



The Green Sheet

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

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Payments Industry Responds to Hurricane Katrina

First the wind and rain came, then the flooding, all brought by Hurricane Katrina, possibly one of the worst natural disasters in U.S. history. Soon after, funds and relief began pouring in for victims of the catastrophe. From the largest card Association to the smallest ISO, many of the companies offering help are from the payments industry.

American Express Co., MasterCard International and Visa U.S.A. each announced pledges of at least \$1 million. Morgan Stanley's Discover Financial Services is donating \$2 million. First Data Corp.'s Western Union cut its service fees in half for Western Union Money In Minutes transactions sent from within the United States to Mississippi, Louisiana and Alabama.

Trade Associations Get Involved

To help the merchant acquiring industry support businesses that have lost the ability to process payments because of damaged or destroyed equipment, the Electronic Transactions Association (ETA) established an online resource to link businesses in need of supplies and equipment with ETA members willing to donate or lend those services (for more information, visit www.electran.org/about/katrina_information.htm).

"Rebuilding these Gulf Coast communities will take many months and the efforts of countless heroes working to assist those in need. ... I challenge the entire ETA community to do whatever possible to support those in need

now and in the many months ahead that will be required for this recovery," said Carla Balakgie, ETA Executive Director.

The ATM Industry Association and ATMmarketplace, an industry trade publication, are seeking donations to assist hurricane victims. They will deposit them into ATMIA's Education and Development Fund, a nonprofit charity, and then dispense the funds to the American Red Cross and an ATM business hardest hit by the damage, said Tom Harper, President of AMTIA and publisher of ATMmarketplace.

(Read more about how the hurricane has affected the ATM industry in the ATMmarketplace article, "Katrina's

See Katrina on Page 67

Ways You Can Help



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www.redcross.org

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800-SAL-ARMY or
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Notable Quote

"Cardholder data security is everybody's business. When a breach makes headlines, it only reinforces the concerns of those who opt not to use their cards for fear of a breach occurring."

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Forum

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again by the card Associations and our legal system. So, is the goal to bankrupt U.S. businesses?

The Green Sheet articles clearly note that the cardholders being the primary culprit in how cardholder data is obtained with security breaches are far down the line. When does the cardholder become accountable for their carelessness and stupidity?

Merchants and even third-party processors like CardSystems Solutions Inc. are fed up with bearing that burden. I'd venture that the truth be known, the card Associations themselves have been breached; but we'll never know. Again, I support data security, but where's the balance?

– Biff Matthews
CardWare International

Data Security Breaches: Who's to Blame?

It's appalling to me the immense volume of monetary and personnel resources expended in attempting to secure data using off-the-shelf technology that's fraught with vulnerabilities. It's a no-win war.

I'm for data security; however, what's being done to catch and punish those responsible for the breach? Virtually nothing that I'm aware of. Appropriate punishment is the only deterrent. To me, public hanging is not out of the realm of appropriateness since those in the world who would consider breaching security for fun or profit need to see how they will be dealt with once caught.

Broadcast it on TV, stream it over the Internet. This is a terrorist act to be dealt with accordingly. While some readers may think me extreme, I can[']t wait for their response when, through no fault of theirs, their identity is stolen or their company is hacked.

The responsibility and burden is on the potential victim, guilty before a crime is even committed. Then, in spite of their best efforts to protect their data, once breached they're victimized

Surcharging on Debit Transactions

Is a merchant allowed to surcharge for debit use? How can the debit be separated from credit? Any info from The Green Sheet would be appreciated.

– Starsales

Starsales:

We asked Contributing Editor to The Green Sheet, Patti Murphy, to assist us with the answer to your question. Her reply was:

If the transaction is on a Visa or MasterCard check card, the answer is no. Merchant surcharging for online debit is at the discretion of the supporting network, such as STAR and PULSE.

Different networks have different rules for surcharging ATM and POS debit transactions. STAR, for example permits debit card surcharging at the POS provided all other forms of electronic payments accepted by that retailer are also surcharged, according to a spokeswoman for that network.

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YOUR NEWS IN A HURRY

Short on time? This section of The Green Sheet provides a quick summary of nearly all the articles in this issue to help keep you up to date on the latest news and hot topics in the payments industry.

Feature

Payments Industry Responds to Hurricane Katrina

First the wind and rain came, then the flooding, all brought by Hurricane Katrina, possibly one of the worst natural disasters in U.S. history. Soon after, funds and relief from all over began pouring in for victims of the catastrophe. From the largest card Association to the smallest ISO, many of the companies offering help are from the payments industry.

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View

FTC Has ISOs in Its Sights

Take note: The Federal Trade Commission (FTC) has ISOs within its regulatory sights. In August, the FTC reached a settlement agreement with Universal Processing Inc., a transaction processor specializing in high-risk merchants. This isn't the first time the FTC has taken action against an ISO.

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View

Rules and Fines: The Cost of Cardholder Data Security Breaches

When a cardholder data breach makes headlines, it reinforces concerns of those who opt not to use their cards for fear of a breach occurring. The card Associations' rules and fines for non-compliance are so significant that sponsorship fees will radically increase and the number of principal members willing to sponsor ISOs and third parties will radically decrease.

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Feature

Industry Leader, Michael Nardy: The 'Little Businessman' Grows Up

Think back to when you were five years old. When penning a wish list for Santa, what was at the top? A bike? Legos? Maybe a new baseball mitt? For one five-year-old, Michael Nardy, future Founder and Chief Executive Officer of Electronic Payments Inc. (EPI), "businessman supplies" were at the top of his list.

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News

MasterCard Plans IPO

With increasing concern over cardholder data security, lawsuits filed by merchants over interchange, and competition among card brands, MasterCard Inc. is facing extraordinary pressure as a card Association. It recently announced significant changes that might assuage some of the heat.

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Feature

Katrina's Impact on ATM Industry Hard to Assess

From ATMmarketplace.com . The flooding that has consumed most of New Orleans has forced companies with operations in the city to accept that it could be months before they truly know what they've lost. Economical, structural and emotional devastation will be far-reaching, but beneath the shroud of darkness is a ray of optimism and hope.

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News

GS Online: 2.8 Million and Climbing

In the month of August alone, The Green Sheet's Web site, GS Online, received 2,808,964 hits. This is a 9% increase over the previous month, and a 22% increase over the same period a year ago.

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News

CardSystems Meets Compliance Deadline, Visa and AmEx Retain Original Position

Visa U.S.A. and American Express Co. stand by previous decisions to remove CardSystems Solutions Inc. from their list of approved processors despite the company's recent announcement of achieving compliance with card Association data security standards.

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News

Financial DNA Explores the Unbanked

Many in the financial services industry estimate that there are as many as 50 million unbanked or underbanked people in the United States. Most are poor and have recently emigrated from another country. Some though, are simply distrustful of banking systems and the mainstream financial world in general.

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Education

Street SmartsSM: Security and the MLS

In light of the recent security breach at payment processor CardSystems Solutions Inc., what are the obligations of merchant level salespeople (MLSs) in regard to securing their client's data? How vulnerable is this information, and what are the repercussions to agents if a breach occurs in their own system?

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Education

Finding New Revenue Streams in Your Current Merchant Base

As technology evolves the process of processing changes. This presents a challenge for you as an MLS; you must constantly stay on top of new developments to remain competitive. However, many feet on the street don't see a silver lining in this: New technology also means new opportunities to resell, up-sell and profit from your current merchant base.

Page 84

Education

The Leading Edge: Advanced ATM Functionality

An enormous amount of discussion has occurred over advanced ATM functionality. Everyone has an opinion on what will and won't work and why. No one has found an ATM application that truly lives up to its proposed potential, and the only functionality that consumers currently expect from an ATM is dispensing cash, right?

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Education

Making the Call: Choosing the Right Phone Service

Nubrek Inc. recently went shopping for a new phone service provider. The company found many different options available. Of particular interest is Voiceover Internet protocol, or VoIP.

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Education

The Nonpublic Personal Information Hot Potato

Protecting personal information is definitely one of the "hot" topics of 2005. Organizations from the card Associations, banks, processors, ISOs and agents to the local flower shop are working to avoid getting into trouble over the collection, storage or dissemination of nonpublic personal information. This article offers some tips to help reduce possible sources of liability for problems associated with cardholder information.

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Inspiration

Hope for the Best ... Prepare for the Worst

We've seen the news reports of the devastation caused by Hurricane Katrina; it is overwhelming. For many of us, our first reaction was sympathy and compassion for those in its path. We probably thanked whatever higher power we believe in for sparing us a direct hit from such a catastrophe. What are you doing to prepare for a disaster, natural or otherwise? Do you even have a plan?

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Industry Update

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NEWS

Businesses Might Overlook

\$3 Billion Settlement

A majority of the businesses eligible to recover money in the \$3 billion Visa U.S.A./MasterCard International class action settlement will miss their opportunity for a refund, according to **Spectrum Settlement Recovery**. Originally, the administrator indicated it would notify eligible claimants and supply most of the data needed to make a claim for a full refund. However, a recently filed court document shows as many as one-third of the eligible businesses, approximately 2.8 million claimants, may not be included in data provided by the networks.

Cross-Border Debit Volume Increases

Growing cross-border PIN-debit transaction totals from NYCE indicate an increased adoption by Canadian consumers and a gain for U.S. retailers. From the launch of cross-border debit in October 2004 through April 2005, Canadian shoppers initiated more than 400,000 PIN-debit transactions in the United States, representing almost \$26.5 million. Supermarkets accounted for half of the transactions; gas stations, clothing stores, discount retailers and drug stores also saw significant volumes.

Smart Card Alliance Council Created

The Smart Card Alliance formed a Contactless

Payments Council, which will work to facilitate the adoption of contactless payments in the United States through education programs for consumers, merchants and issuers. The co-chairs are Francine Dubois, Oberthur Card Systems; Wendy Humphrey, First Data Corp.; and Mohammad Khan, ViVOtech. A steering committee, composed of a cross section of the financial payments industry and contactless smart chip technology vendors, will manage the council.

ANNOUNCEMENTS

Schoedinger to Leave First Data

Jim Schoedinger, President of **First Data's** Card Issuing Services, is leaving the company to pursue other opportunities.

Global Payments Makes Forbes List

Forbes.com ranked **Global Payments Inc.** among "The Top 100 Best Mid-Cap Stocks." The Web site ranked Global Payments, listed under the category of "electronic transaction processing services," thirty-fourth.

Heartland Sets Records

Heartland Payment Systems Inc. set three new processing records recently. For the first time in the company's history, it handled more than \$2 billion in Visa card processing volume and more than \$1 billion in MasterCard processing volume within the same



- Retail sales fell 2.1% to \$350 billion from July to August 2005, the **Commerce Department** reported. This decline was one of the largest since the months following Sept. 11, 2001.
- An **ACNielsen** poll in June and July 2005 of nearly 40,000 households found that many consumers have reduced spending as a result of higher gas prices.
- **Banana Republic**, a division of **The Gap Inc.** announced plans to open a store in Tokyo. This will be the brand's first entrance into the Japanese market. Three more stores are expected to follow. Banana Republic reported \$2.3 billion in sales in 2004.

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month, thus breaking a new record by reaching \$3.4 billion in processing volume in one month.

Hypercom Certified by Merchant Link

Hypercom Corp.'s IN-tact 1101 converter device for Internet-enabling legacy Hypercom POS terminals has been certified for use on the Merchant Link siteNET Internet Gateway. The certification enables merchants with legacy Hypercom equipment to use the IN-tact converter in conjunction with siteNET to route credit and debit card transactions over the Internet for faster payment authorizations.

MUZO Opens Moscow Office

MUZO, a.s., Global Payments' Prague-based subsidiary, recently opened an office in Moscow. Global Payments provides credit card issuing services to one of the largest providers of consumer credit in the Russian Federation, Home Credit and Finance Bank. Stanislav Coufal will head up the Russian operations. Coufal joined MUZO in 2004 and served three years as a Vice Chairman of the Board of the Czech-Russian Bank in Moscow.

RBS Lynk Certifies Omni 3730

RBS Lynk Class-A certified and deployed VeriFone's

Omni 3730 series payment solutions. RBS Lynk offers a range of payment capabilities and transaction features for the Omni 3730 series including credit, debit, gift, loyalty, EBT and check authorization services.

RDM Earns NOVA Certification

RDM Corp. earned Class-B certification from **NOVA Information Systems**. NOVA has Class-B certified the "all in one" credit, debit, EBT and e-check application on the RDM SYNERGY payment terminal.

Transmodus Opens in Texas

Transmodus recently opened a business consulting office in San Antonio. **Rob Clawson** will run the office. Clawson spent the last six years with an online check transaction company building relationships with merchants, processing professionals, ISOs and corporate sales staffs.

PARTNERSHIPS

BankWest and First Data Form Australian Alliance

BankWest, a member of the HBOS Australia group, and **First Data** formed an alliance for merchant acquiring services in the Australian market.

The alliance will provide acquiring services for BankWest merchants and their acceptance of electronic payments. The business will move to First Data's merchant processing platform over a period of eight months.

Global Payments and HSBC Form Joint Venture

Global Payments formed a joint venture with **The Hongkong and Shanghai Banking Corp. Ltd (HSBC)** to provide payment processing services to merchants in the Asia-Pacific region.

Global Payments will pay HSBC \$67.2 million in cash to acquire a 56% ownership interest in the venture. In addition, the bank agreed to a 10-year marketing alliance in which HSBC will refer new merchant customers to the joint venture for payment processing in 10 Asia-Pacific countries and territories.

Heuristic Signs Agreement With PPS

Heuristic Technologies Inc. signed a marketing and sales agreement with **Pure Payment Solutions LLC (PPS)**, an ISO specializing in transaction processing services for the healthcare and retail industries. Under the three-year non-exclusive agreement, PPS will market Heuristic's suite of software products to healthcare providers.

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Industry Update

Lipman Receives Order From CBORD

The **CBORD Group Inc.**, a supplier of campus card, housing and foodservice management systems for the university market, selected **Lipman** as the preferred POS terminal provider for its Odyssey Campus Card solution. CBORD will brand and market the Lipman 8320 as the CBORD Epic Card Reader. Lipman received and supplied its initial order from CBORD in June.

Q Comm, IPP Partner

Q Comm International Inc. announced the first of two phases in a partnership with **IPP of America Inc.** Q Comm will resell IPP's bill pay service on VeriFone 3750 terminals, extending IPP's payment centers onto Q Comm's nationwide network of retailers. The second phase will be to embed IPP's bill pay service into Q Comm's transaction processing system and extend support to all terminal types supported by Q Comm.

Select Payment Enters Into Patent License With LML

Select Payment Processing Inc. entered into a patent license agreement with **LML Patent Corp.** The agreement provides Select Payment with a license to LML's patents for electronic check conversion in the

Direct Consumer Field, including LML's U.S. Patent Nos. 5,484,988; 6,164,528 and 6,283,366. Terms of the agreement are confidential.

