM. The scrip machine prints a record of the transaction, and when customers present it, the merchant hands



Scrip

A piece of paper representing or acknowledging value, such as a receipt or certificate, given in lieu of currency.

Source: www.investorwords.com

the cash over to them from the merchant's till.

In conversations with ISOs/MLSs in the ATM sales business, I learned that on a technical interpretation of the various ATM network provider rules, merchants might not be permitted to use scrip machines on ATM networks because these networks prefer that scrip machines operate on standard POS networks.

Merchants are required to pay transaction fees on ATM transactions made with a scrip machine operating on a POS network, while their customers pay the fees on ATM transactions on ATM networks.

It's easy to assume that merchants would generally prefer to have customers carry the cost of ATM fees (rather than bear the costs themselves) by putting transactions through a POS network. In other words, for financial reasons, merchants would prefer that scrip machines operate on ATM networks rather than on POS networks.

I've also learned that ATM transactions experience an approximate 50% decline rate when transmitted through POS networks. Therefore, in addition to financial incentives for merchants to place scrip machines on ATM networks rather than on POS networks, there is a quality of service consideration, which leans strongly in favor of merchants using scrip machines on ATM networks.

I've also been told that there are perhaps 10,000 scrip machines running on ATM networks today. The ISOs/MLSs who placed these machines and, to my knowledge, the merchants offering them to their customers are imminently happy with them.

Unlike earlier technology, scrip machines offer customers the same level of security as ATMs offer when transmitting personal debit card information over computer networks. My understanding is that there is no security-

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Despite the popularity of scrip machines operating on ATM networks, some ATM networks have begun a practice of terminating such merchant accounts, and with particular vigor in recent weeks. As a consequence, hundreds, if not thousands, of merchants are left, to their great surprise, without ATM services ...

based reason to keep scrip machines off of ATM networks.

Despite the popularity of scrip machines operating on ATM networks, some ATM networks have begun a practice of terminating such merchant accounts, and with particular vigor in recent weeks.

As a consequence, hundreds, if not thousands, of merchants are left, to their great surprise, without ATM services, and the ISOs/MLSs who placed those machines find themselves losing significant portions of their residuals.

Any way you slice this topic, there is a veritable minefield of legal issues that arise. Some of the legal questions that should be resolved for the benefit of all involved in the ATM business in America today include:

- What exactly do the ATM network rules dictate concerning the right of a merchant to plug a scrip machine into

an ATM network rather than the POS network?

- If the ATM network rules forbid the operation of a scrip machine on an ATM network, what is the basis of those rules?
- Would a competent court of law enforce those rules, given that they may very well be contrary to the interests of merchants, customers, ISOs/MLSs and processors?
- Would merchants, ISOs/MLSs and processors be able to recover damages from ATM networks because of the mass termination of merchants that is going on now?

Answers to the above questions will become amendments to the various ATM network rules, negotiations between interested parties in the ATM business or through legal interpretations of the applicable rules and agreements.

The debate over scrip machines is a very good example of how larger organizations involved in the payment processing business, such as ATM networks, data processors and bank associations occasionally carry a great deal of influence that may not always take into account the real business interests of merchants and customers using the equipment, services and networks that they provide.

Some participants in the ATM sales business have already resorted to legal action to address the issues raised in this column. One example of such a business is Santa Ana, Calif.-based EBT International, Inc. (EBTI). EBTI, headed by Tom Lidell, stands to lose a substantial portion of its ATM business from the termination of ATM network scrip machines by an ATM network.

EBTI, a relatively small player in the ATM business, is taking the lead in an action that could benefit hundreds of other businesses, including many that are much larger than EBTI. Dennis M.P. Ehling, of the firm Kirkpatrick & Lockhart LLP in Los Angeles, is assisting EBTI in this matter.

Hopefully, the scrip machine issue will be settled in the near future for the benefit of all concerned. ■

In publishing The Green Sheet, neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought. For further information on this article, please contact Adam Atlas, Attorney at Law by e-mail: atlas@adamatlas.com or phone: 514-842-0886.



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▶▶ EDUCATION [CONTINUED]

Visa PED Approval and 3DES Capability

By Michael W. English

Ingenico

Visa established the Visa PIN Entry Device (PED) Approval Program to protect the growing number of personal identification number (PIN)-based transactions and to prepare for the widespread issuance of chip-based cards. The following information provides insight into the Visa PED program requirements for a PIN entry device being used in the United States.

Does the regulation affect all payment terminals?

The Visa PED requirement applies to devices that accept PIN entry for online debit transactions. It also applies to attached devices or devices that accept smart cards for payment acceptance and use PIN entry to validate the cardholder.

