Inside this issue:

Pay phone redux:
Are cell phones the
new payments frontier?

Nearly 2 billion people worldwide (almost a third of the planet's population) carry cell phones. This group represents a golden opportunity; it's larger than all PC and Internet users combined. And the payments industry is paying attention.

Through the ISO/merchant level salesperson (MLS) channel, a number of companies already offer solutions that enable merchants to accept bankcard payments via cell phones or PDAs equipped with a peripheral card-swipe device.

These mobile solutions are sold primarily to mobile merchants: cab or limo drivers, in-house services like carpet cleaners or plumbers, or event concessionaires. They can also be used by servers at restaurant tables and line-busters in retail stores and movies theatres.

But new advances in contactless technology – radio frequency identification (RFID) and especially near field communication (NFC) – will soon enable consumers to make payments with ease by tapping or holding up their cell phones, just like some already do with contactless bankcards.

According to Dan Schatt, Senior Analyst at Celent LLC and author of a recent research report "Mobile Commerce: Dealing with the Devil in the Details," the number of third-generation handset mobile subscribers in the United States has just topped 50 million, paving the way for a critical mass of very high-speed data transmission handsets.

The Green Sheet
DEDICATED TO THE EDUCATION AND SUCCESS OF THE ISO AND MLS

AdvisoryBoard

NotableQuote

"An open line of communication can resolve all conflicts. As long as you are talking, a happy medium can be reached. When you stop returning calls or the merchant stops taking your calls, you are dead in the water."

Inside this issue:
CONTINUED

NewProducts

CompanyProfile

IDentesys

Inspiration

Departments

Miscellaneous

Forum

Sarcasm Sells

*I went out with Michelle from leasing last night ...
She said she wants a 'contactless relationship.'
She told me never to call her again.*

Short and sweet

You have a great publication. Thanks.

Peggy Barnett, Bankcard Consultant
Redwood Merchant Services

Last thing needed is another gimmick

Dear Mr. Musante:
I read your article in the April 24, 2006 issue of The Green Sheet ["POS terminals are not cell phones or razors," issue 06:04:02] with hopeful optimism that there were others in our industry that felt as I. Like you, I have refused to jump into the "free terminal" game with our direct sales force here at EMS.

The sale of equipment is how we pay the bills for our highly trained, highly skilled and highly compensated sales force. What our industry is in desperate need of are intelligent, honest and skilled salespeople. The last thing we need is another gimmick. Your article was right on point.

Mark A. Gill, Executive Vice President, Sales
Electronic Merchant Systems (EMS)

MATCH list and ISO registration

The Green Sheet has published a list of TMF [terminated

merchant file or MATCH list] causes, i.e., reasons a merchant can be terminated. I'd like to review this information again. Where can I find it?

Please provide the section on Visa's or MasterCard's Web site that has information on the legality of a merchant asking for customers' identification at the POS. (I believe this is not allowed unless otherwise OK'd by Visa or MasterCard?)

Also, I am very interested in becoming a registered ISO or merchant level salesperson. How do I get started?

Thank you,
Alois Scott

Alois:
We have published the following on merchant termination that you might find interesting:

- *"Blacklist Trick or Treat: MATCH List Horror Stories" by Adam Atlas, The Green Sheet, Oct. 25, 2004, issue 04:10:02*
- *"Match Myths" by David H. Press, The Green Sheet, May 10, 2004, issue 04:05:01*
- *"Payment Processing in 2003: Understanding Risk Management" by Jared Isaacman, The Green Sheet, April 14, 2003, issue 03:04:01.*

In response to your second question, try the following URLs for Visa and MasterCard:

- *http://usa.visa.com/business/accepting_visa/ ops_risk_management/card_present.html*
- *www.mastercard.com/us/merchant/how_works/ merchant_rules.html .*

And finally, if you are thinking about becoming a registered ISO, we recommend that you read Michael Nardy's three-part series for Street Smarts^SM, "What is registration anyway?" (The Green Sheet, April 24, May 8 and May 22, 2006, issues 06:04:02, 06:05:01 and 06:05:02). The Industry FAQs and the Knowledge Is Power series on GS Online's MLS Portal may also be helpful. Good luck.

Editor

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QSGS

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.

Cover Story

Pay phone redux: Are cell phones the new payments frontier?

Nearly 2 billion people worldwide (almost a third of the planet's population) carry cell phones. This group represents a golden opportunity; it's larger than all PC and Internet users combined. And the payments industry is paying attention.

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Feature

Industry leaders talk ATM crime in N.Y.

From ATMmarketplace.com . From security breaches and card-skimming to ATM burglary, the industry is addressing ATM-related crimes through a series of workshops that bring together law-enforcement agencies, industry leaders, U.S. financial institutions and ISOs to discuss ATM-crime trends.

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AgenTalk℠

Soaring success stems from smart moves

In an interview with The Green Sheet, Jonathan S. Saluk, a merchant level salesperson (MLS), shares his take on goal setting, savvy use of the Internet, networking to develop warm leads and when it makes sense to walk away from a sales call.

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News

MWAA to offer job fair, sales seminars

Polish your interviewing shoes and break out your notebooks. The Midwest Acquirers' Association's (MWAA) Fourth Annual Meeting, July 18 – 21, 2006, will hold its first job fair for the bankcard industry. Coinciding with the conference are two Field Guide seminars for ISOs and MLSs.

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View

Bringing merchants the wonders of Wi-Fi

Wi-Fi can be very simple to operate. But as ISOs and MLSs, it helps to have working knowledge so you can determine whether you have the skills to help merchants successfully operate Wi-Fi, or whether you need to call in experts or acquire more sophisticated tools.

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QSGS

Make your next
doctor or dentist
sales call
a happy one.

The $2 trillion healthcare industry is expected to double by 2015 with expenditures representing $0.20 of every U.S. dollar spent.[1]

To control rising costs, consumer-directed health plans with high-deductibles are shifting payment responsibility onto patients. To pay their bill patients will require non-cash/check solutions—this is a great opportunity for credit cards.

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[1] "How Consumer-Driven Health Plans Will Affect Your Practice," *Family Practice Management*, March 2006, p. 71.
[2] Lower rate offer applies to doctors who do not currently accept American Express, are office-based, and are a physician, eye doctor, plastic surgeon, or group practice. Does not apply to licensed specialists, chiropractors, veterinarians, hospitals, medical labs or long-term care centers.

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Industry**Update**

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NEWS

Study predicts doubling of e-transactions by decade's end

The annual number of electronic payment transactions worldwide is expected to double by 2009, from 210 billion currently, according to a study sponsored by **ACI Worldwide** and conducted by **Global Insight**. Transactions are growing at a compounded annual rate of 12.9%, which is four times the expected growth in real gross domestic product. The greatest growth is expected in Eastern Europe and the Asia/Pacific region.

Checks will decline from 20% of non-cash transactions currently to 10%. The study examined many transaction types including ATM, credit and debit cards, direct debit, electronic bill payment, large money transfers, and bulk file. View a summary of the study at *www.aciworldwide.com/trends* .