Shinhan Allies With AmEx

Shinhan Card formed a strategic alliance to issue **American Express Co. (AmEx)**-branded cards in South Korea. It becomes the first bankcard issuer of AmEx cards in the country. The companies expect to launch the new products in the second quarter of 2006. The AmEx global merchant network will accept them.

TransFirst Signs Deal With Checkgateway; Offers Currency Conversion

Checkgateway signed an agreement with **TransFirst** to provide card processing services to Checkgateway clients through TransFirst. Checkgateway will immediately begin referring merchants to TransFirst's ePayment Services division in Omaha, Neb.

TransFirst also announced that merchants using TransFirst's suite of payment processing solutions now have access to **E4X Inc.'s** technology and multicurrency services for managing global sales, including all aspects of foreign exchange.

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VeriFone Receives Order From Mexico; Selected by Retriever

A Mexican bank ordered more than 10,000 **VeriFone** wireless payment solutions to be used primarily by Mexico's 7,000 petroleum stations. **FIMPE**, a joint venture of 15 Mexican banks, will buy and distribute more than 300,000 electronic payment systems over the next five years.

The first phase of the initiative is aimed at gas stations and pharmacies.

In other news, **Retriever Payment Systems** selected **VeriFone** as the preferred provider of payment solutions. Retriever will offer its customers the full line of VeriFone payment solutions.

Visa and Ticket Exchange Form Partnership

Visa International entered into a partnership with **Ticket Exchange**. Using Visa's Concierge service, Visa Signature and Visa Infinite cardholders can immediately request tickets to any event worldwide 24 hours a day, seven days a week, 365 days a year.

ACQUISITIONS

Boston Clearing House Merged Into The Clearing House

The Boston Clearing House (BCH) has become part of **The Clearing House Payments Co.'s** SVP-Check Services business. The Clearing House will absorb the clearing of more than 13 million checks monthly with a daily value of \$850 million for BCH banks, thrifts and credit unions in Boston.


IDS to Be Integrated With CheckFree

CheckFree Corp. purchased **Integrated Decision Systems Inc. (IDS)**, a provider of enterprise portfolio management solutions. CheckFree will integrate the business with its Investment Services division, which provides processing services to broker/dealers, money managers and investment consultants.

APPOINTMENTS

EXS Hires VP

Ken Boekhaus joined **Electronic Exchange Systems (EXS)** as Vice President of Marketing and Business Development. Boekhaus has served in numerous sales, marketing and business development positions while working for a software company, a terminal manufacturer and a radio frequency identification payments company.



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IndustryUpdate

NetBank Appoints Brown

NetBank Payment Systems Inc. (NPS) named **Bridget Brown** to lead the company's POS Installation and Support Team. Brown joined NPS from North American Bancard, where she most recently served as Manager of the Deployment/POS help desk.

Hypercom Names CEO, Chairman

Hypercom appointed **William Keiper** Chief Executive Officer and President, and **Daniel D. Diethelm** Chairman of the Board of Directors. Keiper had been serving as Chairman, interim CEO and President of the company since March. He has more than 30 years of business experience. He was President and Chief Operating Officer of MicroAge Inc. and Chairman and CEO of Artisoft Inc. He currently serves on the Boards of Directors of JDA Software Group Inc.; Zones Inc.; and Smith Micro Corp. Consistent with the Board's prior determination to divide the roles of Chairman and CEO, **Daniel D. Diethelm** was elected Chairman of the Board of Directors. Diethelm has served as a Director of the company since January 2004. He is President of 4Group LLC and Managing Partner of Sudan Funding LLC. He previously served as President and CEO of Aeropower Resources Inc., as well as CEO of Sebec Corp.

TransFirst Chooses Midwest Vice President

TransFirst named **Barry Ervi** Midwest Vice President of Business Development for TransFirst's Independent Sales Services division. Prior to joining TransFirst, Ervi served as a Business Development Manager for Paymentech LP. He has also held sales and management positions with Chase Merchant Services and First USA Bank.

Harris Hired as President and COO

Charles J. Harris will join **Electronic Clearing House Inc.** as President and COO. Harris will oversee the company's operations, sales and business development activities. Previously he served in executive, operational and sales leadership positions at organizations including Paymentech and Electronic Data Systems. Most recently he was President of Merchant Link.

Jones Joins Shera

Shera International Ltd. appointed **Jason Jones** President and General Manager. Jones joins Shera from Motorola, where he served as Director of Corporate Initiatives. Prior to Motorola, he spent 14 years with General Electric, where he held various global assignments. His last position was President and General Manager of GE Supply Logistics.

ISD Appoints VP of Sales

ISD Corp. appointed **Kevin Potrzeba** as Vice President of Sales. Potrzeba brings more than 20 years of software sales management experience to ISD. Most recently, he was Vice President of Worldwide Sales for Interface Software. Prior to Interface, he was the Vice President of North American Sales for Showcase Corp.; SPSS Inc., acquired Showcase, where Potrzeba served as Vice President of North American Sales.

Global Payments Names Chief Sales and Marketing Officer

Kevin J. Schultz was appointed Executive Vice President-Chief Sales and Marketing Officer of **Global Payments** with responsibilities for the company's domestic direct and indirect sales, key customer support and worldwide marketing activities. Schultz most recently served as Executive Vice President, Client Services for Visa U.S.A.

Wilson New Comdata VP

Comdata Corp. named **Mark Wilson** Vice President of ISO Merchant Services in its newly formed Comdata Processing Systems business unit. Wilson formerly served as Executive Vice President in ProfitPoint's sales division. Prior to joining ProfitPoint, he was with iPayment where he recruited ISOs and agents as well as identified merchant portfolios for acquisition.

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Insider's Report on Payments **FTC Has ISOs in Its Sights**

By Patti Murphy
The Takoma Group

Take note: The Federal Trade Commission (FTC) has ISOs within its regulatory sights. The FTC is an independent federal agency that oversees consumer protection and fair competition laws. Its interest in ISOs relates to its consumer protection responsibilities, in particular the extent to which ISOs might be aiding and abetting fraudsters who bilk consumers with bogus goods and services.

"If you're using ISOs to bring in business, you need to be careful," Laureen France, an attorney at the FTC's Northwest Regional Office told bankers attending the Western Payments Alliance (WesPay) 2005 Payments Symposium earlier this month. "You need to know who you're doing business with," she said.

WesPay is a regional automated clearing house (ACH) association; its membership includes financial institutions from several Western states, including Hawaii.

France's comments came during a panel discussion on financial fraud. She specifically referenced a legal settlement reached in August with Universal Processing Inc., a transaction processor specializing in high-risk merchants, and Rey Pasinli, an officer of that company.

The settlement wasn't particularly costly. Universal forfeited less than \$10,000 in what the FTC deemed as ill-gotten gains. The settlement doesn't constitute an admission of guilt, but it speaks volumes about the agency's interest in companies selling payment services.

According to the FTC, at least one of Universal's merchants, Pharmacycards.com, wasn't on the up and up. Transactions it was sending through Universal, so-called demand drafts (check-like transactions processed through the ACH) were intended to bilk thousands of people out of millions of dollars, the agency said.

Making matters worse, no due diligence was performed when Universal signed on Pharmacycards. No one at Universal ever met with the folks who operated the Web site or required that they complete a standard payment processing application.

"No [company] bank statements were reviewed, nor credit reports," France said. Nor did Universal ever look at the products and services being sold, she added, products the FTC said were practically nonexistent.

According to the FTC's official complaint against Universal and Pasinli, made public on Sept. 7, 2005, "They agreed to use their entrée to the banking system to debit consumer checking accounts on behalf of two individuals they had never met ... who were using a Montreal customer service center, free, untraceable e-mail accounts, an unsecured Web site hosted in India, a Vancouver, British Columbia mailing address, and who directed that the proceeds be sent to a bank in Cyprus."

Last year, the FTC charged Pharmacycards with bilking thousands of consumers out of \$139 each for pharmacy discount cards that never materialized. According to that complaint, Pharmacycards attempted to debit \$10 million from consumer checking accounts in less than three months.

Return rates for the transactions "started high and almost immediately skyrocketed," the FTC said, a tip-off that accountholders did not authorize the payments.

Nonetheless, Universal continued processing approximately \$1.2 million in debits to consumer checking

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accounts and attempted to convince upstream processors to continue taking the transactions.

More than 70% of the demand drafts initiated through Universal by PharmacyCards (about 50,000 in all) were returned as unauthorized. Still, more than \$1 million was siphoned from U.S. bank accounts and subsequently wire-transferred to a bank account in Cyprus. The FTC said Universal should have known that the transactions initiated through PharmacyCards were fraudulent.

"This hurts the credibility of the entire ACH system," France said. "It's a problem for the industry, not just for us."

Demand drafts look like checks, and banks usually treat them like checks, except no signature is required. Demand drafts were designed to accommodate telemarketers who receive authorization from consumers to debit funds from checking accounts.

Demand drafts have always been problematic because they can be created so easily; an account number and a bank routing number are all that's required. In the past, demand drafts have been the subject of Congressional inquiries, warnings from NACHA – The Electronic Payments Association and federal bank regulators, new state laws, and a proposed Federal Reserve ruling.

The Fed proposal, announced in March, would shift liability for losses tied to bogus demand drafts to banks accepting the transactions for deposit. Under current Fed rules, the banks on which demand drafts are drawn bear liability when the transactions go south.

Under terms of the FTC's settlement, both Universal and Pasinli are barred from processing payments without taking steps to ensure that consumers authorized the transactions. They are barred from misrepresenting that consumers authorized payment, and from processing transactions when they know, or consciously avoid knowing, that the client doesn't have a relationship with the consumer whose name is on the transaction.

Before taking on any new clients Universal must take proactive steps to ensure each is a legitimate business and that it complies with federal telemarketing sales rules and the FTC Act. The company was ordered to monitor return rates for payments, investigate the causes of any return rates exceeding 2.5%, and cease processing payments on behalf of any clients engaged in "unfair or deceptive acts or practices."

Universal also had to forfeit \$9,476, an amount the FTC deemed as ill-gotten gains.


This isn't the first time the FTC has taken on an ISO. Last year, the agency garnered a multimillion dollar settlement

from Certified Merchant Services, forcing the sale of that ISO's assets.

That settlement stemmed from charges the FTC filed in 2002, claiming the company had falsified merchant signatures on credit card services contracts, altered signed documents and misrepresented savings merchants could realize by doing business with CMS, among other violations of federal law.

It's not apt to be the last time the FTC takes action against an ISO or other payments company. France made it clear to bankers attending the WesPay conference that the agency is paying close attention to this line of business.

These are not idle threats. The FTC is responsible for protecting consumers and promoting market competition, and the agency takes this responsibility seriously. So banks and others in this business need to assume similar attitudes.

"Your corporate reputations are on the line," France warned bankers during the WesPay conference. 

Patti Murphy is Contributing Editor of The Green Sheet and President of The Takoma Group. E-mail her at patti@greensheet.com.

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Rules and Fines: The Cost of Cardholder Data Security Breaches

By Ken Musante

Humboldt Merchant Services LP

Cardholder security is everybody's business. When a breach makes headlines, it only reinforces the concerns of those who opt not to use their cards for fear of a breach occurring.

A few years back, the card Associations introduced rules and a fine schedule designed to transfer the financial burden of a breach from the issuing bank to the acquiring bank. Regardless of whether someone thinks that the rules and fine amounts are fair, they are so significant that sponsorship fees will radically increase and the number of principal members willing to sponsor ISOs and third parties will radically decrease.

The Associations introduced these changes as a result of an increasing number of breaches and cardholder compromises. A few years ago, the cost of dealing with a breach and account number replacement fell squarely on the issuer.

The Associations' reputations took a hit with every breach, but the direct cost fell on the issuers, which had to reissue the plastic, transfer balances and follow up with cardholders to confirm that pending transactions were posted correctly.

Inevitably, some reissued cards are stolen from the mail and others are permanently removed from the cardholder's wallet. Reissuing cards is expensive and requires time-consuming cardholder inquiries. Acquirers were not sharing the burden.

Associations Introduce SDP and CISP Fines

In an attempt to shift liability to the acquiring side, each card Association developed its own program. MasterCard International's is the Site Data Protection (SDP) program and Visa U.S.A.'s is the Cardholder Information Security Program (CISP). The Associations also couple severe fines with their rules.

The fine schedule allows MasterCard to fine acquirers up to \$500,000 plus up to \$25 per card. The fee varies depending on the issuer-submitted responses, the action each issuer took and its cost for that action. Visa has fines of up to \$500,000 plus compliance rules that allow the issuer to charge back items purchased with the breached card numbers.

Both Associations have fine schedules that could bank-

rupt a principal member sponsoring a large ISO. Worse, there is no way to guarantee that a sponsored organization will not be hacked.

If a business is found compliant with the rules and a breach occurs, then the rules offer a safe-haven provision. But, how can a business ever be certain that it or its sponsored entity will not be hacked? If its sponsored entity is hacked, how can the business be sure it was in compliance at the time of the hack?

A \$2 billion annual portfolio could easily contain more than 30 million card numbers (12 million of them being MasterCard-branded cards). Should a breach happen, a member could reasonably expect a \$500,000 fine plus a reissuance fee per card.

I would conservatively estimate the reissuance fee is \$5 per card (although, I've heard anecdotally that the actual fee is \$8 per card). That equates to a fine of more than \$60 million before adding any Visa fines.

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While seeking to mitigate this risk I have been denied insurance coverage for the purpose of covering fines. I've also been advised that insurance is not available for Visa and MasterCard fines.

Given the example of the \$2 billion portfolio and the going rate of a BIN sponsorship at \$0.02 per transaction, the member would make \$533,333 over the course of a year for assuming a liability in excess of \$60 million.

Typically, in an ISO sponsorship deal, the ISO owns liability for any fees and fines. This makes sense because the ISO gains the lion's share of the revenue and builds an asset base. Yet it is the member and only the member that faces the fines.

In the example provided, the member must first accrue the estimated fine and then wait for the Associations to calculate the fine and pass it to the ISO. Unfortunately, in my experience, it could take the Associations up to two years to determine the actual fine.

Because the member should estimate and accrue the expense at the time realized, the member/ISO contract either must contractually require the ISO to pay the fine at the time accrued (difficult at best) or the member must carry the expense and hope to collect from the ISO when the fine is assessed some two years later.

I know the information provided is convoluted to say the least. I have numerous suggestions on how to improve the rules while still placing the financial burden and risk where it belongs. Regardless of my beliefs, these are the rules as they exist today.

I have a long history as a sponsor bank for several large ISOs. I believe sponsorship pricing is far too low relative to cost. The amount of \$533,333 is not nearly enough to support a risk of \$60-plus million.


Should a breach of this magnitude occur, the member bank will face inevitable lawsuits and inquiries from Visa, MasterCard, Discover Financial Services, American Express Co., Office of the Comptroller of the Currency, Federal Reserve, Federal Deposit Insurance Corp., Federal Bureau Investigation, Secret Service, various debit card networks, and the individual Attorney Generals from each state.

Why would a sponsor bank risk so much for so little gain?