Examples of Visa PED requirements:

- The device must prevent undetected modifications that would allow a hacker to place anything into the device that would read PINs as they are entered.
- If the device has tamper detection features, it must be impossible to disable them even if a hacker drills up to four holes in the casing. Once any or all of the switches are triggered, the PIN pad must erase the PIN pad's keys.
- It must be impossible to determine which keys are pressed by detecting differences in sound or even electrical fields.
- Any PIN pad that uses MasterSession must limit the maximum frequency of PIN entries in order to make infeasible attempts to find a PIN through exhaustively trying all PIN combinations.
- The PIN pad must not allow unauthorized access entry to a "clear prompt sequence." (For example, the ability to change a prompt for a zip code to a request for PIN.)
- The PIN pad must not allow its program code to be altered.


What is meant by "the PIN in is the clear?"

Once the PIN is entered on a PIN entry device, the PIN must immediately be encrypted by the device and remain encrypted until it arrives at the Host Security Module—usually found at the debit processor's secure data center—for validation. If the PIN travels through the network or within the PIN entry device unencrypted, it is said to be "in the clear" and thus potentially accessible for unauthorized viewing.

DES and 3DES

An IBM team developed the data encryption standard (DES) in 1974; it was adopted as a national standard in 1977. Triple DES, or 3DES, is a variation of this standard and is 72 quadrillion times more secure than DES when used properly. 3DES is simply another mode of DES. The procedure for encryption is exactly the same as with DES, but it is repeated three times—hence the name 3DES. The data are encrypted with the first key, decrypted with the second key and finally encrypted again with the third key.

This process creates an encrypted PIN that is unbreakable with today's code-breaking techniques and available computing power, while still being compatible with DES. Visa requires that all new PIN entry devices be 3DES-capable and Visa PED-approved.




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What risk does the merchant assume by not complying with the Visa PED program?

Neither Visa nor MasterCard has contracts for authorization and processing services with retailers. All agreements regarding authorization and processing services are written between the retailer and the acquiring institution.

Liability for PIN entry fraud is passed from the card associations to the acquiring financial institution. The acquiring financial institution has the option of passing the losses on to the merchant. If the merchant has prior knowledge that the PIN pads were compromised or might easily be compromised, and continued using them, the merchant may bear liability for the fraudulent charges.

PED compliance dates

Per Visa, terminal providers may only sell and distribute Visa PED-approved PIN entry devices as of Jan. 1, 2004. Those distributors, acquirers and sales agents that have inventory of non PED-approved devices on Jan. 1, 2004 are able to ship, install and use those devices with no penalty.

After Jan. 1, 2010, all PIN entry devices installed within

the United States must be PED-compliant. 3DES capability is included in the evaluation that Visa's sanctioned testing facility performs for PED compliance. For more information about Visa PED, compliance dates and approved products, visit <http://international.visa.com/fb/vendors/pin/main.jsp>.

Visa PED and 3DES support

Ingenico and the vast majority of terminal providers support the initiatives for increased PIN entry security being instituted by Visa and MasterCard. Terminal providers offer several products listed on the Visa approved Web site. All Ingenico PIN-entry products from this point forward will be Visa PED-approved. We believe that is important to protect our customers and the consumers that shop in your stores.

Ingenico's PED security has always led the market. The majority of our PIN pads are certified to work in the Canadian marketplace under the security guidelines established by INTERAC and are also used in Northern Europe where security regulations are among the most stringent in the world. ☑

Michael W. English is Ingenico's Director of Marketing and Communications. You can e-mail him at menglish@ingenico-us.com

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Yes, Virginia, Some Things Are Really Free

By Patti Murphy

The best things in life are free. Or are they? Paul Martaus and Brett Mansdorf, industry veterans with decades of experience in the acquiring and ISO businesses, are offering a free payments forum for MLS professionals through the Institute for Payment Professionals (IPP). Martaus and Mansdorf created IPP in 2003, and they've been traveling the country with the forum for about five months.

You'd think that because the events are free, IPP's forums would be packed, with standing room only. But according to the two principals, they're having a dickens of a time filling the meeting rooms. "People don't believe this is really free," Martaus said. And Mansdorf added, "They think we're trying to sell them something. That's not what this is about."

I presented at the IPP forum held April 7, 2004 in Washington, D.C. There were several people in attendance, and the group was spirited. People didn't even take much time for lunch—they were busy querying presenters about specifics of the trade, even as they munched on sandwiches and cookies.

My presentation covered Check 21, which will create substantial new opportunities for selling into the merchant community over time. Additional sessions covered topics such as risk management, prospecting, merchant retention and hardware updates.

Vendors were also at the meeting. Both Hypercom Corp. and VeriFone, Inc., for example, presented on hardware, but there were no heavy sales pitches. Paul Sabella of Columbia, Md.-based Nextdayfunding Merchant Services, brought several sales people to the Washington D.C. forum; he said they really benefited from the insights the presenters offered, and that he came away from the event with useful information, too.