ACH payments continue to increase

Nearly 14 billion automated clearing house (ACH) payments were made in 2005, a 16.2% increase over 2004, **NACHA – The Electronic Payments Association** reported.

Annual ACH payment volume has doubled in the last five years, spurred by newer applications to collect consumers' bill payments. Financial institutions originated 12.98 billion transactions, valued at

$27.9 trillion. The federal government originated nearly 1 billion ACH payments.

Online forum launched for PCI security standard

Launched April 21, 2006, **pciFile.org** reportedly is becoming the most active Web forum for discussing the Payment Card Industry (PCI) Data Security Standard. Forum participants have passed Visa U.S.A.'s auditor certification process.

The site is co-moderated by **Mike Dahn**, the primary author and instructor of Visa's Qualified Data Security Professional certification program, and **David Shackleford**, who leads the SANS Institute's class on PCI compliance. The site also welcomes posts from security professionals who help merchants and service providers comply with the new standard.

Visa worldwide debits up 19%

Visa International reported a 19% increase in 2005 in consumer debit and prepaid purchases at the POS, excluding transactions such as ATM withdrawals.

TowerGroup outlines future of credit card profitability

Credit card use may fall and delinquencies rise as interest rates move upward and issuers implement increases in minimum monthly payments, stated the MasterCard International-owned consultancy **TowerGroup Inc**.

BOTTOM LINES
HEADLINES FROM THE RETAIL WORLD

- More and more people are downloading free software to their camera phones that allows them to photograph and read bar codes (conventional or digital), which can connect them to the mobile Internet for additional products and services, *The Wall Street Journal* reported. A bar code on a certain packaged food, for example, might lead to coupons and recipes from the manufacturer.

- Father's Day spending is expected to reach $9 billion this year, up from $8.2 billion last year, a **National Retail Federation** survey conducted by BIGresearch found.

- Online sales will total $211 billion in 2006, a 20% increase over last year, according to "The 2006 State of Retailing Online," an annual **Shop.org** study conducted by Forrester Research Inc. Sales, excluding travel, will reach $138 billion, a 22% increase over 2005.

IndustryUpdate

Senior Analyst Brian Riley, author of "Credit Card Profitability in a New World," also reported that consumers' continued shift to debit cards and the adoption of prepaid cards will reduce the transaction volume of base credit card receivables, creating new challenges for card issuers.

MasterCard's risk symposium focuses on fraud management

The concept of moving to a "unique transaction environment" as a way forward for all the delivery channels where cards are used was a focus of **MasterCard**'s Global Risk Management Symposium held in Orlando, Fla. in May. The conference provided a platform for the payments industry to work together with the Secret Service to combat fraud.

ANNOUNCEMENTS

Credit union co-op establishes record disbursement

The board of the **CO-OP Network** made a record-setting patronage distribution of $10.4 million for 2005. The company said that this was the largest ever cash disbursement by a credit union service organization.

Transaction volume topped 1.1 billion, while the co-op's surcharge-free network surpassed 25,000 ATMs. It has 24 million cardholders and nearly 2,000 member credit unions, all factors bringing the patronage pool to a record $26 million, said Chief Executive Officer **Stan Hollen**.

Online career center tailored to smart card industry

The **Smart Card Alliance** has launched an online career center at *www.smartcardalliance.org/ member_info/career.cfm* to help companies recruit professionals and assist individuals in finding jobs in the industry. Job-seeker resources include free résumé posting, job-search options and e-mail alerts, exposure to industry leaders, Interactive Moves relocation services and MyW2 services for contract professionals.

Job posting fees for alliance member companies are $275 per month. Company features include job activity statistical reports, targeted advertising exposure and résumé-searching access.

Online payments startup obtains financing

HomeATM Payments, an online payment processor, announced it has closed a round of mezzanine financing

IndustryUpdate

(a hybrid of debt and equity). The company has been issued one patent, with six more pending. The financing enabled the acquisition of intellectual property rights from BioBank LLC. HomeATM expects its person-to-person money transfer mechanism to challenge PayPal as an online payment processor.

Isaacman a finalist for N.J. entrepreneur of the year

United Bank Card Inc. announced that CEO **Jared Isaacman** is a finalist for the New Jersey Ernst & Young Entrepreneur of the Year 2006 award. Winners will be announced June 22.

PARTNERSHIPS

Partnership meets PCI standards for New Edge clients

New Edge Networks announced end-to-end compliance with PCI data security standards through network interconnections to **Chase Paymentech Solutions**. Merchants on New Edge's networks can use the redundant direct connections to Chase Paymentech at no extra cost, eliminating the need to maintain their own separate connections to their payment processors.

USTI uses PayMover to enable utility billing and payment

United Systems Technology Inc. (USTI) will offer integrated payment processing for utility billing through an alliance with **Payment Processing Inc**. (PPI). The integration of PPI's PayMover gateway with USTI enables municipalities to eliminate paper bills.

Debitman's retail network teams with HSBC

HSBC Retail Services, a provider of private-label retail cards, formed an alliance with **Debitman Card Inc**. to build growth of The Retailer's Network, Debitman's card platform. Merchants choosing HSBC card programs to access the network reportedly will enjoy lower costs. Debitman also announced it received patent approval for its card network.

Gas stations install finger-scan payment terminals

Fast Phil's of SC Inc. has equipped its gas station/convenience stores in South Carolina with biometric payment devices from **Pay By Touch**, which owns the BioPay network. Customers enrolling in the finger-scan service will receive a free beverage and $0.02 discount per gallon of gas as an incentive.

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Official Payments Corp. processes online tax payments for Minnesota

The Minnesota Association of County Auditors, Treasurers and Finance Officers launched a centralized online portal where residents of Minnesota may pay their property taxes electronically with a credit or debit card or an electronic check. **Official Payments Corp**., a subsidiary of **Tier Technologies Inc**., developed the site.

North Shore Bank picks STAR ATM/debit network

Brookfield, Wis.-based **North Shore Bank** chose **First Data Corp**.'s **STAR Network** as its primary ATM/debit network, giving its 50,000 bank cardholders access to surcharge-free ATMs throughout Wisconsin, Illinois and the rest of the country.

PropertyBridge chosen by real estate manager

Alliance Residential Co. of Phoenix has chosen **PropertyBridge Inc**. as its automated payment service provider for the residents of over 120 apartment communities it manages. The PropertyBridge Payments Platform lets residents choose from a number of payment types when paying rent.

FX Assured pricing launched in Europe

Planet Group Inc. announced the European launch of its FX Assured personalized pricing service, delivered initially by **Servebase Computers Ltd**. The service offers travelers using their Visa- and MasterCard-branded cards the ability to pay in their own currency at the best conversion rate available. It identifies the exchange rate that would have been applied by each traveler's card provider and converts the transaction at a lower rate.

PDS and PAYjr launch teen allowance system

Payment Data Systems Inc. (PDS) and **PAYjr Inc**. are teaming up to launch the Billx.com teen prepaid stored-value card program, a method for parents to pay their children's allowances electronically. Teens age 13 and up, with parents' permission, may qualify for the card; children under age 13 are eligible for savings accounts. Parents may assign chores and automatically deposit rewards to the child's account or card.