No entity can assure itself that it will not be hacked; it is equally difficult to ensure that an unrelated third party follows the Associations' rules so that if a breach occurs, the fines will not be enforced.

The Associations' reputations took a hit with every breach, but the direct cost fell on the issuers, which had to reissue the plastic, transfer balances and follow up with cardholders to confirm that pending transactions were posted correctly.

Given that and the potential of unlimited fines, I see sponsorship costs spiraling upward and the number of banks providing sponsorship dwindling.

My advice: ISOs sponsored into a BIN relationship should lock in their long-term rates now. Financial institutions should make sure they make enough from each transaction to cover the risks they incur. 

Ken Musante is President of Humboldt Merchant Services. E-mail him at kmusante@hbms.com.

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IndustryLeader

The 'Little Businessman' Grows Up

Think back to when you were five years old. When penning a wish list for Santa, what was at the top? A bike? Legos? Maybe a new baseball mitt?

For one five-year-old, **Michael Nardy**, future Founder and Chief Executive Officer of Electronic Payments Inc. (EPI), "businessman supplies" were at the top of his list. Luckily, the request made its way to the North Pole, and that year a very excited boy found paper, pens, folders and a file cabinet under the Christmas tree.

"My parents called me their 'Little Businessman,'" Nardy said. "Unlike most gifts, I still have that file cabinet in my office today."

As technology developed, so did Nardy's supplies. A few years later, when he was eight years old, his father brought home a computer. Nardy would sit at the computer for hours playing with the DOS and BASIC shell commands, skills that would later help him when writing one of EPI's ISO tools, the ISOinterface.

"I was always into computers as a kid and that continued throughout my childhood," he said. "I literally lived at our computer table. There [were] times I would quickly run upstairs to shower and return stark naked and still wet, just to continue my 'work.' Lucky for my employees, I don't do that anymore."

Soon the youngster stopped playing business and began conducting it. At age 12, he started a tennis racquet stringing company called Strings N Things.

He was a junior tennis player who participated in tournaments and needed to continually restring rackets. He recouped some of the cost of a \$1,200 racquet-stringing machine by stringing others' racquets.

"I even sold one racquet when my dad took out an ad for me in the local paper," Nardy said. "A man called from the ad, bought a racquet sight-unseen, and my mom drove me over to his house to deliver it. It's pretty funny when I look back at it; this 12-year-old kid selling a racquet, but it was everything to me at the time."

From Serving Aces to Serving Customers

As Nardy matured, his aspirations shifted from tennis to medicine. He attended summer school at Brown University for a medical-intensive program. "I ended up dissecting a human cadaver, did blood work, shadowed

a physician and promptly decided I wasn't cut out for medicine," he said.

Nardy attended Boston College and graduated with a double major in English and History. "A far cry from the merchant services industry, but I always felt you should do what you want and the pieces of your career will fall into place as they may," he said.

In Nardy's dorm room in 1998, EPI was born. "Originally I was running an IT company doing Web programming and database development for companies in the U.S. and Canada," he said.

"I even had a client in Malaysia, and as a result, missed a lot of classes because we would e-mail and IM, and the time difference was about 12 or 13 hours."

The telephone to his dorm room was his business line. Friends would call and hear the greeting and wonder if they had misdialed. Nardy's first experience in the financial services industry came from his Internet clients. "One of our flagship products was an eBay-style auction program called Auction Out!

"The requirement was we integrate our software with VeriSign Payflow Pro and Authorize.Net, so we ended up working with Harris Bank, Vital and Moneris Solutions, a partnership that gave us the ability to work with Canadian and U.S. businesses.

"The growth of my company taking place in college doesn't seem like the natural way a company is built, but I was eager to be off on my own and growing a business in an industry I felt I could contribute something to," he said.

Eventually, business was getting big enough that EPI set up an 800 number; the same 800 number in use today. From his dorm Nardy closed deals, and many clients that called thought it was a huge business. "I didn't want to tell them I was still in college," he said.

When he went home for the summers, the company's headquarters moved to his bedroom in his parents' house. From there he ran the business while also working as a pest control technician for his father's 50-year-old pest control company.

Moving On

After graduation Nardy and EPI moved off campus.

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"Moving on with my company was just what felt right, what was natural for me," he said. "When I moved into my own house, the company was run from my basement. There were servers, computers, a phone system and equipment all over the place; it was cramped. We then expanded into a sublet office in my town, and now into an office building down the road from that."

Nardy acknowledges that EPI entered an already crowded marketplace. But, he saw an opportunity and jumped at it. "It probably wasn't the easiest path we could've taken, but it was the best path to grow the business in the way I wanted to," he said.

If you've done the math you've probably realized that Nardy is young. Although he doesn't discuss age, he admits to being in his twenties. "As far as youth, most of our ISOs know I am young, but it certainly doesn't dissuade them from signing up with EPI or sending us business," he said.

"The fact is, it doesn't matter if I'm 30 or 50. This company isn't going anywhere, and I'm going to be the same person in 30 years that I am now. Consistency is a big part of my makeup."

'Think Big and Act Small'

Nardy is a quick thinker and quick to take action. "I think the fact that I am quick to act is both my greatest strength and weakness ... I am always trying to keep EPI ahead of the competition, and any of the growing pains we've experienced have been short-lived and our ISOs have been incredibly supportive," he said.

He also strives to be available and accessible. Rather than cloistering himself away in a CEO's office, he chooses to work alongside his employees to keep a small company atmosphere.

Most of EPI's ISOs, and many of its merchants, have Nardy's personal cell number. He responds to e-mails day and night. "The more accessible to your staff and ISOs, the more cohesive the vision for your company can remain," he said. "So being accessible is integral to the operation of my company."

"I think that my main business philosophy is to think big and act small. ... I have always taken on more responsibility, more work, more challenges in trying to be a completely in-house shop."

He believes that in order to be successful, you need control. He believes EPI's success comes from underwriting and approving its own accounts, controlling merchants' funding, and monitoring risk, chargebacks and retrievals. He said that this in-house approach offers the freedom to grow quickly and offer competitive programs.

"Taking on the liability of a portfolio was, and is, a daunting challenge, something most wouldn't even consider, especially with the ISO programs being offered today," Nardy said. "I don't know if it was the right move, but it gave us incredible freedom to grow when I needed it. And in turn, we try to pass that freedom down to our ISO base."

That doesn't mean it has always been easy or without risk.

Lessons Learned the Hard Way

The cost of running a full-liability MSP can be great, especially when Nardy shares the story of "... a merchant who busted out to the tune of a \$40K loss." He explains that this was a merchant whom he knew personally, on which he performed the required due diligence, verified transactions, checked bank balances, etc., yet he still lost money. "It was an incredibly tough loss, and the money is unrecoverable," he said.

Nardy learned a hard lesson, and he's not afraid to admit it. "Just because you 'know' a merchant doesn't mean it's all rosy after you sign them up," he said. "And doing all

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the right things still cost me money. Even some merchants that are on your books for years can turn out to burn you."

He shares this experience with others in the hope that they will avoid the same pitfalls. "If I learned anything from this, I am certainly sharing it with potential ISOs who talk about a full-liability deal; it's just not worth it for them unless they are heavily capitalized and experienced," he said.

Helping Others Navigate the Bankcard Industry

This candid information is a direct result of Nardy's experience in the industry. He felt knowledge was scarce, and he was only exposed to the information he researched himself.

"Every conversation I had and every scrap of information I could locate I devoured, and I would just try to absorb everything I could learn," he said. "For me, this industry was very elusive. I had no [GS Online MLS Forum] to turn to when getting into the industry like many others now benefit from."

Now, he tries to make the way a bit easier for those who follow him. "I just think back to my first relationship manager and how tight-lipped she was about sources for information about this industry," he said. "Knowledge shouldn't be secretive; the more we share with our ISO partners, the better producers they become."

Nardy recognizes the importance of sharing information with all ISOs, not only those that work with EPI. "I like to share what I know," he said. "Similar to others on The Green Sheet Forum, having a presence and helping others grow their businesses, even if they aren't writing with us, does us a great deal of good will."

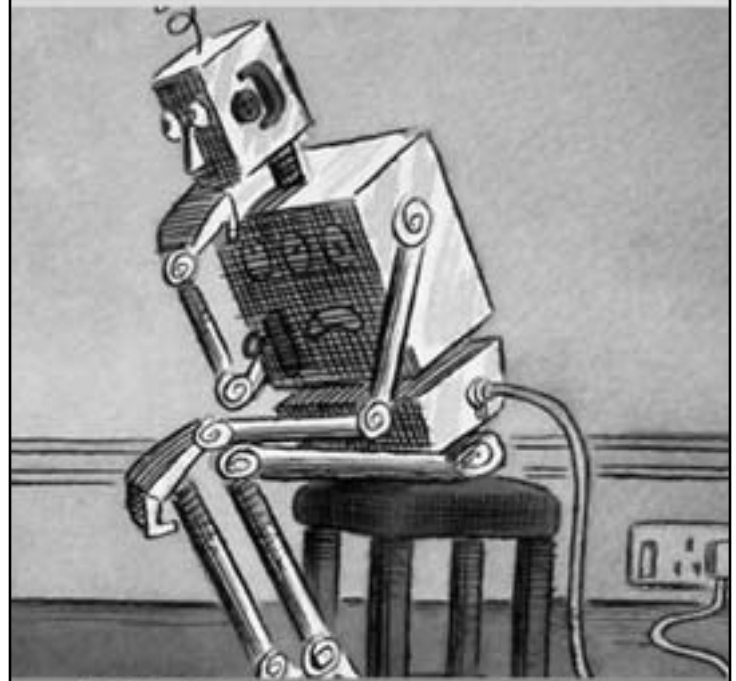
Never Satisfied

Nardy will be the first to describe his work style as ad-hoc. "If it feels good, sounds good, and looks good, then why not try it?" he said.

"I'm always willing to try something once. I always want more. I want our ISOs to earn more, to sign more deals, to build their businesses. I sometimes wake up in the middle of the night thinking we've lost our edge, and then I hit my computer and come up with a new program that makes it easier to manage our ISOs' businesses."

One such initiative is EPI's new healthcare program. EPI will pay up to 100% of its ISOs' health insurance premium, up to \$307, the average cost of health insurance. "This is a good program, I am very proud of it," Nardy said. "I hope others follow suit, and

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- Michael Nardy

we will continue to pay premiums even as the cost of healthcare rises."

This program is unlike other areas in which EPI retains control. "The key benefit of our healthcare initiative is we are completely hands-off," he said. "We don't make you sign an exclusive agreement; we don't make our ISOs use our coverage and carrier.

"We let them choose the level of coverage and benefits they want, and we will cover as many people as they need; as long as they do 10 deals per covered individual."

Nardy has already come full circle before the age of 30. He has gone from "Little Businessman," to racquet stringer,

to almost M.D., and back to businessman. This entrepreneur is living proof that you don't have to be an industry veteran to be an industry leader.

He offers the following advice: "In an industry that is by its nature ... a sales-based profession, transient and often filled with stories of unfortunate experiences of ISOs and MLSs, the only thing you can do is be honest, upfront and never falter from your core business principles. Lead by example and be consistent."

Nardy plans to be part of the financial services industry for some time. "I love sales and I love this business; there is really nothing else I can see myself doing," he said. "I have no exit plans in sight and will continue what I am doing as long as I can. There's still a lot more I feel I can do to grow EPI and contribute to our industry." ■

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MasterCard Plans IPO

With increasing concern over cardholder data security, lawsuits filed by merchants over interchange, and competition among card brands, MasterCard Inc. is facing extraordinary pressure as a card Association. At the end of August, MasterCard announced some significant changes for the company that might assuage some of the heat.

MasterCard plans to restructure company ownership through an initial public offering of common stock; it also plans to restructure corporate governance.

The word on the street is that MasterCard hopes the IPO will not only raise capital, but also increase transparency in its operations (thereby buffering itself from public criticism) and help cushion the blow should any of the 20 or so lawsuits pending against it result in financial liabilities.

"We believe that the proposed changes will give us a more stable base on which to implement our customer-focused strategy and bring value to our customers' businesses," MasterCard wrote in an Aug. 31 letter to shareholders.

"The company is building a war chest for investments and expansion," said John Gould, Partner at research firm PrepaidAdvisory LLC. "Their goal is a fast increase in revenue."

In announcing the IPO, MasterCard said it would put a 49% stake in the organization on the block in the form of Class A common stock; these stockholders, combined, will share 83% of shareholder voting rights.

The banks that now make up MasterCard's Board of Directors will retain a 41% share in the new company, represented by nonvoting Class B common stock with unspecified voting privileges. A newly formed charitable foundation will own the remaining 10% of MasterCard.

MasterCard said it will use monies from the IPO to purchase a portion of the collective ownership now held by banks. The organization's new governance struc-

ture includes eight independent Directors, three bank Directors, a nonvoting Director from the current Board and the Chief Executive Officer.

Transformation in Progress

MasterCard has been a privately held corporation for the last several years; more than 1,400 member banks hold shares of the organization. In its letter to shareholders, MasterCard explained it would "retain \$650 million of the IPO proceeds to fund a capital increase."

For the second quarter 2005, MasterCard reported \$772 million in revenue, a 19% increase over the same period last year.

Gould said "MasterCard is trying to transform [itself] into a global payments company instead of just a credit card," and that the company is deemphasizing its reliance on credit and debit cards to generate revenues from other elements of the value chain, such as processing services.

"If I were MasterCard, I would become an acquirer," he said.

Litigation Looming

MasterCard's new governance structure and ownership diversity should also lessen the impact of pending litigation. At least 20 different lawsuits against MasterCard (filed by merchants, rival card brands and the like) are now pending; adding Visa and individual member banks brings the tally to more than two dozen cases.

Many of the lawsuits filed by merchants take issue with interchange. In 2003, MasterCard agreed to an out-of-court settlement of a lawsuit brought by a large class of merchants (led by Wal-Mart Stores Inc.) that put it on the hook for a little more than \$1 billion in restitution payments to merchants. Many believe that settlement opened the courts to the current pending lawsuits over interchange.

The big gripe merchants have with interchange is that a group of independently operated banks set its price structure, and thus would seem to be tantamount to price fixing and in violation of federal antitrust law.

Key MasterCard Milestones

1966 - A group of banks create the Interbank Card Association (ICA)



1969 - ICA acquires Master Charge name and interlocking circles trademark


1979 - Master Charge becomes MasterCard

1991 - MasterCard and Europay International launch Maestro, the world's first global online debit program

2002 - MasterCard becomes a SEC-registered private share corporation
 • Merger with Europay International
 • Customer financial institutions become shareholders

2005 - MasterCard serves nearly 25,000 principal and affiliate financial institutions in 210 countries, from 37 offices around the world

Source: MasterCard Inc.



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"We believe a majority independent Board, and broader diversity in our share ownership, will address perceived conflicts of interest," MasterCard wrote in its letter to shareholders.

"MasterCard is hoping now to be viewed as not just a consortium of banks fixing prices," said Dan Schatt, a Senior Analyst at banking and securities research firm Celent LLC. Nonbank entities will bring other interests into the decision-making process, he said.