"I've been in the card business since 1990," Sabella said. "I understand a lot of the historical background stuff, but some of these newer folks don't. I felt the forum was very useful in helping them to understand the bigger picture."

IPP has scheduled four additional forums between May and September 2004: San Francisco, May 19; Atlanta, June 30; Chicago, August 11; Houston, September 22.

For more information about IPP, visit www.i4pp.org .

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Precidia is targeting this product to single-lane merchants such as convenience stores and multi-lane retail merchants like quick service (QSR) restaurants where transaction speed is of utmost necessity.

Precidia said there are a number of benefits for both merchants and processors, including improved transaction speeds and a reduction of communication costs from the elimination of duplicate networks and dedicated dial lines. Merchants can also use their existing Hypercom POS terminals—and not have to invest in new equipment.

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Other features of STAR's on-demand management service include the ability to pull reports directly from the ATM to provide information on installed versions of hardware and software, marketing campaigns and content delivery.

ATMs will continue conducting transactions while new content is delivered.

The new STAR service interfaces with its management portal, STAR STATION, so that ATM operators can securely alter screen content on schedule or on-the-fly.

The advantages the service offers include optimizing consumer convenience and reducing expenses by eliminating the need to dispatch technicians semi-monthly to load graphics and security patches, which costs an average of \$6500 annually per ATM.

The service builds on the on-demand solutions from Computer Associates International, Inc. and is compatible with Windows-based machines from any ATM manufacturer. The STAR service is currently running on 200 PNC ATMs deployed at Wawa stores in the Mid-Atlantic region and Thorntons Inc. stores in New England and the Midwest. ■

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— John Dryden



May I Have Your Card?

One of the most frequent requests I have heard throughout my career is "May I have your card?" Whether it's a sales call or business-to-business (B2B) networking, the practice of swapping business cards is the most common way to make an introduction. So why do so many merchant level salespeople (MLSs) arrive at meetings and trade shows without them?

I'm always surprised when, during the "get to know you" part of a committee meeting, someone in the room announces they have "forgotten their cards." Or when someone visits our booth at a trade show and is unable to leave a card because they don't have any with them. In sales, forgetting your business cards is like forgetting your pants.

The most effective way I've found to remember people I've met is to retain their business cards. During our conversations, I often take quick notes on the back of the cards that I can refer to later, such as jotting down a reminder about something from our meeting, an action item I have agreed to or something they have committed to me.

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Once back at my desk, I review the stack of cards. I write thank you notes, delegate action items, pass along leads and the myriad of follow up details that occur after a business trip. Without the cards, I'm left only with an attendee roster and pads of paper.

Your cards should include your name, phone number, fax number, e-mail and street addresses and company logo. This information should be produced in a color and font that are easy to read. I recently received a business card that had been printed with pale lavender five-point type in order to fit all of the information the proprietor wanted on the card. A lot of information was there, but I couldn't read it—even with my bifocals on!

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When: May 17 - 19, 2004

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Registration: Visit www.nacsonline.com or phone 703-684-3600.

are printed. You may think that the instructions you gave the person at Kinko's were clear, but did they set your information correctly? Here's an easy trick to use when proofreading to ensure what is to be printed is correct: Read each line backwards, from left to right and from bottom to top. This will force you to look at each word and number, instead of only skimming the information that you are so familiar with.

Also, have your cards printed on a paper stock that someone can actually write on. If your cards are plastic or a dark color they will be less useful to those who receive them, especially if they, like you, take notes on cards. While business cards that look and feel like credit or gift cards may be a novelty, they will most likely be tossed rather than kept as useful reminders for further action.

Check your sales agreement for instructions regarding logo placement on your business cards. Card associations and many banks and vendors have specific rules regarding the use of their logos. Additionally, be sure to include any logos (that you are entitled to use) that might lend further credibility to your business, such as from a trade association, chamber of commerce or Better Business Bureau.

If you conduct business in languages in addition to English, you might consider having your contact information printed on the back of your business card in these other languages. Or, you might add a line to your business card such as, "Se habla español."

Keep a supply of business cards in your wallet, briefcase, car, computer bag and desk, and invest in a simple business cardholder to protect the cards and keep them looking crisp and clean.

Most importantly, give your business cards away.

Many sales managers monitor their sales staffs' activities based on the number of business cards each rep collects during the day. You can easily rate the effectiveness of your daily routine by counting the cards you collect. You'll have a better idea of how many leads you're generating if you give a card each time you receive one.

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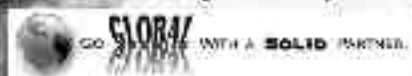
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