Gateway EDI chooses TransFirst Health

Gateway EDI, which furnishes electronic data interchange processing to health care providers, has partnered with **TransFirst Health Services** for a payment processing tool for clients.

The service linking TransFirst's system to the Gateway EDI portal handles patient payment and co-pay transactions. TransFirst Health Services is a division of TransFirst Holdings, a provider of credit card processing services and payment-enabling technologies.

Grocers Supply re-ups with LML Payment Systems

Grocers Supply Co. has renewed its contract with **LML Payment Systems Inc**. for electronic check verification and risk management. LML also provides check recovery services to Grocers Supply retailers.

Cybera selects Precidia iPocket232

Precidia Technologies Inc.'s iPocket232 plug-and-play adapter was chosen by broadband provider **Cybera Inc**. to provide network connectivity for payment processing terminals and video surveillance in convenience stores and petroleum retailers.

Micros to resell mobile payment devices for restaurants

Micros Systems Inc. and **VeriFone** teamed up to create a secure pay-at-the-table system for restaurants. VeriFone's customer-facing V^x 670 wireless mobile payment device has been integrated with Micros Res 4.0 software, supporting the shift to PIN

debit. Micros will resell the full range of VeriFone's customer-activated payment systems. The V^x 670 meets PCI requirements.

ACQUISITIONS

Online Resources acquires Princeton eCom

Online Resources Corp. (NASDAQ:ORCC) is acquiring electronic payment processor **Princeton eCom** for $180 million in cash and up to $10 million more, based upon future earnings. Online Resources provides Web-based banking and payment services to more than 800 firms through client financial institutions. The combined company is expected to process $75 billion in payments from 1,600 billers over the next year.

Comdata buys Gift Card Solutions

Comdata Corp. is expanding its retail division, **Stored Value Systems**, by acquiring **SASH Management LLC**, doing business as **Gift Card Solutions**. The companies have worked together since 2002, providing gift card solutions to restaurant chains and retailers.

WSBA merges with TIB

TIB, **The Independent BankersBank**, is buying **Western States Bankcard Association** (WSBA). Under the agreement, TIB will purchase WSBA's customer relationships, facilities and operations.

APPOINTMENTS

Former SEC Commissioner named to Planet Group board

Planet Group Inc., a multicurrency payment processor, appointed **Lady Barbara Judge** (formerly Barbara S. Thomas) to its board as a non-executive Director. She is currently Chairman of the U.K. Atomic Energy Authority and Deputy Chairman of Friends Provident Life and Pensions Limited plc and the Financial Reporting Council. Lady Judge is a former commissioner of the U.S. Securities and Exchange Commission.

ECHO names vice presidents

Electronic Clearing House Inc. (ECHO) appointed **Karl Asplund** to the new position of Senior Vice President of Sales. He had been Senior Vice President at Genpass Technologies. **Ryan Granard** joined the company as Vice President of Datacenter Operations.

New Marketing Director for wrg

Megan Bublik joined **wrg Services Inc**. as Director of Marketing. She formerly worked for Hybrid Marketing.

Lorimer is AdvanceMe's marketing chief

Mark Lorimer was hired as Chief Marketing Officer for **AdvanceMe Inc**., a provider of merchant cash advances for mid-sized businesses. Lorimer was the Founder and President of Alchemy Business Group and served as CEO of Autobytel.

Fleet One brings nine sales execs on board

Fleet One LLC, a provider of financial services solutions to companies with vehicle fleets and to the merchants that serve them, has recently welcomed nine new sales professionals.

They include three executives joining the company's local division: **Hank Harrison**; **Linda Meza**, formerly of San Francisco Petroleum; and **Tim Engles**, previously with Wells Fargo Financial.

Joining the Over the Road division are Account Executives **Kurt Westgard**, formerly of Comdata; **Connie Fowler**, formerly of Montgomery Tank Lines; **Chelsey Charon**, previously with Dura-Line Corp.; and **David Brodsky**, formerly of SunTrust Mortgage Inc.; and Associate Account Executives **Steven Fuller**, previously with HealthStream Inc. and **Tina Colvin**, formerly with Sullivan & Associates.

Feature

Industry leaders talk ATM crime in N.Y.

By Tracy Kitten, Editor
ATMmarketplace.com

From network-security breaches and card-skimming to ATM burglary, the industry is taking steps to critically address ATM-related crimes. In May in New York, the ATM Industry Association (ATMIA) and Palm Desert National Bank hosted a workshop dedicated to the subject.

May 11 marked the first of an expected series of ATM Risk Management workshops that will bring law-enforcement agencies, including the Secret Service, industry leaders and representatives from U.S. financial institutions and ISOs to discuss ATM-crime trends.

The Federal Bureau of Investigation, the New York Police Department and the New York State Police also are participating. Specifically, the workshop touched on crime deterrents and methods the industry can use to improve working relationships with regulatory agencies and law enforcement.

One crime of focus: retail ATM burglary, which includes smash-and-grabs (also known as "ram raids" in Australia and the United Kingdom). Smash-and-grabs involve damaging or removing an ATM in order to access its vault.

Skimming is widely considered by sources to be the industry's No. 1 ATM-related crime, but cash losses associated with ATM burglaries far exceed skimming, said Jim Tingey, Palm Desert National Bank's Vice President of Administration.

"These criminals receive minimal sentences for the incidents, because of a limited understanding relating to the scope of the overall problem that exists today between law enforcement and the various courts and prosecutors' offices," he said. "We're trying to help them understand ATM crimes and the help we need to prevent them."

For more than a year, law enforcement agencies and a handful of ATM companies have been tracking ATM-crime events. Mark Coons, President and Chief Executive of American Special Risk, a Charlotte, N.C.-based ATM insurer, said attacks on ATMs have jumped about 25% over the last two to three years.

He said in Greater New York from fall 2004 to fall 2005 the number of attacks was alarming.

"We started looking at the current problem in [tri-state] New York in April of 2005," Coons said. "By August or September of 2005, it became evident that we had a serious problem.

"This is an isolated area right now, but we see similar trends in the U.K. and Australia. Our concern is that this type of crime will migrate beyond New York. We expect it to go out to other major cities. We see it rising."

In the United Kingdom, ram raids are a big problem. From 2003 to 2004, ATM crimes, including break-ins and theft attempts, jumped 29%, according to London's Metropolitan Police Flying Squad. Cash loss alone from those attacks is estimated to be about £6 million (U.S. $11 million).

Coons said fewer ATM attacks plague the United States, but the numbers are still serious. He estimated that physical ATM attacks cost the U.S. ATM industry about $4.5 million annually. (For some perspective: ATM vault-cash and hardware losses associated with Hurricane Katrina cost the industry about $3 million.)

"Smash-and-grabs seem to have pockets, where you have crime rings that hit different areas," he said. "We've seen an increase in the last couple of months in Tennessee, for instance. It comes and goes."

But some of the crimes could be prevented with a little common sense, said Kevin Sullivan, a financial crimes investigator for the New York State Police.

"If you put an ATM in a bad location, chances are you're opening yourself up to a smash-and-grab attack," he said. "It's not a big surprise."