Nonbank public owners conceivably would have the same access to the network as the banks, which could dramatically change the dynamics of competition. "Nonbank entities on the Board could change Association rules pertaining to who is allowed to issue and acquire credit," Schatt said. "Outside institutions not normally thought of as payment providers could now enter this [market]."

In 2002, MasterCard converted from a not-for-profit association to a for-profit, privately held incorporated company with member banks as shareholders.

This designation allowed it the "authority to issue shares of common stock" as a publicly traded company contingent upon approval by the Securities Exchange Commission (SEC) under federal securities law. It also established MasterCard as a pass-through entity, in which all monies over and above operating expenses pass through to the member, or owner, banks.

Discussions about a publicly traded MasterCard have occurred, on and off, for about 10 years.

"Based on [the] actions in 2002, this proposal [for the IPO] is not a surprise," said Attorney Adam Atlas. "MasterCard is responsible to their members for two things. The first is to maintain the network [in which] transactions are processed. The second is to support the brand." The latter includes regulation, marketing and everything in between.

The real industry shake-up would come in the form of the institutional investors. Schatt offered many investor possibilities including Wal-Mart, Google or a major telecom provider such as Cingular Wireless. "The structure will move away from bank-only members," he said. "Other stakeholders will fit the table."


Currently, only financial institutions may own a stake in the card Associations; therefore, they are the only entities allowed to issue bankcards.

However, if Wal-Mart, for example, purchased a substantial share of MasterCard, would Wal-Mart gain card-issuing privileges?

For ISOs and sales agents wondering how the MasterCard reorganization will affect them, if anything, it might make their lives a little easier, Atlas said. "Not much will change [concerning] the ISO-bank relationship; [however] it may be easier for ISOs to deal with Association rules and possible violations. As a publicly traded company, [MasterCard] will be subject to SEC regulators who have more duty to the public than financial institutions," he said.

While the SEC might not go as far as requiring mandatory disclosure of all Association rules, it "may persuade MasterCard to be fairer in the implementation of the rules," Atlas said.

If MasterCard goes public, will Visa follow? Some say Visa is too big, and with deeper pockets, it simply won't follow MasterCard to the IPO table. Gould doesn't agree. "The pressure will be on Visa to follow suit. [It] will transform itself in the not too distant future," he said.

MasterCard's SEC filings are now being reviewed in Washington. MasterCard expects to complete the entire corporate transformation process by the first quarter 2006. MasterCard is in a quiet period and not able to comment for this story. 

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Dispute Resolution: Don't Go It Alone

Most ISOs are encouraged when they see their credit card processing volume increase. More volume means more revenue. Unfortunately, with increased processing volume comes increased chargeback risk. In the most basic terms, a chargeback occurs when a credit cardholder and a merchant disagree about a charge to the cardholder's account. One side believes the charge is valid and the other does not. The reason might be as innocent as a mistaken duplicate charge or as suspicious as theft or forgery.

Regardless of how or why the chargeback came about, defending cardholder disputes costs merchants and acquirers time, labor and money. ISOs and acquirers spend millions of dollars every year on chargebacks. Even if the merchant and acquirer "win," they've still expended valuable resources defending and processing the dispute. So, they really don't win at all.

In response, more and more ISOs and banks choose to outsource this piece of their business. They believe it is in their best interest to leave dispute processing to the professionals.

Many acquirers find that outsourcing frees up time and resources, so they are able to take care of their merchants rather than jump through hoops to meet required deadlines, update dispute processing technology or train staff on the latest card Association rules. Many banks, processors and ISOs have chosen to work with Merlin Solutions LLC for their dispute processing needs.

Merlin offers a turnkey outsourcing service that encompasses all aspects of the dispute process, including retrieval requests, chargebacks, re-presentments, compliance, arbitration and good faith collections. The company also provides dispute processing consulting and software services and will customize its services to meet the needs of its customers.

Merlin was founded in July 1998. In 2003 Vital Processing took majority ownership of the company. "This provides us with financial strength and a large market to grow our company," said Anthony Weare, President of Merlin.

If you've worked with Vital before, you might be familiar with Merlin's services or have even used them. The company's service is marketed as Vital Dispute Processing Services, Powered by Merlin Solutions.

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Source: Electronic Transactions Association

Green Sheet GLOSSARY

"Our goal is to reduce risk, lower back-office costs, eliminate compliance issues and improve merchant operations," Weare said.

There are three main reasons why Merlin has enjoyed success. First, the company has processed almost 1 million cases. Second, it boasts a 100% accuracy rate. Third, it does not require ISOs or banks to invest any money up front.

Chargebacks as a Revenue Generator

ISOs, banks and processors use Merlin's solutions with no upfront investment. In other words, it's a "pay for what you use" service. There is no cost for setting up the system. Instead, Merlin charges a fee for every case it processes. The fee varies depending on the transaction type, volume of business processed and length of contract signed with Merlin.

These fees are separate and independent from what the ISO or bank charges the merchant for a chargeback. Weare said ISOs often charge between \$15 and \$25 per chargeback. Merlin's most expensive chargeback fee is significantly less than this. Using the Merlin solution is actually a moneymaker for ISOs.

"If the chargeback center is seen as a cost center, we can make it a revenue generator," Weare said. "They set the pricing." Customers might even choose to provide the service to their merchants free of charge, if they wish to provide the service as a value-added feature of their basic services.

One feature that makes Merlin unique is its dispute processing system, MerLink-DRS, which the company debuted in 2003. MerLink-DRS automates the chargeback process while capturing data and document images.

"We continue to enhance the system to meet and anticipate our customer's needs and to maintain the system in Association compliance," Weare said. He also said Merlin has had no unscheduled downtime since it put the system into production.

The MerLink-DRS system provides customers real-time reporting and real-time access to individual cases. It also offers flexible search options.



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All Merlin's chargeback investigators have at least 14 years' experience. This may be how the company maintains its 100% accuracy rate and why it guarantees its service.

"If my people mess up, if they don't resolve a chargeback correctly, if they don't use the right reason code, or if they go beyond the Visa and MasterCard timeframes, we will pay for the chargeback."

- Anthony Weare
 President of Merlin

"In order to ensure that our customers have complete control of their merchant operations, we provide secure Internet access into our systems to enable them to monitor all of their disputes down to the individual chargeback and document image level," Weare said.

Merlin has also recently announced its signature-capture product, which went into production in August 2005. "This provides for the storage and retrieval of electronic signatures and will allow us to respond to retrieval requests and certain types of chargebacks without the necessity of bothering the merchant," Weare said.

Next year, Merlin will add an issuer dispute module. "This is at the request of some of our customers who would like to enjoy the benefits we currently provide on the acquirer side of their operations to their issuer operations," Weare said.

Outsourcing While Preserving Control

Many banks and ISOs are reluctant to outsource their dispute processing because they fear they will lose control of their merchant relationship. "In fact, outsourcing to Merlin gives them greater control," Weare said.

The company allows banks and ISOs to access Merlin's systems through the Internet and a secure firewall. From here they access a variety of online and real-time reports from which they extract data at any time.

They download data to Adobe or Excel files. Customers then take this information and upload it to their in-house systems, such as Microsoft Access databases or other data processing programs. The detailed, real-time data give them greater control over their accounts.

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Company Profile

This increased control, Weare explained, enables banks and ISOs to have greater control of their merchant relationships, thereby lowering their risk.

"We lower our customer's risk by providing up-to-date and accurate information online," Weare said.

Merlin customers choose how to view and sort information so they can monitor data by merchant, dollar amount, number of chargebacks received or a variety of other parameters.

Maintaining a Human Touch

Merlin's success is not only about the technology and services it provides. A company might have the best technology and the most current products but if it doesn't have a knowledgeable staff dedicated to customer service, it won't be successful.

All Merlin's chargeback investigators have at least 14 years' experience. This may be how the company maintains its 100% accuracy rate and why it guarantees its service. "If my people mess up, if they don't resolve a chargeback correctly, if they don't use the right reason code, or if they go beyond the Visa and MasterCard timeframes, we will pay for the chargeback," Weare said.

The company is doing something right; after six years it has never had to assume the cost of a chargeback.


Merlin works to maintain relationships with its customers, as well as its customers' merchants. "We keep in constant contact and work with them to resolve any issues that may arise," Weare said. Customer and merchant service is available five days a week, from 8:00 a.m. to 5:00 p.m. and until 9:00 p.m. for Vital customers.

The dedication to customer service carries into the company's internal work environment as well. "We foster a friendly and open work environment," Weare said. "This can be seen in the fact that in nearly seven years we have had virtually no attrition."

For many acquirers, banks and ISOs, outsourcing dispute resolution services is good business sense. It lowers the costs of back-office operations, reduces risks and limits the hassles associated with cardholder complaints.

For banks and ISOs that don't want to make a large upfront investment, Merlin might be the right solution for them. Merlin has the experience of processing 1 million cases and the skills to process them with 100% accuracy.





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Feature

Katrina's Impact on ATM Industry Hard to Assess

By Tracy Kitten, Editor and Nick Wiselogel, Reporter

ATMmarketplace.com

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It's been a week since Hurricane Katrina swept through the U.S. Gulf Coast, and still most ATM companies and financial institutions are working to assess damage and loss. As late as Sept. 7, companies in Mississippi and Louisiana were still focusing on their most fundamental concerns: reaching employees and their families.

A sea of downed phone and utility lines have made communication difficult, and the flooding that has consumed most of New Orleans has forced companies with operations in the city to accept that it could be months before they truly know what they have lost.

Industry insiders like Doug Falcone, Chief Executive of Whippany, N.J.-based ISO Access to Money, agree that the economic, structural and emotional devastation caused

"When you stop to think about the employees and what they're going to do, even if the buildings are still standing, you realize that it could be really hard for some of these businesses. You have some guys who had their whole portfolios down there who have lost everything."

- Doug Falcone
Access to Money

by Katrina will be far-reaching and long-lasting, but that beneath the shroud of darkness is a ray of optimism and hope.

The Industry Reaches Out

Companies throughout the country have been reaching out to offer support. From offerings of office space and equipment to donations of money, supplies and clothing, the industry was quick to offer support.

The ATM Industry Association has set up a fund for ATM companies affected by the hurricane; Hudson, N.H.-based Dover Electronics announced the establishment of a Triton employee relief fund earlier this week; and Chantilly, Va.-based Universal Debit & Credit Corp. is driving water and other supplies to the families affected by the hurricane in Long Beach, Miss.

Other companies, like Houston-based Cardtronics LP and Greenwood Village, Colo.-based First Data Corp., are raising money to help victims and families.

"Everybody seems to be working so well together," said Arthur McMahan, Chief Operating Officer of Carrollton, Texas-based Mobile Express Capital Corp. "Even competing businesses are working hand-in-hand to try to help each other out."

That sentiment has been shared by those most affected by Katrina, including Ron Schuldt, President of New Orleans-based processor Columbus Data Services, and Brian Kett, President of Long Beach, Miss.-based Triton Systems. "We have received an outpouring of support from friends of Triton worldwide, and we very much appreciate your thoughts and prayers," wrote Kett in an e-mail Sept. 2.

In the wake of Katrina's aftermath, companies like CDS, Triton and New Orleans-based Innovus Inc./Momentum

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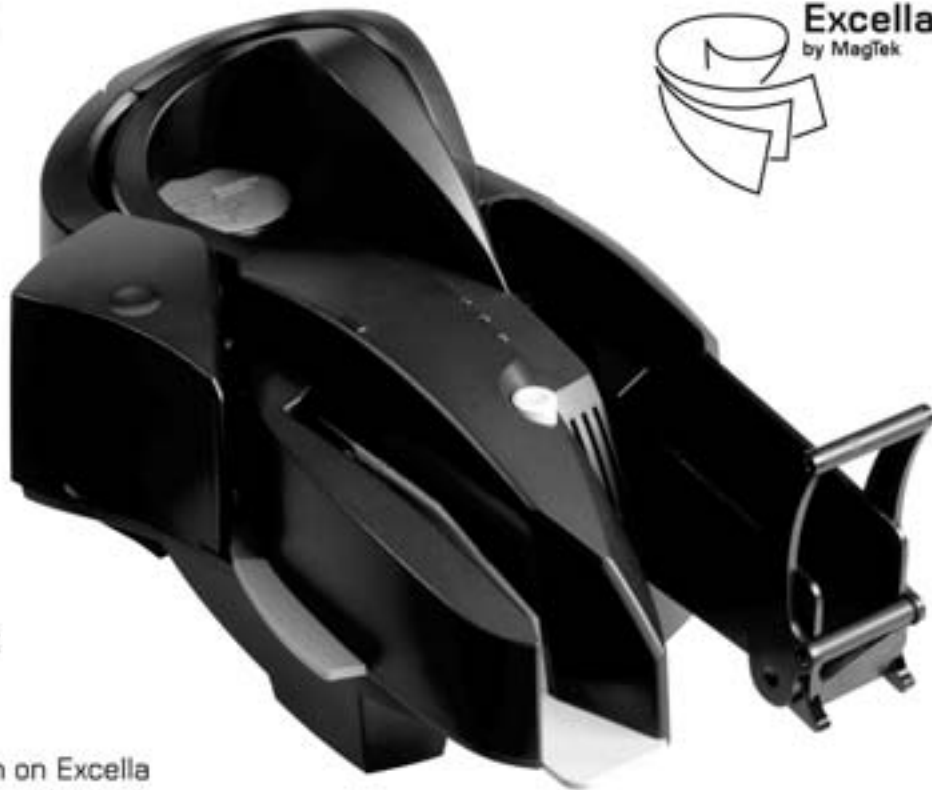
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What's Important:

- **ISOs and FIs are still trying to determine the number of ATMs that have been destroyed because of Katrina.**
- **The Fed and FDIC have no estimates for the number of FI ATMs lost in the Gulf States.**
- **Communication in some parts of Alabama, Mississippi and Louisiana remains spotty, and companies continue to work to locate employees and family.**

Cash Systems LLC, have been optimistic about their operations.

CDS and Innovus reported no disruption in processing and service, and Triton has reported that its two Long Beach facilities appear to be in "very good shape."

Tommy Glenn, President of Jackson, Miss.-based NetBank Payment Systems said in a Sept. 6 e-mail that "Hurricane Katrina caused very little change in our day-to-day operations at NetBank Payment Systems. Thanks to our team of dedicated associates, we have been up and running ever since hurricane Katrina hit the Gulf Coast."

The Economic Quake Is Hard to Measure

But the magnitude of devastation will have economic impacts for several months and years to come,

said Sam Ditzion, President and CEO of Boston-based Tremont Capital Group.

Falcone agreed. "When you stop to think about the employees and what they're going to do, even if the buildings are still standing, you realize that it could be really hard for some of these businesses," he said. "You have some guys who had their whole portfolios down there who have lost everything."

None of the 80 ATMs Access to Money processes transactions for in the affected areas are operating, Falcone said. Access to Money itself owns and operates eight ATMs in New Orleans. The company is assuming at least four of those eight are completely lost.

"We're assuming that about half of them are under water, and, in my opinion, those are probably safer



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because they can't be broken into. The other ones, we're just assuming they're gone or empty."

Falcone expects his company's loss to be between \$120,000 and \$140,000. "And we're a lot better off than most," he said.

Gary Walston, Senior Vice President of Innovus, told ATMmarketplace on Sept. 6 that only about 5% of the 2,500 ATMs Innovus owns and operates have been affected by hurricane-related flooding and outages.

"I don't know how much we've lost, but in terms of the ATMs we own, it won't have a significant impact on our business," he said. "We just don't have any information yet. We are trying to get back into the area. And right now, basically, we're just trying to figure out what we need to do in terms of personnel."

Michael Clinard, COO of Cardtronics, which operates about 400 ATMs in the Gulf Coast region, said approximately 275 Cardtronics ATMs are down.

"We don't know if those ATMs have been affected by flooding and are under water, or if they've been affected by downed phone lines or power lines or a combination

of both," Clinard said. "At this point, we're not sure."

Other companies directly affected by Katrina include ATM Worldwide LLC and ATMs of the South, which are both based in Louisiana. Trey Prats, President of ATM Worldwide, said in a Sept. 7 e-mailed response that his company is working to relocate its office and continue operation. "I would love to tell you all that has happened," he wrote. "ATM Worldwide was right in the middle of all of it. I just don't have time right now."

ATMmarketplace has not been able to reach ATMs of the South. "Everyone is trying to keep as much of an optimistic spin on things and hope for the best, but you know it's going to be hard for a lot of these companies," Falcone said.

And still, many of those companies will be better off than financial institutions, which most experts say will have more obstacles to overcome in recovery. Companies like North Canton, Ohio-based Diebold Inc. are on standby, waiting until they get the green light for service, said Diebold Media Relations Manager Carrie Kandes.

Diebold has 180 associates in Alabama, Louisiana and Mississippi, Kandes said.

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FIs and Katrina

Federal Deposit Insurance Corp. spokesman David Barr said last week that 152 FIs and approximately 1,400 branches are located in the 49 counties now declared federal disaster areas. However, he added, FDIC doesn't know how many FI-operated ATMs in those areas have been impacted. And a spokesman for the Federal Reserve Bank of Atlanta, which covers the states affected by Katrina, said the Fed isn't sure either. Barr also said it was "too early to have any estimates of the financial loss to banks."

"Many financial institutions are implementing contingency plans involving a variety of actions that will help the people of the Gulf Coast," U.S. Treasury Secretary John Snow said.

Charlotte, N.C.-based Wachovia Corp. has 20 ATMs in Mississippi and 206 in Alabama. Of those, three ATMs are still not operating in Alabama and 10 are out of order in Mississippi. The bank has no retail presence in Louisiana. "We are working to get those ATMs up and running as soon as possible," said Evalyn Mitchell, a Corporate Communications Manager at Wachovia. She added that the FI has yet to determine if the 13 ATMs that are out of operation will need to be replaced.

Mitchell said the bank has not calculated its financial loss. "At this point, our primary focus is the safety of our employees, their families and our customers."

New York-based JPMorgan Chase & Co. has 148 ATMs and 56 branches in New Orleans, all of which are not operating, spokesperson Calmetta Coleman said. Coleman also said she could not disclose how much cash is typically kept in Chase ATMs and could, therefore, not speculate about the bank's losses. "We can't get in there so we really don't know if machines are ruined, the power is just out or the phone line to them isn't working," Coleman said.

Even banks that were not directly affected by the disaster are coping with a number of problems. Ross Little Jr., spokesman for Lafayette, La.-based Teche Federal Bank, said, "We are trying to find ways to serve those affected by this without running into problems ourselves. We really are trying to figure out how we can bend over backwards to be more lenient with customers who are in such dire straits. What it will probably come down to is, we are going to have to take a little bit more risk, and if we lose some money so be it."

Link to original: www.atmmarketplace.com/news_story_23964.htm



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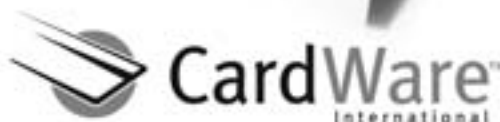
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Katrina From Page 1

Impact on ATM Industry Hard to Assess" by Tracy Kitten and Nick Wiselogel, on page 54 of this issue.)

ISOs Helping, Too

ISOs and other payments businesses have responded with monetary donations, waiving minimum processing fees and supplying POS equipment for affected merchants. In conjunction with NOVA Information Systems, VeriFone donated 500 POS terminals to merchants.

The CO-OP Network pledged to contribute \$50,000. Credit Union 24 pledged \$25,000. Internet merchant account provider e-onlinedata Inc. donated \$10,000 to the American Red Cross, and JRs POS Depot is donating \$1 from each new/refurbished terminal sold.

IRN Payment Systems in Westbury, N.Y. said it will drop fees associated with credit card processing for its merchants affected by the disaster for an indefinite period of time.

Jared Isaacman, Chief Executive Officer of Hampton, N.J.-based United Bank Card Inc. said he anticipates reports in the coming weeks of damaged equipment and is prepared to provide priority replacement equipment.

"Dozens of our merchants in the area have been structurally damaged, businesses ruined, employees displaced," he said. "It has been our first priority to accommodate the merchants in the affected region as best as possible."

Global eTelecom Inc. (GETI), based in Destin, Fla., has dealt with its share of storms in the past. Chris Brundage, Senior Vice President of the company, said GETI has had to evacuate to an offsite facility for the previous two hurricanes. "Our contingency plan is always in place so that our ISOs and merchants can continue to receive uninterrupted service," he said.

In response to Katrina, GETI immediately took inventory of all merchants in the affected areas, approximately 500, and waived all monthly fees. "No fees will be charged until they begin to process again," Brundage said.

Schaumburg, Ill.-based Landmark Merchant Solutions is refunding merchants the last month's fees as well as any overdraft fees, said Landmark CEO Alan Gitles. In addition, "we will swap out equipment with supply and warranty and work on a case-by-case basis with those merchants who do not have supply and warranty," he said.

Sterling Payment Technologies LLC, based in Tampa, Fla., matched employee contributions to the Red Cross and has suspended billing to any merchant customers affected by the hurricane, said Sean Riley, Sterling's Vice



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President of Operations. "We will continue to pay residuals to sales partners, making them whole."

Jason Felts of Orange Park, Fla.-based Advanced Merchant Services (AMS) said the company has large accounts in the region, and many are now out of business. He said AMS has not had much contact with merchants in the hard hit areas. "Emotions are running high, and people have to regain their resolve," he said. "I'm not sure how many will rebuild."

AMS sent letters to every merchant [in the area] offering help, but is not sure if they received them. "Right now we have more questions than answers," Felts said.

Randy Sagar, National Processing Co.'s (NPC) Senior Vice President of Independent Sales said NPC is waiving multiple fees for merchants. He said the card Associations have also been proactive in helping with contingency plans and are waiving or suspending standard rules and regulations for affected areas.

'If We Can Help, Anyone Can'

Carlos Gavidia and Lon Gaddy, owners of Chantilly, Va.-based Universal Debit & Credit Corp. (UDC) watched the hurricane coverage on the news and grew frustrated that people in the affected region were not getting help from the government.

In addition to supplies donated by employees, friends and business partners, they bought 23,000 Meals Ready to Eat and 4,600 gallons of water. With the help of two hired drivers, Gavidia and Gaddy have brought five tractor-trailer loads of supplies to the Gulf Coast region.

They made arrangements with UDC's business partner ATM manufacturer Triton Systems, and the American Red Cross, to drop the goods at a coordinated distribution center set up at Triton's headquarters in Long Beach, Miss.

"We knew that Triton had over 50% of their employees lose everything in the hurricane, and the whole community needed help," Gaddy said. "We kept hearing reports of what was needed, and we made a decision to do whatever it takes to get these people what they need."

"We have never done much charity work with the exception of taking old clothes to the Salvation Army and making cash donations to various different causes throughout the year. Most of that was a result of our employees and friends asking us for the donations. All of that changed on Aug. 31," Gaddy said.

"We are basically just two sales guys ... If we can help, anyone can," Gavidia said.



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CoverStory**SEAA Meeting Rescheduled**

The Southeast Acquirers' Association (SEAA), which had scheduled its fifth annual meeting for Oct. 19 – 21 at the Wyndham Canal Place hotel in New Orleans, has postponed the meeting until "a suitable time and place that will allow all of us to focus our attention on those that are in greatest need at this time," said John McCormick, SEAA President.

SEAA's Board is working with Wyndham to reschedule the event for possibly March 2006 in Florida. McCormick said anyone who made reservations at the Wyndham Canal Place should call Wyndham's toll free number (800-WYNDHAM) to cancel their rooms. SEAA will apply all registrations for the New Orleans seminar to the rescheduled event. Continue to check SEAA's Web site, www.southeastacquirers.com, for more information.

Last year, more than 350 people braved Hurricane Jeanne and the remnants of Hurricane Ivan to attend SEAA's meeting held in Atlanta Sept. 27 – 29. The hurricanes wreaked havoc with the event's agenda (several presenters could not make it), but SEAA called in pinch hitters and revamped or replaced sessions, and the overall flow of the meeting did not miss a beat.

When asked why SEAA consistently schedules its annual meeting during a time of year when the region is most vulnerable to hurricanes, McCormick said, "When we hosted our first seminar in 2001, the fall provided the least potential conflict [for vendors] with other similar shows.

"We are currently discussing a move away from the fall. As we move forward with these discussions, we will work with the members of the other regional associations to minimize any potential conflict."

Tales From the Storm

Vicki M. Daughdrill, Executive Director of the National Association of Payment Professionals (NAOPP), lives

in Hattiesburg, Miss., a city about 60 miles from Gulfport, Miss. Daughdrill and her husband evacuated their home before the hurricane hit and stayed with her parents who live nearby. All four are fine, but Daughdrill has quite a story to tell.

"On Saturday night [Aug. 27], when we went to bed, it was a category 2 hurricane. On Sunday morning when we woke up, it was going to be a category 5. In less than 12 hours, it had mushroomed into a monster of a storm."

"... There was one hour and 15 minutes where we were on our knees praying that we would survive. It was so frightening. I'm just so thankful that we're all OK."

"We lost power for 11 days; we had no drinking water for 13 days. Seven trees fell on my house, and more than 50 trees are down on my property. There is major structural damage to over 50% of the house. It is uninhabitable."

*- Vicki M. Daughdrill
NAOPP Executive Director
who lives in Hattiesburg, Miss.*

"On Saturday night [Aug. 27], when we went to bed, it was a category 2 hurricane," she said. "On Sunday morning when we woke up, it was going to be a category 5. In less than 12 hours, it had mushroomed into a monster of a storm. ... There was one hour and 15 minutes where we were on our knees praying that we would survive. It was so frightening. I'm just so thankful that we're all OK."

"We lost power for 11 days; we had no drinking water for 13 days. Seven trees fell on my house, and more than 50 trees are down on my property. There is major structural damage to over 50% of the house. It is uninhabitable."

Daughdrill said that at one point, 90% of the streets in Hattiesburg were impassable. "The devastation is just unbelievable," she said.

"It's just been a big challenge, and it will continue for months to come. It's almost overwhelming. I had a few really bad days and could only cry all day, but things are looking up for us."

The power is now back on; she has access to e-mail and plans to continue her work with NAOPP and with her management and consulting company, Small Business Resources LLC.

One of the things that struck Daughdrill the most about

For some tips on preparing your business in case of disaster, read "Hope for the Best ... Prepare for the Worst" on page 113 of this issue.

the experience is the way that people in the community have come together. She said the churches, the community and all the neighbors have been working together, sharing supplies such as water and ice, clearing trees and debris and helping to place tarps over holes in roofs.

"A storm of this magnitude is a very equalizing factor," Daughdrill said. "Everyone here was affected by it and equally hard hit, no matter what section of the community you were in. The power of caring and sharing has been deeply touching.

"The way we cope is to take it one day at a time, focus on the positive, not dwell on the negative, focus on what really matters and keep a sense of humor."

'We Will Rebuild'

Kym Zayor, Operations Manager of Slidell, La.-based Budget Terminals & Repair said the eye of the hurricane passed right over the city. He and others evacuated Friday, Aug. 26. When they returned, they found little injury to Budget's warehouse, except for a leak in the roof where rain entered and caused some damage to equipment.

He said he was most worried about customers calling and not getting through. "Most of them were calling to check

on us, and we appreciated their concern. We just want to make sure they get their orders filled."

Zayor said Budget wasn't able to fully open for business until the week of Labor Day, when the company installed generators. "We are up and running, although we still have some personnel out," he said. "Every one of our employees had some type of personal house damage, from flooding to wind-driven rain to trees falling."

Budget is also driving about 20 miles to the next city to ship orders because UPS and FedEx are not yet operational in Slidell. "We feel for the people of Louisiana and the Gulf Coast," Zayor said. "It was a tragedy beyond imagination. You watch the news every day, and you see the tragedy somewhere else, but it doesn't touch you until you feel it yourself.

"You would think that this disaster is beyond repair, but you drive around and see those people trying to get their lives together, and they are full of energy and they just want to rebuild their town. That gives you more energy to start over.

"It's very hard, but we will come back. Hopefully we will come back even stronger."

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CardSystems Meets Compliance Deadline, Visa and AmEx Retain Original Position

Visa U.S.A. and American Express Co. (AmEx) stand by previous decisions to remove CardSystems Solutions Inc. from their list of approved processors despite the company's recent announcement of achieving compliance with card Association data security standards.

CardSystems created a big flap this summer when a breach of its computers compromised data on an estimated 40 million credit and debit card accounts ("Will 40 Million Be the Final Straw?" The Green Sheet, July 11, 2005, issue 05:07:01).

On Aug. 31, 2005, AmbironTrustWave, an independent security auditor, submitted on CardSystems' behalf a Report on Compliance to the four major card brands (Visa, MasterCard International, AmEx and Discover Financial Services). CardSystems had hired the auditor to help it identify and correct flaws in its systems and procedures.

CardSystems now appears to have its house in order, but apparently it is too late. Visa could not comment on the report, only that "Visa regards its [earlier] decision relating to CardSystems as permanent."

An AmEx spokesperson said AmEx has reviewed the report, but its decision remains the same: AmEx will no longer allow CardSystems to process its transactions.

Following the breach, MasterCard had agreed to give CardSystems another chance and established the Aug. 31 deadline for the company to achieve compliance with the Payment Card Industry (PCI) Data Security Standard.

PCI is an alignment of Visa's and MasterCard's rules for organizations, including ISOs, processors and merchants, with access to payment card information. The four major card companies operating in the United States have endorsed PCI.

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the steps that our 110 employees take to safeguard cardholder data, our vulnerability management program, our information security policy and our ability to regularly monitor and test our network," Perry said.