Sullivan, who in February spoke at ATMIA Conference East in Orlando, Fla., about tricks criminals use to launder money through ATMs, was slated to speak in New York. Sullivan said the industry faces a challenge to balance the need for more regulations with business opportunities.

Bigger issues

Sullivan said due diligence and background checks on off-premise ATM operators

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What's important:

- ATM-burglary losses cost the industry about $4.5 million annually.

- The industry is working toward constructive regulations.

- ATMIA is working with law-enforcement agencies to help them better understand and deal with ATM-related crimes.

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Feature

and owners, such as the checks now required by Visa U.S.A., will weed out some criminals but not all.

The industry sees the need for more information, and ISOs across the board are working toward compliance. But meeting Visa's new operator rules for merchant ATMs is expensive and time-consuming, most ISOs agree.

Mike Keller, General Counsel for Houston-based Cardtronics Inc., told ATMmarketplace in November that his company expected to invest $120,000 in 2006 to comply with Visa's revised agreement rules.

"I know that ATMIA wants to get guidance from the regulators," Sullivan said. "They want to help the industry do the right thing by making a preemptive strike. And it's clear that some things in the industry are going to have change."

Jerry Silva, a Senior Analyst with Needham, Mass.-based consultancy TowerGroup, was criticized last month for telling *American Banker* that ATMs in convenience stores are "unregulated" and risky. He told ATMmarketplace last week that the industry needs more regulation.

"Basically, my quote was about regulation," he said. "My statement had to do with trust in convenience-store ATMs. The more the ownership of those ATMs is regulated, the better it will be for the industry. The ISOs have more ATMs at this point than the banks, and there is no federal regulation about who governs these machines."

Finding solutions

More regulation will likely be difficult for the industry to accept, but it may be necessary and critical to improving controls and reducing losses, Palm Desert National Bank's Tingey said.

The bank, which provides and manages nearly $1 billion in vault cash for more than 15,000 ATMs and kiosks in the United States, also has been closely tracking ATM-crime trends. Beyond smash-and-grabs, Tingey said, skimming and phishing are ongoing concerns, too.

Even though 90% of card-skimming takes place at the POS, Tingey said, the ATM industry is affected when consumer accounts are drained at the ATM.

"The collaborative efforts of all participants – the regulatory agencies, the ISOs, the financial institutions and the law-enforcement community – are needed," he said.

Agen**Talk**℠

Soaring success stems from smart moves

Jonathan S. Saluk has been a Business Development Partner with New York-based American Credit Card Processing Corp. (ACCPC), a registered MSP of Merrick Bank, for just a sliver past two years; yet for him, cold calling is already a thing of the past. He expects to stay in the payments industry long-term ... until he's ready to devote balmy days to fishing and golf in a locale where people walk a bit slower than in the Big Apple.

In this interview with The Green Sheet, Saluk shares some secrets to his success, including his take on goal setting, savvy use of the Internet, networking to develop warm leads and when it makes sense to walk away from a sales call.

The Green Sheet: Why did you choose this profession?

Jonathan Saluk: I've been in sales for the past 11 years, mostly financial services. I'm a decent salesman but

a lousy stock-picker. I was drawn to the payments industry because I like the idea of residual income with no give-backs. For example, if you sell life insurance and the customer gets declined, you have to give back commissions.

GS: What has kept you in the industry?

JS: I have stayed with it because I am rather successful at it and each day become slightly more so. I don't face the daily grind of making several hundred cold calls or walking in and out of a hundred merchant locations to find my next deal which is what, I think, wears most MLSs [merchant level salespeople] out of the business.

GS: How has the industry changed since you started?

JS: The two biggest changes have been two large [interchange] increases by Visa and MasterCard and the ensuing lawsuits ... and the free terminal craze.

GS: If you could change anything about this business, what would it be?

JS: Probably the perception by merchants that our industry is a bunch of leeches sucking off their hard work. I'd like them to realize that we actually provide a necessary service for their business success, especially now as our culture becomes more and more a cashless society.

GS: Looking back, would you have done anything differently in your career?

JS: I would have started in this business sooner.

GS: Do you set goals for yourself?

JS: All the books I read say that I should write down achievable long- and short-term goals. But I only write down short-term goals for what I want to get done today or this week. For me, it seems that when you get the little things done each day, the big things tend to fall into line as well.

GS: What's been your greatest success so far as an agent?

JS: Building the referral marketing machine that I have established and the many terrific relationships that lead not only to business, but also provide a wealth of experience to draw upon when searching for advice. Building

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that network was also my biggest challenge ... but now I can set my own schedule.

GS: What has been your most significant learning experience?

JS: Realizing that I do not have to close every deal and be everything to every merchant.

GS: What's the strangest thing a merchant has asked you/requested?

JS: Since I get a lot of requests via the Internet, I get all types of people running all types of businesses. The oddest requests are from the adult video/toy merchants. They usually double-talk around when you ask them what their product or service is.

I'm not sure if they are uncomfortable with the question or if they're just trying to get it past you so you won't find out what they do. I am sure many merchant service providers will not write that kind of business.

GS: Do you have a surefire way to resolve conflict?

JS: I believe that an open line of communication can resolve all conflicts. As long as you are talking, a happy medium can be reached. When you stop returning calls or the merchant stops taking your calls, you are dead in the water.

GS: What's unique about your sales style/method?

JS: I do zero cold calling or cold canvassing. I am either responding to incoming e-mails or phone calls for merchant account information, or I am following up on a referral who is expecting to hear from me.

Most of my business is done via Internet marketing, a monthly e-newsletter and word-of-mouth marketing. I find that most salespeople in this industry continue to pound the phones and the pavement. So when I attend a networking event, I am more often than not the only MLS in the room.

I am also very active in BNI (Business Network International), the largest word-of-mouth referral organization in the world. And I have my own Web site. Once a month I send out an e-newsletter to prospects and customers. And a few times a week I usually attend some type of informal social networking meeting, anything from chamber of commerce breakfasts, to lunch meetings and evening cocktail events.

GS: Merchants are savvier now about credit card processing. How does this affect MLSs?

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JS: Most merchants are aware of what their discount rate is but do not factor in transaction fees. As an MLS, you must understand that how merchants are charged is much more important than what they are charged.

Slightly raising the discount rate and lowering per-transaction fees can have a tremendous impact on the net effective rate, so will setting up a merchant to properly accept PIN-based debit.

GS: How do you explain interchange rates to prospects?

JS: I make them aware that the rates are based on risk. The higher the risk, the higher the rate. PIN debit is the lowest risk; Internet, foreign cards, etc. are the highest risk.

GS: Why is it important to have a full arsenal of products to offer merchants?

JS: It's more important to know which application to use in which situation than to have a lot of products. A lot of golfers carry a 3-wood, but very few can hit with it.

GS: How do you ensure account retention? What do you do when it looks like you're on the verge of losing a sale?

JS: I set up merchants with the best possible rate for their business type so that when the next MLS comes by, he just confirms that I did right by them.

If I see a sales call is not going well, I walk away and defuse the situation. I can't have the person who referred this person to me be made to look bad by sending over a pushy salesman just looking for a commission. Plus, not getting him today doesn't mean I won't get him in the future.