"We believe that the Report on Compliance concludes that CardSystems meets the PCI standard. We are hopeful that MasterCard, Visa, American Express and Discover will accept this PCI report and validate that CardSystems is PCI compliant."

MasterCard said it expects its review of the report "to require several days or longer should additional inquiry be necessary."

Discover said it plans to "conduct an onsite visit at [CardSystems'] data center in Tucson upon which a decision will be made."

Attorney Adam Atlas stated that if a much larger processor had made the same mistakes the situation would be different. "The Associations are sort of hanging CardSystems out to dry, together with all [its] merchants and ISOs in order to look good," he said. "It is a tremendous inconvenience for about 100,000 people between Merrick Bank [the acquirer] and the ISOs." ■

GS Online: 2.8 Million and Climbing

In the month of August alone, The Green Sheet's Web site, GS Online, received 2,808,964 hits. This is a 9% increase over the previous month, and a 22% increase over the same period last year.

The increase marks the growing reach of GS Online. As the number of pages of The Green Sheet has grown in 2005, from 88 pages to 128, so has the content on our Web site.

In the last few months we've added several new features to the home page, including QSGS, a quick summary of The Green Sheet. QSGS provides a preview of what's to come in the next edition of the publication, both in print and online. Check it out at: www.greensheet.com/onlineindex.html.

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Financial DNA Explores the Unbanked

Many in the financial services industry estimate that there are as many as 50 million unbanked or underbanked people in the United States. Most are poor and have recently emigrated from another country. Some though, are simply distrustful of banking systems and the mainstream financial world in general.

The unbanked either exist completely outside the financial system or at most have some type of checking account but no savings account. The unbanked world represents the hottest topic, front and center to all of us," said Gary Craft, Founder and Consulting Services Director for San Francisco-based advisory and consulting firm Financial DNA. "The private sector will address the needs of [these people]."

Financial DNA recently held the Unbanked Financial Services Innovation 2005 conference at the Merchants Exchange Club in San Francisco's Financial District. The meeting brought together business leaders and technology experts from the rapidly growing prepaid card service, wireless and self-service fields.

The conference was divided into two tracks; one for publicly held companies and one for the privately owned. To comply with Securities and Exchange Commission regulations for publicly held companies, all the presentations for that track were Webcast live.


Much of the conference focused on remittances, which are monies earned by workers in one country and sent to family and friends in that worker's home country. Immigrant workers who send remittances make up a large portion of the unbanked market.

According to the event's opening speaker, Dr. Manuel Orozco, a Senior Fellow with Inter-American Dialogue, remittance payments sent out of the United States amount to roughly \$200 billion. To provide the unbanked with financial services, many companies are adopting prepaid and self-service technology.

"The banking industry has been reluctant to deal with low income people, but there is also a cultural barrier and lack of trust between the unbanked and banks," Orozco said. He said many opportunities are available for card and technology companies to address this growing population.

A variety of organizations from the prepaid, money transfer and self-service industries presented at the event. Their goals are to bring remittances into the electronic payments world as inexpensively and securely as possible as opposed to sending large amounts of cash through the mail, which can be risky.

The conference also focused on payroll services for the unbanked. This included discussions of the increasing trend to issue employees debit cards loaded with funds instead of paper checks as well as add-on software for POS terminals designed to accept in-person bill payments. IPP of America Inc. specializes in walk-in bill payment and a variety of prepaid services including long-distance and wireless and debit cards. IPP works with ISOs to bring its product and service offerings to retail locations.

SVC Financial Services has a new prepaid product called Scoot Mobile Money, which is a cell phone with a reloadable debit card. Two or more people with this cell phone can transfer money using the wireless connection. SVC is currently working with several major wireless providers for this initiative; it is also considering partnering with ISOs. 

For more information on these and other products as well as future Financial DNA conferences, visit www.financialdna.com.

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Security and the MLS

By Kathy Harper

National Association of Payment Professionals (NAOPP)

In light of the recent security breach at payment processor CardSystems Solutions Inc., I began thinking about the obligation of merchant level salespeople (MLSs) in regard to securing their client's data. How vulnerable is this information, and what are the repercussions to agents if a breach occurs in their own system?

To find out what the feet on the street think about this issue, I posted the following questions on GS Online's MLS Forum:

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| Adam Atlas | 100 |

Considering everything that has come to light lately regarding security, how is the average MLS handling the security of his or her client's data? What steps do you as an MLS take to protect the Social Security numbers and banking information of your clients? As an ISO, what steps would you like to see MLSs take to secure this data?

Following are two responses received:

"As far as security, we have always had all the applications locked in-room and only myself and my business partner have access to merchant files. Plus, we shred anything that has info on it that we don't want to keep."
- ccguy

"I often bring up this issue with a potential customer. They are often being approached by an array of reps walking in their door as well as phone calls and faxes from ... who knows? I remind them of the risk they are taking giving someone they don't know all their personal info such as Social Security number, bank info, etc. Do they want to give all this personal info to someone that just walks in their door or calls them on the phone?

"Fear can be a motivating factor when the merchant is made aware of the risk they are taking here. Being a local rep, meeting face to face has a big advantage when it comes to making the merchant feel more comfortable in giving you their personal info." - Neil

Data security is a sensitive subject that we should all take very seriously. Payments is not the only industry that deals with a large amount of sensitive client information. Following are other industries that regularly collect Social

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The Cat and My Social Security Number

About a month ago, I rushed our pet cat to the closest veterinarian after it was hit by a car. When the vet determined there was nothing to do but put the poor thing out of its misery, I agreed. I took my daughter home and then went back for the body 30 minutes later so we could bury it.

When I returned, the high school kid behind the counter asked for my Social Security number. I questioned this policy, explaining that I paid in cash and didn't plan to bring the cat back for any further treatment, but still she wanted the number.

I asked her what the vet would do with the information if I provided it, and she said they would store it in a very safe place in my file. I asked where they kept the files, and she pointed to shelves behind her. They were within easy reach from the counter.

MLSs Protecting Data

For businesses in many industries, it is often routine to request Social Security numbers from clients. As MLSs, we shouldn't feel defensive when asked how we store our client's information. In my opinion, we do a much better job than other businesses.

For instance, we know to lock our cars whenever we leave the vehicle; we place sensitive information in the trunk when possible; and we never leave files lying on the front seat. We use paper shredders to destroy documents or we lock them in file cabinets. We don't discuss client information with anyone other than our ISOs or vendors.

These are all common-sense approaches that every ISO requires of us, and I believe we do an excellent job of securing data in this manner.

While some of us work in an office, most of us work from our homes. Neil Mink, an MLS in Alabama, uses a deadbolt lock on his home office door. He recommended this for anyone who works from home.

With a teenager in my house, I agree with Mink that the office door

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should be locked with a deadbolt. Even if you are one of the lucky parents who absolutely trusts your child, do you trust their friends?

Whether you work from home or outside of it, ensure that housekeepers, repairmen and even landlords do not have access to client data. If you don't already have an alarm system, install one. Also, know who has keys to your office. While ISOs routinely perform background checks on their agents, if you employ anyone, do the same.

In the event of your death, does your family know that they should shred all client documents?

Some older model fax machines, the ones with the cartridges, retain all the faxed information on the cartridge. If using one of these models, unroll the cartridge and hold it up to the light. You'll be amazed at the detail of faxed information still there. Before discarding the cartridge, secure this data by destroying it.

James English of Business Payment Systems (BPS) has

Whether you work from home or outside of it, ensure that housekeepers, repairmen and even landlords do not have access to client data. If you don't already have an alarm system, install one. Also, know who has keys to your office. While ISOs routinely perform background checks on their agents, if you employ anyone, do the same.

come up with what seems to be a foolproof system to protect his client's data. Although he said that locking file cabinets is always a must, he also destroys clients' data after they are up and running.

He first checks to make sure that they are receiving deposits into their account. Then he destroys their data and relies on BPS to supply him with it if needed in the future. Why would we need all our clients' data after they are up and running? This system would certainly save us space in our offices.

I spoke with fellow NAOPP Board member Ernie Crews about this issue. He thinks that the average MLS has so few accounts compared with the average ISO office, that MLSs are not at the top of the list of entities with which the "powers that be" should be concerned.

Crews said MLSs are very similar to insurance agents and even bank employees who handle merchant processing accounts. If we work for a bank and the bank is not open, we will still write that account, even if it's the weekend and we can't place the information in the bank safe until Monday (would it go there anyway?).

Not all agents must worry about securing data in their car because they predominantly work from home and handle everything by fax, e-mail and phone. To get a better idea of the precautions these agents should take, I spoke with Anthony Lindo of ZitechLogic Inc., a Web consulting company.

Lindo said it takes a great deal of skill for someone to hack into a computer system, but still it is possible. He recommends turning off the computer and disconnecting it from the Internet source when the workday is done. He also said that traditionally, most hackers work in the early hours of the morning; taking this simple step might help prevent an attack.

Although most online fax services and e-mail servers are secure, it is possible for someone to gain access to your e-mail by hacking into your Internet service provider's (ISP)

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system. Lindo recommended using a well-known ISP to help prevent this rare, but possible, event.

Other precautions to take: Consider adding a disclaimer to each e-mail; use a firewall system such as Norton Antivirus; install and frequently run an antispymware program; never use file sharing software; and when it's time to replace the computer, remove the hard drive first and destroy it.

Addressing MLS Liability

Let's say you've taken all the necessary steps to secure client information and you feel good about the level of security provided.

You've had a good week on the road, and with Friday's applications locked safely in the trunk of the car, you decide to reward yourself by meeting some buddies for a drink before heading home. When ready to leave, you discover that your car has been stolen, client files and all.

I spoke with Attorney Adam Atlas who specializes in the bankcard industry to find out what an agent's liability would be and what steps an agent should take in this instance to protect himself and clients.

Atlas described the situation as losing nonpublic personal information. If harm comes to merchants as a result of agents losing this data, two parties would have a right of action against the agents.

One party is the merchant under privacy legislation or common tort law, the other party is the processor under the terms of the agent agreement.

If we as agents lose data and harm comes to the merchant, we are on the hook with the merchant, processor and card Associations. All contracts now have provisions for this. Banks are tightening up their security requirements, and everyone in the industry should come up to speed on this.

If in this situation, Atlas recommends immediately notifying the processor and merchants in question so they can quickly cancel any affected cards or accounts. He also recommends contacting local law enforcement.

He said one of the risks to agents is that the merchant or processor might suspect them as the party responsible for the lost or compromised data. Transparency is therefore important to avoid confusion.

One way to reduce the chances of being wrongly suspected for the theft is to report it to the police. Do the report in conjunction with the processor; the processor should not find out about the theft from the police. Agents need to understand and explain to merchants why they have to collect their information because merchants have a right to know.

Atlas also recommends taking the following precaution when filling out merchant applications: Don't take down sensitive information in front of a third party or display data on a car seat.

Agents should take a little comfort in the fact that claims of this kind will probably be limited by the actual damage done to the merchant. If it is not the agents' fault, this should not preclude them from continuing in this industry, although they may not be able to do so with their current processor.

Following the guidelines set forth by the processor and using common sense and safe business practices will ensure trust from both the processor and merchants. Our livelihoods depend on this trust.

(In case you are wondering, the vet did not get my Social Security number!)

Kathy Harper of Griffin, Ga. is an MLS and President of NAOPP. E-mail her at advpaytec@aol.com or call her at 770-843-3399.

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Finding New Revenue Streams in Your Current Merchant Base

By Nancy Drexler and Sam Neuman

Cynergy Data

As technology evolves the process of processing changes. The industry has moved from using manual imprinters to wireless POS terminals; it is also developing new methods of accepting payment every day.

This presents a challenge for you as a merchant level salesperson; it means that you must constantly stay on top of new developments to remain competitive. However, many feet on the street don't see a silver lining in this: New technology also means new opportunities to resell, up-sell and profit from your current merchant base.

Merchants, as a rule, tend to resist change. The only change the average merchant is willing to embrace is the opportunity to switch processors to receive a better rate. When it comes to making substantive changes to the way they do business (read: spending money), most merchants

will instinctively resist any expense that does not directly fill an existing need.

Your job is to create that need. Make merchants see how much profit they will gain by spending a little bit of money on something new.

Cynergy Data is handling the rollout of MasterCard International's PayPass, a new contactless payment method, in the New York City metropolitan area. Use the following three-step process, which Cynergy is using for the PayPass launch, to market new technologies to existing merchants. You will generate major profits.

Step 1: Determine the Consumer Need

The greatest product in the world will lose money for you and your merchants if consumers don't use it. The most successful new technologies and payment methods are the ones that directly respond to consumer needs.

PayPass is a direct response to common customer concerns about transaction wait times. For merchants in the MasterCard Quick Payment Service (QPS) category, including fast food restaurants, movie theaters, parking garages, drug stores, convenience stores and service stations, consumers don't have to wait to sign a receipt for transactions less than a minimum amount (usually \$25). They simply tap their cards and are on their way with fast food, movie tickets or pharmaceuticals in hand.

In addition, PayPass responds to customers' concerns about cardholder security, a hot topic never more present in consumers' minds than now, in the wake of the CardSystems Solutions Inc. data compromise.

For the duration of a transaction, the PayPass card never leaves a customer's hand. There's no need to worry about an unscrupulous salesperson stealing a card or copying down the account number. For those of us who can be somewhat absent-minded, there's no risk of leaving the card on the counter as we hurry away with our purchases.

For this project, Cynergy has received an incredible marketing boost in the form of a pre-created consumer base. MasterCard formed agreements with issuing banks that will offer more than 1 million cardholders PayPass-equipped cards in either traditional card or convenient key-tag form.

Consumers excited about the convenience and speed of PayPass will flood the market. They will look for businesses where they can use their new payment method,

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and they will become loyal to merchants who offer PayPass.

Step 2: Create the Merchant Need

If you do your job well, you have an active, satisfied merchant base. Selling payment processing is a challenge in itself, but it is even more difficult to sell merchants new equipment that they don't need, or more accurately, equipment that they don't know they need.

In the PayPass example, the merchant need is clear and easy to convey: A million consumers will soon be eager to pay for transactions with their new MasterCard PayPass cards. Merchants who sign up to accept PayPass will tap into an existing market need, accept more payments and keep their customers loyal.

These are only a few of the benefits for merchants who accept PayPass. QPS merchants are familiar with long transaction lines and waiting for customers to dig through their pockets for appropriate cash and change.

When the day is done, they're used to reconciling cash drawers and finding them under or over by double-digit amounts.

PayPass allows QPS merchants to truly provide quick service to their customers, and at the end of the day, fewer cash transactions mean less risk of employee error or theft.

For a few large merchant groups, including video stores, book stores, music stores, newsstands, supermarkets and dry cleaners, MasterCard will allow qualification for the QPS processing category if merchants agree to install PayPass. Sell these merchant types a new method of payment acceptance and make them true quick-service providers at the same time.

Step 3: Know the Product

Face a fact: You can't sell what you don't understand. While there's no need to master every nuance and complexity of interchange, there's no excuse for not knowing enough about the process of processing to explain it to a merchant in a few minutes.