GS: What does it take to succeed in this business?

JS: A long-term approach to developing relationships with strategic partners and merchants that can consistently refer business to you.

GS: What types of merchants do you prefer to work with? Why?

JS: I really don't have any preference ... Of course, we all want high-volume low-maintenance merchants.

GS: Do you think there will always be street sales?

JS: I assume you mean cold canvassing. Yes, for the short-term salespeople, because if you walk into enough stores, you will find a sale. But you will always be on the hamster wheel. And no one can keep the pace forever. To use this as a way to get your first merchants and cut your teeth is fine; but to stay with the business I believe you need to evolve.

AgenTalk

GS: What do you think about "selling" free terminals?

JS: There is no such thing as a free lunch. Someone is paying for that terminal, either the MLS or the merchant. Salesmen are always looking for the silver bullet.

GS: What is your experience with agent training? What would a good training program consist of?

JS: I do not have a lot of experience with agent training; I have only worked for ACCPC. But I would imagine, and from what I read in The Green Sheet, most training consists of handing a new MLS a sales book with a few applications and patting them on the back with a "go get 'em tiger."

I guess defining a good training program would have to delineate whether you were training salesmen how to sell merchant services or you were taking novices and training them to sell and also how to sell merchant services. I will leave sales training to another forum.

MLS training should include an understanding of what interchange is, what downgrades are and why they occur, industry jargon or lingo, role playing, proper application completion, familiarization with common terminals

and their use, learning how to download terminals and reading the last few issues of The Green Sheet to get a feel for the industry.

GS: How should an MLS go about choosing an ISO partner?

JS: The biggest reward in this business is the residual income, so you should look for an ISO with a proven history of paying ... even after you have left the business.

GS: How has The Green Sheet helped you?

JS: I find The Green Sheet very informative and imperative to stay abreast of the goings-on in the industry ... what the movers & shakers are doing.

GS: Any advice for newcomers?

JS: Don't be greedy. Let the goose lay the golden egg each month. Don't try to cut the goose open and take all the eggs at once.

GS: How do you balance the demands of your work and personal lives?

JS: I work hard on the days I have scheduled to work so that I can take time off and enjoy it, because I've earned it.

GS: What hobbies do you enjoy?

JS: In the summer, I ride a 1991 Harley-Davidson FXDB Sturgis motorcycle, fish, golf and follow the Yankees. In the winter, I ski. All year long I enjoy a nice glass of wine and a good cigar. I also read voraciously, alternating between a self-help or business-related book and an enjoyment book.

GS: As a child, what did you want to be when you grew up?

JS: A Marine fighter pilot ... I did join the Marines but never flew jets.

GS: Do you have a motto that you live by?

JS: Don't judge each day by the harvest you reap, but by the seeds you plant. It's a quote from Robert Stevenson, a motivational speaker, workshop leader and author of *How to Soar Like an Eagle in a World Full of Turkeys*.

Many top-notch agents have inspired others by sharing their perspectives in AgenTalk. Will you be next? If you'd like to participate, please send an e-mail to greensheet@greensheet.com .

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MWAA to offer job fair, sales seminars

Polish your interviewing shoes and break out your notebooks. The Midwest Acquirers' Association's (MWAA) Fourth Annual Meeting, July 18 – 21, 2006, will hold its first job fair for the bankcard industry. Coinciding with the conference are two Field Guide seminars, covering hot topics for ISOs and merchant level salespeople.

The MWAA Bankcard Career and Job Fair, intended to attract new sales recruits, will take place July 18, from 4:30 p.m. to 8:30 p.m. at the Palmer House Hilton hotel in Chicago.

The event is being advertised in *USA Today*'s Midwest edition, Chicago dailies, radio and television. By mid-May, eight companies had signed up to exhibit, according to Mark Dunn, MWAA President and fair organizer. He expects up to 25 employers and several hundred attendees.

Registration is free for all job seekers, and the fair is open to anyone interested in a career in the bankcard industry. Exhibitor fees vary by sponsorship level.

The event is not limited to ISO sales recruitment. Dunn expects job seekers with backgrounds in operations, technology and customer service. Midwestern banks, financial companies and merchant services companies will be exhibiting too.

The two Field Guide seminars, a sales track and an ISO track, will be held July 19, from 10:00 a.m. to 4:30 p.m. Steve Montague, President of Effective Sales Development Inc., will help sales track participants tune up their sales development process, Dunn said.

The ISO track is useful for someone considering getting into, or trying to understand, the ISO business, Dunn said. "For the vendor, it is a chance to learn what's behind the curtain." Other topics covered include staying on top of regulations, ISO financing, real street-selling and taking an ISO to the next level.

For information on the job fair, contact Dunn at 414-688-4740 or Caroline Marino at 636-451-5512. To register for the seminars e-mail mark@fieldguideforisos.com .

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Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
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View

Bringing merchants the wonders of Wi-Fi

By Tim Cormier
VeriFone

Wi-Fi technology liberates broadband Internet connections by eliminating the costs and delays associated with traditional wire installation. Using Wi-Fi, a merchant with a broadband connection can extend service throughout a location with minimal installation cost and without having to run Ethernet cable from a router to network devices.

Wi-Fi (derived from "wireless fidelity") refers to the underlying technology of wireless local area networks (WLANs). It allows Ethernet data to be transmitted without cables by using standardized radio transmissions in the 2.4GHz public range.

Wireless installations can be done more quickly than cable. They're also less expensive and provide merchants with greater flexibility, including the use of mobile devices within signal range. Wi-Fi is what enables merchants to offer wireless hotspot services.

From simple to sophisticated

Small implementations are generally simple and in many cases can use low-cost, off-the-shelf Wi-Fi hardware from local electronics dealers such as Circuit City and Best Buy. When setting up a Wi-Fi POS system, it's a good idea to conduct or arrange for pre- and post-installation site surveys.

For simple mom-and-pop stores, a quick scan with the wireless network connection feature built into Microsoft Windows XP, or a similar utility that was installed with a Wi-Fi network card, may suffice.

For measuring signal strength and other more robust functions, you can load a freeware network sniffer, such as NetStumbler, onto your laptop or PDA.

More sophisticated installations including WLANs in large malls or entertainment venues (football stadiums, for example) may require multiple wireless access points to ensure uniform Wi-Fi service.

In these cases, you may want to contract with a service company that utilizes sophisticated software to plan optimal antenna locations, analyze wireless interference and monitor performance. If you want to expand your service offerings and capability, a variety of tools are available, priced from a couple hundred to several thousand dollars.

Being able to help fine-tune customer installations is a worthwhile endeavor; there are multiple factors that can impact optimum Wi-Fi performance. One is that Wi-Fi shares the 2.4GHz radio band with other devices. Some cordless phones, Bluetooth devices and microwaves can all transmit in the 2.4 GHz band.

Physical barriers are another common Wi-Fi issue. Walls, doors, floors, walk-in freezers, etc., all have absorptive and reflective properties that impact how a terminal receives a radio signal. Knowing where potential dead spots are will allow you to move transmitters to optimize coverage area.