The same rule applies when selling equipment and technology. You don't need to explain how to build a terminal from scratch. However, you do need to clearly and concisely explain the unique benefits of the product you're selling.

Start by requesting a sample of the product and spend some time learning how to use it. Then, assess what features and benefits the product provides that are unavailable in competing technologies.

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Education

Remember that all the bells and whistles in the world are useless if you're not selling a system that merchants will understand and, more importantly, customers will use.

For example, the MasterCard PayPass system uses an embedded computer chip and hidden antenna to allow a customer to simply tap his card against a PayPass reader and process payment.

In some cases, you can add the PayPass technology to a common terminal model, incorporating a new product into a processing system with which you and merchants are already comfortable.

Remember that all the bells and

whistles in the world are useless if you're not selling a system that merchants will understand and, more importantly, customers will use.

The first time you sell a merchant something he or she doesn't need is also the last time you will sell that merchant anything.

For MasterCard PayPass, the consumer market is there, and the merchant benefits are there. The equipment is easy to understand and even easier to use.

By offering this system to merchants, you will differentiate yourself from the competition by becoming known as an agent on the cutting edge of industry developments. You'll build merchants' businesses while building your own. ■

Nancy Drexler is the Marketing Director and Sam Neuman is the Communications Specialist of Cynergy Data, a merchant acquirer that distinguishes itself by relying on creativity and technology to maximize service. Cynergy offers its ISOs: VIMAS, a cutting edge back-office management software; Vimas Tracking, a ticketing system that makes responses to customers fast, accurate and efficient; Brand Central Station, a Web site of free marketing tools; plus state-of-the-art training, products, services and value-added programs, all designed to take its ISO partners from where they are to where they want to be. For more information on Cynergy e-mail Nancy Drexler at nancyd@cynergydata.com.



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The Leading Edge: Advanced ATM Functionality

By Tommy Glenn

NetBank Payment Systems Inc.

An enormous amount of discussion has occurred over advanced ATM functionality. Our industry would be in the midst of a huge wave of new and well-received ATM applications had they caught on as well as discussions about them. Everyone, from software giant Microsoft Corp. to the local merchant who purchased an ATM last week, has an opinion on what will and won't work and why.

The information can get confusing very quickly except for two consistencies. First, no one has found an ATM application that truly lives up to its proposed potential. Second, the only functionality that consumers currently expect from an ATM is what it has always provided: cash dispensing services.

My experience stems from taking part in building one of the larger ATM networks in the United States, both as a private independent company and now as part of a larger public financial institution. I begin with two disclaimers.

First, I will borrow a quote from Harold Geneen and Alvin Moscow's book, "Managing" (Doubleday Books, 1984):

The reliability of the person giving you the facts is as important as the facts themselves. Keep in mind that facts are seldom facts, but what people think are facts, heavily tinged with assumptions.

Also, keep in mind that our primary focus as a company has always been on the small footprint, cash-dispensing ATMs versus the larger, more expensive ATMs usually associated with financial institutions.

In our 10-year history as an ATM ISO, we have tried several approaches to what is now called advanced functionality. First we tried multicassette units that dispensed preprinted, prepaid long distance cards and sheets of U.S. postage stamps. While the technology worked, consumer demand was lacking. We ended this initiative not only because of lack of use but also difficulty in managing inventory.


I think the only sales generated were from occasionally curious employees using the ATM at the deployed location or our own associates trying the services after encouragement from our staff. Our largest day of stamp distribution occurred when someone broke into our office and stole the stamps from our controller's desk.

After working several months with manufacturers, potential product and service providers, processors, and other ATM ISOs, we made a second attempt. It was to create a solution that didn't require inventory, could be maintained at the ATM or through the "backroom" ATM support software, and would enable handling the entire transaction electronically.

With the help of all the aforementioned organizations, we deployed approximately 200 ATMs offering certain services from Western Union and dispensing prepaid wireless minutes from the receipt printer.

From the equipment point of view, these transactions worked. We even had a few customers interested in purchasing these services. However, we had several problems with delivery of the prepaid product. The processors and networks could not approve the transactions, which dampened the already small number of potential customers.

We did, however, experience a modicum of success with the Western Union transactions. This functionality is now part of our current offering; we include it




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But, if you want a real ISO Partner that will help you build your business into a profitable and valuable enterprise, then read on.

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We show you a new way to sell, so you can easily rake in leases of \$99 a month, or more. We help you recruit and train new sales reps, provide you access to **cash to grow your business**, and provide telemarketing leads so you have strong prospects looking forward to meeting you and your Sales Reps. How would you like to offer an all-in-one solution for bankcard, check conversion and gift cards with a single statement and one monthly minimum, for your clients? If you genuinely want to build an enterprise worth millions and just need a great and helpful partner that actively participates in your growth - then pick up the phone & call Jessica at 800-655-8767 ext 122. Tell her you read this in the Green Sheet and want a phone appointment with Stu.

At USMS we have a new way of doing things and it's working. **We'll leave the free terminals and give-away deals to those in the industry that can't sell and don't know how to provide value**. In the end, we'll have better margins, better merchants and much stronger sales reps.

If you share my philosophy and you want to build a strong sales organization, call me. My goal is 20 to 30

strong agent partners around the country that we can help build to large profitable enterprises.

We have learned over the years that this business is built on the backs of strong agents—which is a small percentage of all of the agents out there. Even though USMS may recruit hundreds of sales reps each year, **our goal is to develop a handful of stronger agents and help those agents grow, by placing new reps in their organization**. Call me if you share this vision.



Stu Rosenbaum
Stu Rosenbaum
Chief Executive Officer

P.S. I promise I won't say anything silly like, "Why You Should Trust Me." Just call, let's talk, and you decide if we're right for you.

Education

on approximately 400 ATMs, and it continues to drive a small number of transactions. I believe the small number results from lack of consumer awareness and understanding of the functionality and the requirement of a bank account to conduct the transaction.

Even with these less than successful attempts in our back pocket, we continue to work with the parties involved in our industry to create additional ATM functionality. One current project is to enable a low cost, small footprint ATM to accept deposits electronically, using check imaging technology. The opportunity is that the established current user base already knows how to use a very similar service. They are familiar with the delivery channel, and they will find that additional locations offer quicker access to their funds.

Another advantage is the compensation system already in place through ATM networks and financial institutions. This system might make it easier for electronic deposits to catch on as an effective service for both the cardholder and financial institution and as a source of revenue for the ATM owner.

I am still a believer, maybe not in all the products and services, but in the potential for the ATM to be more things to more people. I also know we have some hurdles to overcome to make advanced functionality at the ATM a more integral part of our everyday experience.

We need to provide products and services that consumers want. We also need to have a distribution system that benefits all involved parties. In order to change consumers' current habits, we have to create

awareness of the new distribution system and show them the benefits. If a new ATM offering meets these challenges, we will find success with advanced functionality. As with all new things, only time will tell. ☑

Tommy Glenn is President of Fort Worth, Texas-based NetBank Payment Systems (NPS). Glenn serves on the Board of Directors for ATMIA, the ATM Industry Association. He is also on the Board of Deliver Me, a service group that provides food, shelter and clothing for the elderly. E-mail him at tommyg@netbank.com, or call him at 817-334-8871. NPS, formerly Financial Technologies Inc. (FTI), is the nation's third largest ATM deployer and the single source provider for payment processing solutions. The company offers a full range of ATM products and services. NPS is a wholly owned subsidiary of NetBank, the first commercially successful Internet bank. Visit NPS' Web site at www.netbankpaymentsystems.com.



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Making the Call With a VoIP Solution

By Joel Rydbeck

Nubrek Inc.

The last few months at Nubrek Inc. have been busy. Although we handled an influx of business, hired and trained new employees, and settled into new office space, what really threw us for a loop was unreliable phone service: We experienced poor line quality and disconnections.

We sought a new phone service provider and found many different options available. One of particular interest is Voiceover Internet protocol, or VoIP. Following is information on many of the VoIP providers, some tips on how to compare them and a number of online resources.

VoIP Phone Service 411

We all know the importance of having affordable and dependable phone service. For most of us in the merchant services industry, the phone is more than a communication device, it's a sales tool. We need to call a sales lead across town and a processor across the country in the same day, without worrying about the quality of the connection.

Phone service is broken down and billed under many different categories: local, long distance, voicemail, conference calling, call waiting, caller-ID, etc. In addition to these services, many of us also pay for cell phones, pagers, Blackberry devices and Internet connections.

Local providers, such as Comcast or Qwest, sell bundled service packages for businesses. They offer local and long distance calling, as well as Internet, cellular and cable service. I have found our local service to be rather expensive.

However, local providers might be the right choice for an ISO or merchant level salesperson who works from home, has lower call volumes and makes mostly local calls. Local providers offer the benefit of keeping all charges in one billing statement. Thanks to the Internet, new and less expensive phone service options are now available.

Broadband users (high-speed Internet) have many VoIP service providers from which to choose. For example, Vonage, Packet8, BroadVoice, AT&T CallVantage and SpeakEasy are a few.

VoIP services send calls through an analog telephone adapter (ATA) and over your Internet connection without relying on a physical phone network (e.g., BellSouth, SBC or Qwest). This option requires a broadband Internet connection such as cable or a digital subscriber line (DSL),

a home router and a service adapter available from the service provider.

The advantage of using a VoIP solution is that the market is very competitive. While there are relatively few companies from which to choose for normal phone service, many VoIP providers will gladly offer VoIP phone service at a very competitive rate and with unlimited long distance.

Review Your Current Service

Phone service features indispensable to the merchant services industry, such as voicemail, conferencing and call waiting, allow business to flow smoothly and efficiently. How do you decide if a VoIP solution is best for your business?

One of the first steps when analyzing your current service is to decide what features your business needs. Does it need multiple lines to accommodate the sales force? What about a toll free number for customer service? Make a list of all the features your office uses and think about others you might want to try. Features we use at Nubrek are:

- Receiving voicemail in our e-mail inbox
- Receiving fax's in our e-mail inbox
- Free conference calling
- Unlimited long distance
- Low-cost 877 number
- Call following (the call rings different phones until it finds you)
- Automated call attendant, menus and call direction (Leads and customers always hear a friendly voice and can select the department with which they wish to speak.)

The next step is to make an estimate of all intrastate (in-state), interstate (state-to-state) and international calls. An easy way to estimate these numbers is to view a recent phone bill. You might be surprised at how large or small your call volume actually is. If you rely heavily on fax machines, consider the number of incoming and outgoing faxes. As you review these numbers, remember to consult growth projections for the rest of the year.

Go Comparison Shopping

Now that we've established which features are essential to your business, it's time to go comparison shopping:

VoIP Comparison Reviews

www.voipreview.org

VoIPReview does a good job comparing feature sets

"I became an NPS Value Added Partner over 2 years ago and would never consider working with another ISO. With NetBank Payment Systems, I know that I will always get my residual check on time and that if I or any of my customers need help, the NPS team is available 24/7/365. And, unlike with other ISOs I have the option of generating additional income selling multiple services from the one company I know I can rely on."

- Roger, Texas

"Prepaid services are becoming one of the nation's fastest growing product niches. As a NPS Value Added Partner, I have been able to take advantage of this opportunity and increase my income selling such prepaid services as Prepaid Wireless, Prepaid Long Distance and Prepaid MasterCard cards."

- Larry, Washington DC

"Recently, NetBank Payment Systems paid me over \$1,100 for simply referring a customer who needed a small business loan. NetBank Payment Systems makes it easy to generate additional income, and I don't have to worry if my income is secure. Since they are a subsidiary of one of the nation's largest banks, I know they are going to be there."

- Mike, Louisiana

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from each of the providers. Its user reviews seem a bit skewed, but otherwise the site looks good.

ZDNet Reviews

http://reviews-zdnet.com.com/4520-9140_16-5131559-1.html

ZDNet usually has objective reviews. Read through its commentary on any of the providers you are considering.

Google

www.google.com

I'm sure most of you already do this, but once you've figured out what you're looking for, perform a search on companies on Google to see what others have said about it.

If you're willing to do a bit more work, contact various providers and create your own comparison chart. I began my research by visiting www.voipreview.org. The site offers VoIP facts and reviews of various broadband phone service providers. I compared the business plans for three different providers and researched the various features offered with each plan. Also, make sure your current Internet connection can handle VoIP calls. The Web site www.testyourvoip.com

will evaluate and score your Internet connection. You'll know if it makes sense to run your phone traffic over your broadband connection.

The Perks of VoIP

One of the greatest things we enjoy at Nubrek is the simplification of our phone bills. If you're like me, the phone bills you've seen are unnecessarily confusing. Bills from Qwest and BellSouth are extremely difficult to read and contest.

Other benefits include:

- **Reduced fees and taxes.** Many of the fees you pay for standard phone service aren't required with VoIP providers. At Nubrek we see only about 10% in taxes and fees on our VoIP phone bills, while local carriers usually impose 20% – 25% in taxes.
- **Portability.** We were also able to complete an office move without the complications of scheduling downtime for our phones or arranging for new numbers.
- **Fixed billing amounts.** Since long distance is unlimited, our phone bill is always the same, which makes it a much easier cost to manage.



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The Tradeoffs

While all these features are great, they aren't without a tradeoff or two. Recently, VoIP providers such as Vonnage have come under fire for not providing appropriate 911 service. Another complexity with VoIP service: It shares Internet usage with many other services. Web browsing, e-mail and all sorts of other services share the same data pipe. Most providers prioritize voice data over other data forms, but sometimes this isn't enough. Phone call quality can drop.


Other downsides: Some of the VoIPs aren't able to transfer the phone numbers you currently use. With all the required equipment, there is more room for hardware error. Whenever our Internet line experiences an outage our phones do as well. We've also stumbled over a few call quality issues in the past.

(Recently, we had to replace our ATA because we thought it was the reason we had poor service.)

I do think that investing in a quality small business VoIP product is well worth any of the tradeoffs for Nubrek. A few of our eISO customers, who contact new leads, prospects, existing customers, banks, processors and vendors every day, said they felt confident in their decision to implement a business VoIP solution. Before abandoning your existing phone service, order one or two phone lines from a provider of choice. Try it out, have one of your reps use it for a month, and see what he or she thinks.

Analyzing phone service is often a real headache. However, unreliable line quality, which results in poor customer service and huge monthly bills are even worse. In the end, I fol-

lowed the advice of one of our ISOs in Texas that signed up with Packet8 and highly recommended it.

Right now we're in the test phase before we transfer the rest of our numbers over. I'm confident that this provider has the feature set we need; we simply want to ensure this solution will address our business needs and our customers' satisfaction moving forward. 

Joel Rydbeck, Chief Executive Officer of Nubrek Inc., brings his strong background in e-commerce and business process automation to the merchant services industry. Nubrek offers eISO, a Web application for ISOs that tracks leads and provides automated residual and commission reports. For a free demo of eISO, go to www.nubrek.com/demo/eiso.html or visit www.nubrek.com for more information. E-mail Rydbeck at joel@nubrek.com.