Sizing up the site

A site survey looks at both the physical and radio frequency (RF) environments and provides an idea of the operating parameters. Recently, VeriFone contracted with Renaissance Network Solutions (RNS) to conduct a site survey for a sophisticated restaurant installation. RNS performed an RF sweep of the restaurant to look for other Wi-Fi signals, rogue devices and interference.

RNS discovered another Wi-Fi signal across the street that impacted the restaurant's car-side POS system. The restaurant switched to an alternate broadcast channel, and the issue was resolved. RNS also evaluated signals from the restaurant's paging system and microwave ovens and determined they would not be a problem.

Signal levels were measured at all points in the restaurant. Based on the equipment and environment, RNS drew a coverage plot showing that the front of the restaurant was subject to weaker coverage, while the signal was strong in areas that didn't need it, including the kitchen.

RNS recommended relocating the access point to the center of the seating area and moving the restaurant's radio to a level above 10 feet. This resulted in stronger signals and greater performance where it was most needed, including in the bar and in the restaurant's corners.

Wi-Fi can be very simple to operate; many consumers have wireless networks in their homes. But as ISOs and merchant level salespeople, it helps to have working knowledge so you can determine whether you have the skills to help merchants successfully operate Wi-Fi, or whether you need to call in experts or acquire more sophisticated tools.

Tim Cormier is a network engineer with VeriFone. E-mail him at tim_cormier@verifone.com .

Merchant Cash Advances

Company**Profile**

IDentesys

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400 Churchill Court, Suite A
Woodstock, GA 30188
Phone: 877-433-6827
Fax: 866-433-6827
E-mail: info@identesys.com
Web site: www.identesys.com

ISO/MLS benefits:
- Ability to private-label software and customize related services
- Ability to set own pricing and markups
- Choice of billing merchants directly or having IDentesys handle it
- Support for ISOs and MLSs of any size

Biometrics: The hip, profitable route to contactless success

Imagine calling your local Pizza Hut and ordering a pizza for delivery. When asked how you would like to pay, you say, "Biometrics," answer a few questions and within 30 minutes your pizza is delivered, with the payment transaction already completed. There's nothing to sign, no check to write, and no cash changes hands.

How did this happen? The phone system simply recognized your voice and debited your checking account. Sounds pretty cool, huh?

In our industry, the concept of contactless payments is hot. While these solutions certainly have a wow factor, what do they mean to ISOs and merchant level salespeople (MLSs)? How do they affect an ISO's revenue stream?

After all, new payment options can be entertaining, but ISOs and MLSs need a solution that, in the end, is going to increase their bottom line: They need a contactless program that merchants will promote and consumers will use.

One contactless biometrics company, IDentesys, understands this concept and strives to create contactless payment programs that are financially beneficial for all involved: the consumer, the merchant and last, but certainly not least, the MLS.

IDentesys has designed programs, such as the one at Pizza Hut, that make contactless biometrics payment programs (such as iris or voice recognition) simple for consumers to set up, effortless for merchants to use and profitable for ISOs and MLSs.

Rewards for merchants and consumers

IDentesys recognizes that it doesn't matter how cool a product is if merchants don't promote it and consumers don't use it. That is why Sean Kumar, Chief Executive Officer of IDentesys, has created incentives for both consumers and merchants. These incentives help ISOs and MLSs increase overall sales, and thus their revenue.

When consumers use an IDentesys product, they earn loyalty points, which they can redeem for free products, services or rebates at various participating retailers. Merchants earn revenue from the sale of nearly all of IDentesys' products and services. These perks encourage customers and merchants to support the program and increase ISOs' earning power.

The eyes have it

Based in Georgia, IDentesys specializes in the integration of contactless biometrics and radio frequency identification-enabled (RFID) payments. The company employs

Company**Profile**

19 people worldwide and has contracts with retailers and trade organizations to deploy contactless biometrics payment solutions in more than 600 retail locations.

Many other companies offer contactless payments and biometrics. However, Kumar and Mike Thompson, Director of Business Development, are quick to point out the differences between IDentesys and its competitors.

"Governments and banks will move to iris recognition technology because it is more accurate and less intrusive than fingerprints and offers 100% protection," Kumar said. "Our competitors are using fingerprints. That has been proven to be not as efficient, or secure, and is highly intrusive. Then, there are problems associated with the registration of fingerprints; you cannot build a fingerprint database."

Thompson said that fingerprint technology can be inaccurate as well. "These programs are just hitting certain points of the fingerprint; it's not the entire fingerprint, so the database may pull up 10, 20 or 100 different people [as a possible match]," he said.

> **"Governments and banks will move to iris recognition technology because it is more accurate and less intrusive than fingerprints and offers 100% protection."**
>
> – Sean Kumar, IDentesys CEO

Instead of fingerprint technology, IDentesys has chosen to focus on other options such as iris, face and voice recognition. "We've taken all the time, energy and dollars to do it right," Kumar said.

Say cheese

IDenteCheck was IDentesys' inaugural biometrics payment product. It has found a niche as a compliance and risk-management solution for money service businesses, such as check-cashing centers and convenience stores, using only fingerprint technology. Since IDenteCheck's debut, the company has been working on its flagship product, Pay by Smile.

Pay by Smile is a Web-based proprietary payment gateway that uses a consumer's iris, face and voice in various methods to process payments. Its implementations include traditional venues, such as check cashers or retailers. It can also be used to purchase prepaid phone card minutes,

cell phone ring tones or movie tickets. Pay by Smile version 2.0 will also dispense coupons; manage loyalty programs; process credit, debit and EBT transactions; and capture check images.

Pay By Smile helps merchants increase sales by offering additional services; it also benefits merchants by helping them remain in compliance with state and federal regulations. "Pay By Smile is the only product of its kind that provides complete compliance on the state and federal levels while providing additional revenue streams to the client and value benefits to the consumer," Kumar said.

Later this year, IDentesys plans to release Pay by Smile in a self-serve kiosk version. Using these kiosks, consumers will be able to surf the Internet, seek directions, download movies, and purchase gift and phone cards.

Merchant benefits

Now that we understand a bit of what IDentesys offers, let's get back to the important issue: What makes merchants and customers want to use the products, and how do ISOs and MLSs earn money?

IDentesys' loyalty cards are universally accepted by merchants within IDentesys' closed-loop network. This allows

the merchant who sold the product to earn a commission when the product is used at another merchant location.

Let's assume, for instance, that Merchant A registers a customer while cashing a check. At that time, Merchant A issues the customer a loyalty card. The next day the customer travels to another store, presents said loyalty card or has his or her iris scanned and buys a money order from Merchant B. Merchant A earns a commission from the sale, thus creating a recurring revenue stream for Merchant A.

"Even if a merchant loses some business, they will still get a residual amount. This is the first biometrics program to generate residual income for the merchant," Kumar said. This added revenue is incentive for the merchant to promote the service, thus increasing the ISO's revenue.

Customer benefits

Merchants are not the only ones who benefit from IDentesys transactions. Simply by using IDentesys products and services, customers can earn points toward rewards, such as free products, services or rebates.

Merchants can customize store-level or chain-level promotions to best meet their needs. Merchants determine how points are earned and redeemed: A given number of points could equal a free service or a discount on merchandise.