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Education

The Nonpublic Personal Information Hot Potato

By Adam Atlas

Attorney at Law

Protecting personal information is definitely one of the "hot" topics of 2005. Organizations from the card Associations, banks, processors, ISOs and agents to the local flower shop are working to avoid getting into trouble over the collection, storage or dissemination of nonpublic personal information.

Following are a few basic principles to help reduce possible sources of liability for problems associated with cardholder information.

Don't Touch It

Regardless of your place in the merchant acquiring industry, try to avoid touching cardholder information. The more you come into contact with it, the more you will attract obligations in terms of collecting, storing and disclosing it.



Examine your business processes and determine if any unnecessary collection of this information, or other nonpublic personal information, such as Social Security numbers, is occurring. If so, stop it.

Get Rid of It Quickly

If you absolutely must come into contact with cardholder information, examine the reasons why and develop a process by which to hold the data for the least amount of time necessary. The longer you hold the data, more rules will apply to you. You also create more opportunities for a security breach to occur. Treat cardholder information like a hot potato, and get it out of your hands as quickly as possible.

Encrypt It

If you really need to store cardholder information, don't store it in a Microsoft Excel spreadsheet, on a CD on the passenger seat of your car. Keep it in a secure computing environment, well-protected from both physical and technological breaches. Consider keeping the data encrypted with a digital key. If your laptop with 10,000 cardholder account numbers ends up in a dumpster, it should be nearly impossible for whoever finds it to access any data stored on the hard drive.

Limit Who Has Access to It

Your organization should handle all cardholder and all other nonpublic personal information on a need-to-know basis. The janitor does not need to know Visa account numbers.



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Education

Take time to consider which people in the organization have access to nonpublic personal information, such as cardholder data, Social Security numbers and other personal financial information. Upon identifying them, try to narrow down the list.

Do Not Disclose It

Most people in our industry know there is demand for cardholder information. I have been told that you can buy illegally obtained cardholder information for as little as \$1 per card. Make sure that your organization does not become a source for this illegal trade.

Reflect on every instance or opportunity through which nonpublic personal information leaves your business. Consider both paper and electronic versions of the information. Electronic copying is much easier to do, but also protect paper copies.

When you outsource parts of the business, review the terms of the outsourcing agreements to make sure that third-party providers undertake to never disclose any information you disclose to them, unless required by law. Also, make sure employment and agent agreements include covenants with similar effect.

Know the Rules

As I have written in previous columns, card Association rules are, in most cases, the predominant body of law in this industry. For better or worse, as a participant in this industry, it's up to you to know the rules that apply to you.

Take time to discuss information-collection and storage rules applying to you with the risk manager at your processor or bank. The processor or bank has a general duty to inform you of what those rules are. Don't let it not tell you. To the extent possible, obtain copies of the rules and read them; make them available in your office, and make it mandatory for employees to know the rules.

Prepare for Audits

Companies in this industry should never be afraid of a security audit, and they should always be ready for one. Make it part of your standard operating procedure to self-audit security systems and ensure that you are in compliance with all applicable Association rules, including the Payment Card Industry (PCI) Data Security Standard, if necessary.

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Education

routine audit than following an audit triggered by a breach. Be fastidious about record-keeping when it comes to your internal rules, audits and all compliance certificates.

Talk to Your Bank

Banks are great at shunting responsibility to processors and ISOs. You don't need to read more than a couple of paragraphs of an ISO agreement to learn that. Never forget that a bank has a duty to inform you of your obligations in respect to any information you collect or handle on its behalf.

Be proactive in getting a clear idea from your bank of its rules and how it expects you to comply with them. I would probably have fewer clients if ISOs spent more time communicating with their sponsoring banks to make sure that both parties' expectations are the same.

Be Proud of Being Compliant

If you are PCI-compliant (or compliant with any other industry security standard) let people know about it. All business partners will be interested to know what level of compliance your business has achieved. Informing your business associates about your

compliance will provide them with the kind of comfort they will increasingly want.

If in Doubt, Say No

There will be times when you will have to choose between solutions that require greater contact with nonpublic personal information and less contact. If in doubt, choose the option in which you will have less contact with that information.

Instead of providing a description of the applicable legislation and rules, I offered a set of principles that should help you try to minimize liability for the holding of cardholder information. Let's face it, mistakes will happen. Hopefully these principles will help you reduce the opportunity for mistakes. You can also use them to show a potential plaintiff that you have made a good faith effort to avoid unnecessary breaches of security.

In publishing The Green Sheet, neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If you require legal advice or other expert assistance, seek the services of a competent professional. For more information on this article, e-mail Adam Atlas, Attorney at Law at atlas@adamatlas.com or call him at 514-842-0886.

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The first contest round opens on April 15, 2005 and closes on September 19, 2005 at midnight EST (the "Contest One Period"). Only eligible entries received during the Contest One Period will be entered in the contest. Must be present to win and ISO/MLS must be an active office with United Bank Card, Inc.

The second contest round opens on April 15, 2005 and closes on April 14, 2006 at midnight EST

(the "Contest Two Period"). Only eligible entries received during the Contest Two Period will be entered in the contest. ISO/MLS must be an active office with United Bank Card, Inc.

Participants in the contest are only eligible to win once. The winner of the first round will not be eligible to win a second time.

Prizes must be accepted as awarded, are non-refundable, non-transferable and not convertible to cash. The Contest Sponsor reserves the right to substitute a prize of equal or greater value if any prize cannot be awarded as described for any reason.

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Fortunately, U.S. Paper Supply, a supplier of POS paper and ribbon, now offers ISOs and merchant level salespeople credit card imprinters from ELMETAL Corp. to provide restaurants, other merchants and financial institutions with a sleek new line of good old fashioned "knuckle busters."

There are many reasons why merchants can't or won't use a POS terminal to capture the cardholder's name, card number and expiration date. In addition to a malfunctioning POS terminal, these include power outages or a desire for chargeback protection. Also, the merchants might be mobile or might simply refuse to invest in electronic POS equipment.

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Product: HoloMag

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tion partners the next level in holographic security technology: the HoloMag. The HoloMag is a proprietary technology from ABNH that integrates a traditional magnetic stripe on the back of a card with a security hologram. This combination opens up more real estate (up to 10.5%) on the card for the card issuer and improves card security to help prevent skimming and counterfeiting.

MasterCard said it will also continue to use industry security features such as UV printing, a tamper-evident signature panel, and indent printing of the last four digits of the account number and card verification value (CVC2) codes, which are the last three digits on the signature panel on the card. This new card design will not replace the existing version that has the MasterCard logo and hologram on the front. Rather, MasterCard issuing banks now have the option to use either design.

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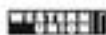
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**"Before anything else,
preparation is the key to success."**

- Alexander Graham Bell

Hope for the Best ... Prepare for the Worst

We've seen the news reports of the devastation caused by Hurricane Katrina; it is overwhelming. For many of us, our first reaction was sympathy and compassion for those in its path. We probably thanked whatever higher power we believe in for sparing us a direct hit from such a catastrophe.

As you watched the coverage you probably thought, "What would I do if I had to flee my home? What would I take with me? What would I do if communication lines were down? How would I survive without transportation?"

If you are a business owner, you have even more questions: "What would I do with my business in that situation? How would my livelihood survive? How would I communicate with my clients? How would I find my employees? What would happen to my documents, contracts and files? Could I still support myself?"

As every American knows by now, being prepared for a catastrophe might save lives, as well as valuable time and resources. Not being prepared might cost lives and cause even greater anguish.

What are you doing to prepare for a disaster, natural or otherwise? When was the last time you reviewed your disaster recovery plan? Is everyone who might be affected aware of the plan?

Do you even have a plan?

Know Thy Enemy

What types of events might be harmful to your business? The risks are different depending on a number of variables including the type of business you own, where in the country the business is located and whether you conduct business in a home workspace or an office building.

Some examples of events for which we can prepare are natural disasters, such as a flood, fire, earthquake or tornado. Other risks include assaults from others, such as a terrorist attack, burglary or other malicious attack.

Events do not have to occur on a grand scale to be catastrophic to your business. Even a thunderstorm could flood a business and cause electricity outages. Perhaps something as isolated as a burst pipe could bring your business down. These seem small, especially considering the devastation often brought by a hurricane, but they can still bring your business to a standstill.

Note that a disaster does not have to directly affect your business to put your livelihood in peril. If it affects your suppliers or customer base, it might also adversely affect your bottom line. Where will you get your inventory? What if your customers go out of business and no longer need your services?

Creating a Plan

Now that we know a disaster recovery plan is vital, it's time to create a plan to protect your business should disaster strike. The Institute for Business & Home Safety and the U.S. Small Business Administration offer a wide range of guidelines to help plan for disasters. Following are a few of the guidelines:

1. **Maintain a backup site at least 50 miles away from your business.** Make sure those in leadership roles know the address, phone number and e-mail address for the facility, as well as any passwords or required security clearances.
2. **Make backup copies of all records, boot files and software.** Keep one copy onsite and another at the offsite location. Make sure these files are backed up regularly, ideally daily.
3. **Develop a backup plan for your physical office space.** Determine where you will go if your workplace is uninhabitable or inaccessible. Perhaps you can use a home office or lease space at another location. Designate a location to store equipment and supplies.
4. **Review your insurance policies.** Know what is covered and what is not covered. Determine if you will need replacement coverage for facilities or inventory. Most policies do not include coverage for flood damage, windstorms or earthquakes. Determine if you wish to add rid-

Inspiration

ers to the policy. Once a year review the policy and make any changes necessary to reflect changes in your business.

5. **Designate a predetermined meeting place for employees should disaster strike.** There should be one in the neighborhood and one out of the region. Make sure each employee has the address and phone number of the site. Also, create a telephone tree to rapidly contact employees in an emergency.

6. **Purchase a generator.**

7. **Place surge protectors on all computer and phone equipment.** Invest in a surge protector with battery backup.

8. **Pre-arrange to have computer vendors quickly replace damaged computers and peripherals if needed.**

9. Even if you aren't directly hit by a disaster, your partners might be. **Have backup vendors and shippers in place** in case your partners are unable to meet your needs.

10. Even if you aren't directly hit by a disaster, your customers might be. **Work to diversify your products and sales locations** so if a region is hit with a crisis it doesn't bring your business to a halt.

Simple Steps

Some steps of preparedness cost very little. They only require time and forethought. For example, prepare lists of important contact information and keep copies at your place of business and offsite facility. Following are some suggestions of the types of information to include on the list:

Employees: Have a list of each employee's name, date of birth,

Social Security number and any important medical concerns. Each employee should have two emergency contacts: one in state and one out of state.

Emergency agencies: Make of list of local fire departments, police, ambulances, hospitals, etc. Include addresses and phone numbers. In a disaster, you might not always be able to rely on 911.

Utilities: Create a list of your utility companies and their phone numbers. In the event of a crisis they might need to turn off gas or power to ensure safety.

Insurance: Be sure the contact information for your insurance carrier is accessible. Include the company name, contact name, policy number and effective dates of policy.

Creditors: Make a list of all the busi-

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ness's creditors you will need to contact in a catastrophe. Include bank name, address, contact name, phone, fax, e-mail and account number.

Suppliers: Create a list of your suppliers and what they supply. Include their name and contact information, as well as the contact information for an alternate supplier if your main supplier is affected by disaster.

Customers: Create a list of your key customers including the business name, address, contact person and account number. Include the name of someone to whom you can refer them should you be unable to meet their needs.

Inventory: Create an inventory of your hardware, software and peripherals. Include serial and model numbers, date purchased and cost. Also include the name and number of whom to contact for repair or replacement.

Maintain the Plan

A plan is only as good as its execution and maintenance. Therefore, it is very important that everyone involved know what to do to keep the plan current. Designate employees to make sure files are being backed up, surge protectors are in use and contact information is up to date.

Meet with employees at least twice a year to review the emergency plans. Keep master copies of the plan and backup data offsite and onsite. Maintain an audit trail so the most current version of the plan is clear.

It is estimated that 43% of businesses go out of business following a local disaster. The good news is there are resources to help you prepare for disaster so that when faced with a crisis you respond in the most effective way to save your business.

A few helpful resources are:

- Institute for Business & Home Safety (www.ibhs.org/business_protection)
- U.S. Small Business Administration (www.sba.gov/library/pubs.html)
- Federal Emergency Management Agency (www.fema.gov/library/prepandprev.shtm).

Now is the time to act and prepare for something you hope will never happen.

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DateBook

Visit www.greensheet.com/tradeshows.htm for more events and a year-at-a-glance event chart.



Mid-America Payment Exchange (MPX)

Mid-America Payments Conference 2005

Highlights: MPX is a nonprofit regional trade association for the payments industry serving much of the Midwest. The conference is an opportunity to learn about all the latest facets of the payments industry and network with peers. Sessions will cover the latest technology, industry best practices and security issues.

When: Oct. 24 – 26, 2005

Where: Hyatt Regency St. Louis at Union Station, St. Louis

Registration: Visit www.mpx.org or call 816-474-5630



Field Guide Enterprises LLC

Field Guide for ISOs Seminar

Highlights: Held preceding the Western States Acquirers' Association meeting, Mark Dunn's Field Guide for ISOs seminar is filled with hands-on educational sessions designed to increase success as an ISO or agent. Dunn brings leading ISO

experts and program managers together to impart their extensive knowledge to the merchant level salesperson community. Topics include effective marketing, value-added products and services and cutting-edge technology.

When: Nov. 2, 2005

Where: San Diego Marriot, La Jolla, Calif.

Registration: Visit www.fieldguideforisos.com or call 800-919-2915



Western States Acquirers' Association

Second Annual Conference

Highlights: The meeting, titled "Charting Your Course to Success," serves as another great learning opportunity for the feet on the street. Highlights include two keynote speakers, an NAOPP meeting, a Field Guide for ISOs seminar, multiple educational breakout sessions covering hot industry topics and door prizes worth more than \$1,000. The conference starts and ends with exhibitor receptions. The meeting will offer plenty of networking opportunities.

When: Nov. 2 – 3, 2005

Where: San Diego Marriott La Jolla Hotel, La Jolla, Calif.

Registration: Visit www.westernstatesacquirers.com or call 760-243-7990



National Association of Convenience Stores

NACS Show 2005

Highlights: The NACS Show, previously scheduled for the end of October in New Orleans, has been relocated to Las Vegas. NACS expects at least 25,000 attendees from both the United States and 40 foreign countries. More than 1,400 exhibitors will fill up almost 1 million square feet of exhibition space. The event will include a mix of educational sessions, expositions, receptions, new product reviews and one-on-one and group meetings relating to every facet of the convenience store industry. For exhibitors and attendees not able to attend the rescheduled show, NACS offers a full refund.

When: Nov. 15 – 18, 2005

Where: Las Vegas Convention Center, Las Vegas

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

Refunds: Attendees, fax/e-mail Ashley Burke: 703-836-4564, aburke@nacsonline.com

Exhibitors, fax/e-mail Bob Hughes: 703-836-4564, expo@nacsonline.com

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