"A merchant may decide to issue five points for every money order a customer purchases and 10 points for every check the customer cashes," Thompson said. IDentesys' centralized gateway manages settlement and reconcilement of points and rewards.

The company plans to offer incentives at its kiosks, as a way to encourage consumers to register. For example, if consumers use kiosks at a mall, they may receive coupons to use at that mall. Thompson explained that such programs reward merchants and customers for taking the two minutes it takes to register. Registering is free to both the consumer and merchant. "We are trying to make it win/win for all involved," Kumar said.

A true partner

Both Thompson and Kumar have experience working as MLSs, so they have an insider's perspective on the unique challenges MLSs face. They are interested in working with more ISOs and MLSs and encourage interested parties, no matter how small, to give them a call.

"IDentesys is a true partner and will support or help customize the solutions to the needs of ISOs," Thompson said. ISOs set their own rates, prices or

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CompanyProfile

markups. "ISOs are given cost in all areas; they receive 100% of the mark-up over the buy rate," Kumar said.

The company also offers ISOs the ability to private label IDentesys' software and related services. "When I was an MLS I would have loved to have a software product onto which I could put my name," Kumar said.

Thompson noted that money orders or loyalty cards can carry the logo, brand name and contact information of the ISO or MLS. "The same will apply to the self-service kiosk program. Thus, an ISO can truly integrate to his or her brand and collection of existing products," he said.

ISOs and MLSs can choose to have IDentesys as involved or hands-off as they wish. "If you are an MLS with seven reps, you may want to run your own show: pay your reps on your own, bill merchants on your own, etc.," Thompson said. "In this case, the MLS runs their own back end and front end. We act just as a processor."

On the other hand, smaller offices may benefit from having IDentesys do their billing for them. In that case, IDentesys will handle the processing and billing, but the ISOs or MLSs will still have their own private label.

ISOs and MLSs benefit from additional support such as free telemarketing and advertisements in trade magazines. IDentesys also shares leads and corporate accounts. "If we have a good rep in a specific market we will disperse the lead to them," Kumar said.

IDentesys is currently implementing its solutions with non-banking financial institutions, grocery stores, gas stations, convenience stores and any business that offers check cashing or provides a bill payment service. This means the potential market for ISOs and MLSs selling IDentesys services is limitless.

Business ideas are not worth implementing unless they can make money. That can be said for any industry but is especially true for financial services. For contactless payments, the trick is to get merchants and consumers to support the product, so ISOs and MLSs can increase their overall sales.

IDentesys is focused on that goal and encourages ISOs and MLSs to join them. ◼

White Paper:
Managing merchant processing risk – Part I

By the Risk & Fraud Management Committee

Electronic Transactions Association (ETA)

Editor's note: ETA published this white paper April 17, 2006. It is reprinted with permission. Because of limited space, we have divided the document into two parts. Look for Part II in a future issue of The Green Sheet. You can also download the white paper at www.electran.org/info/white_papers.asp .

1. Executive summary

Acquirers are at financial risk from merchant performance in several ways. While many industry initiatives are focused on fraud and identity theft, a significant percentage of the financial loss associated with credit and debit payments comes from organized fraud, business failures, unfunded chargebacks and inadequate monitoring of merchant accounts.

Acquirers need to focus on the performance and financial strength of their merchants as part of their overall risk strategy.

One of the key areas of focus for any merchant acquiring risk management program should be the subset of accounts that can cause the most harm. The higher-volume processing accounts, low volume/high-ticket retailers, merchants who are prone to chargeback activity and merchants who provide future delivery of products and services can create larger losses if they incur financial difficulties.

Acquirers need to have an effective review of their existing merchants on a regular basis, in addition to a thorough due diligence process for new merchants.

2. Managing merchant processing risk

Developing an effective merchant processing risk program is more art than science, along with a bit of intuition and good luck. There is no one set algorithm or methodology that can be used to manage transaction risk. Discovering transaction fraud may simply be the result of a hunch, and at other times it may be based on years of risk management experience.

Each organization's risk profile is unique, depending on many factors including merchant type, transaction volumes, technological resources and other criteria. Moreover, any effective risk program must be dynamic and adaptable in order to combat the latest criminal tactics.

Many risk management professionals suggest adopting a Sherlock Holmes-attitude when managing risk: the theory of deduction, or common sense. One such informal approach for risk reviews and investigations can be thought of as the 50/50 rule, where 50% of the conclusion is determined by the merchant explanation, transactional data and transaction documentation, while common sense determines the other 50%.

For example, does it make sense that a merchant who sells used computers at a flea market is now contracted with a major cable company to install its entire network? However, when you have a merchant who sells glow-in-the-dark light sticks, and he/she indicates that the company received a government contract to provide this product to the troops overseas, this may seem reasonable.

3. The shape of fraudulent activity

There are many ways in which merchants and consumers attempt to commit credit card fraud. Consumers may attempt to cheat merchants, and merchants may try to cheat consumers and acquirers. In addition to deliberate criminal activity, there are many scenarios in which merchants and acquirers are victimized by consumer activity, such as consumers unable or unwilling to pay their credit card invoice when received, i.e. so-called friendly fraud.

The next few sections outline some common ways in which acquirers might be victimized and some preventive measures that can be used to mitigate fraud risk:

3.1. Bait-and-switch criminal fraud: Criminals may assume the temporary identity of legitimate merchants and enter acquiring relationships for the sole purpose of committing criminal fraud. They bait the acquirer by appearing to operate as trouble-free merchants for the

first several months of their relationship, with the intent to fool the acquirer into thinking they are legitimate so that the acquirer will lessen its scrutiny.

After a time, the merchant begins to process all types of fraudulent transactions, including illegally obtained card numbers, and card numbers submitted by friends, employees or collaborators with plans to chargeback the transactions. The merchant will receive the funds and disappear, leaving the acquirer to suffer the loss from chargebacks.

Preventive measures: Prevention of this form of fraud is aided by careful underwriting before an account is approved, including reviewing records of the merchant's previous processing history with other acquirers, obtaining references from the merchant from other vendors and conducting a thorough company background investigation. If the merchant is new, setting proper contingency reserves is an important risk management strategy.

However, payments professionals need to exercise caution, as fraud will often appear before a significant amount of reserved funds have been accrued. In addition to the investigation before signing the merchant, careful ongoing monitoring might detect sudden changes in transaction patterns.

Some examples of potential early indicators of fraud include earlier than normal chargebacks, higher credits, negative daily settlement amounts, or an increased difficulty in reaching the merchant by phone.

3.2. Business format change: Merchants who cannot get approved to sell certain types of high-risk services or merchandise, or who might be denied a merchant account because they operate using a business format that is risky (such as multilevel marketing), often obtain merchant accounts by lying about the nature of their product or their business practices. They are classified by the acquirer as one type of merchant, but then engage in a different business than what they indicated on their application.

Sometimes the difference is subtle, such as a travel agent who begins selling certificate travel programs, or an online newsletter publisher who starts to sell financial service products. Other times, the change is quite stark – from saying that they are selling a newsletter for pool owners to suddenly operating an adult site.

Preventive measures: The fraud could be detected via random customer contacts and "ghost" shopping. Additionally, transaction monitoring techniques that analyze average transaction values, transaction patterns, chargeback reason codes, and chargeback volume/timing are effective at combating this type of fraud.

For example, if a merchant typically sells a variety of merchandise, the value of the tickets should be varied by product price and quantity. If the transactions soon become smaller, say $29.95 and these occur on cardholder records once a month, it may indicate a subscription or time payment has been sold, possibly for an adult Internet site.

Depending on the product they are truly selling, look out for monthly processing that exceeds expected sales or an increase/decrease in returned sales (credits). As in many of these fraud scenarios, one of the most effective means of detection is random interviewing of cardholders and for risk managers to pose as customers to see if the merchant is selling what he said he would (ghost shopping).

3.3. Merchants never ship: Merchants may process transactions and never ship the merchandise, or ship deliberately defective or incomplete products. The merchant may not honor a chargeback request and leave the acquirer to take the loss.

Preventive measures: The most effective means of detection is random interviewing of cardholders to see if they have received the product/service and that they are satisfied with the merchant. Risk managers can also pose as customers to see if the merchant is selling what he said he would. Also, in some cases, it is necessary to ask the merchant randomly for receipts from shipping companies proving delivery.

3.4. Factoring: Merchants sometimes accept transactions from a third-party vendor. They do this because the third-party vendors cannot otherwise obtain a merchant account on their own. Typically, the other vendor offers to compensate the legitimate vendor if he allows his merchant account to be used to process transactions.

The transactions have not been consummated with the original merchant, nor do the cardholders know or realize who the original merchant is, as they are only familiar with the third-party vendor. Either or both the merchant and vendor may be fraudulent.

Preventive measures: This form of fraudulent activity is specifically prohibited by the card company operating rules. Detection is possible by careful underwriting and risk monitoring, which should reveal different ticket amounts than expected and different patterns of purchases. Random customer calls, reviewing cardholder chargeback documentation and ghost shopping are methods that should reveal the fraud.

3.5. Two-card refunds: A merchant sometimes runs a debit on one card, then credits for a dollar amount slightly less than the original amount on another card. This is one method that can be used for laundering money. It also is a method used to defraud acquirers

since the merchant would be paid for the processing and then, through the friendly third party's cards, also receive the credits.

Until recently, this practice was most typically associated with credit card transactions; however, today, credit is also being provided through offline debit cards. The third party then withdraws the funds via a bank or ATM, making the reversal/return of the fraudulent credit difficult.

Preventive measures: This can be prevented, in part, by establishing a policy of no credits back to a card other than the card originally debited. In addition, risk managers may be able to detect and monitor accounts for an unusual increase in credit amounts.

3.6. Long-term liabilities: The greatest losses most acquirers experience are from long-term liabilities created by a merchant. For instance, a merchant who provides Internet access for $100 per year and, after only providing three months of service to its customers, disappears. Because the life of the service was for a year, the cardholder can charge back the transaction in the fourth month, since part of the service that they paid for will never be fulfilled. The merchant has received the funds from the sale, leaving the acquirer to take the loss.

Preventive measures: This can be prevented, in part, by establishing a policy that restricts merchants to a maximum 90-day product/service billing cycle (i.e., billing a cardholder $25/quarter instead of $100/year). This strategy also minimizes the exposure due to the reduced transaction size.

3.7. Fraudulent cards: Consumers and/or merchants may attempt to defraud acquirers by knowingly submitting transactions using fraudulent credit cards.

Preventive measures: One way to detect this type of fraud is by monitoring the number of authorization attempts. When an authorization is not obtained for a specific dollar amount, a second attempt will often be done for a dollar amount less then the original amount, and so on until an authorization is obtained.

Additionally, multiple transactions to the same card are an indicator of potential fraud. The time between transactions can also be a potential fraud indicator. For instance, if a sale is processed for a camera at 1:00 p.m., a second sale is made at 1:15 p.m. and then another at 2:00 p.m., this may be an indicator of consumer or merchant fraud.

How are the multiple sales explained? Many fraudulent merchants will say that the consumer left the store and came back to purchase more merchandise. This is suspect behavior that should be investigated by requesting copies of the sales draft.

3.8. Stolen card numbers: Criminals occasionally get a hold of a valid card or card number and use it before it is reported as stolen by the legitimate cardholder. The criminals often first attempt a transaction for a small amount to see if the sale goes through.

Once it does, they will continue to run sales, each for a higher amount than the last until they are unable to obtain an authorization or someone catches on. Additionally, the valid card may be shared among multiple perpetrators, each using it to run transactions.

Preventive measures: This kind of fraud sometimes can be caught during the authorization process, or by comparison of the numeric address (ZIP code and numerals of the address) submitted by the card user against the known address information on file at the card's issuer – i.e. Address Verification Service (AVS).

Also, it may be possible to detect the use of fraudulent cards by noting repeated uses of the same card, sale amount patterns and other pattern recognition techniques.

3.9. Authorized but unissued card numbers: There are millions of card numbers that are assigned to an issuing bank in certain sequences, which have not been issued to a cardholder. If submitted for authorization, these card numbers will appear valid – as they are not listed as lost or stolen – and may receive an authorization through one of the credit card networks unless the card record is submitted for full credit authorization to the issuing bank.

Additionally, there are software programs that use an algorithm to generate numerous authentic card numbers in a sequence. Once obtained, the numbers are attempted until a valid number is accepted. Many times, the criminals will use a computer program to automatically submit card numbers to a merchant until they find numbers that will survive the merchant's authorization process. These card numbers are then used by the criminals themselves, or sold/traded for cash.

Preventive measures: This form of fraud can be difficult to detect and can result in substantial losses unless sophisticated, computerized pattern-recognition algorithms are utilized. Such fraud may also be detected by risk management procedures that examine card number submission patterns, including noting the frequency of submissions from the same geographic area, phone number and other factors.

In some cases, the criminal is careless and submits card numbers with the same BIN numbers repeatedly. Risk managers should also be on the lookout for the use of sequential patterns that can be easily spotted, as the last few numbers will differ only slightly.

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3.10. **Forced sales:** If a merchant cannot receive a valid authorization for a sale of a certain amount, say $500, because the cardholder appears not to have enough credit available, he may attempt to resubmit the sale repeatedly, at ever lower values, until the sale is authorized ... $450, $400, $350 and so forth.

Or, the merchant might wait several days or weeks to resubmit the transaction, hoping that he will find a moment when the credit balance has been restored to the card. The problem with these transactions is that the cardholder did not agree to the sale amount and could dispute the charge when invoiced.

Preventive measures: This form of merchant fraud sometimes is detected by automatically screening transactions for multiple authorization attempts on the same card.

3.11. Resubmitted transactions: If a merchant has transactions that are declined because they are fraudulent or otherwise blocked by fraud screening (for instance, if the AVS does not match), he might attempt repeatedly to resubmit the card over a period of days, weeks or even months, until he finds a moment when the card might slip through the system.

Preventive measures: This form of merchant fraud sometimes is detected by automatically screening transactions for multiple authorization attempts on the same card.

3.12. Other suspicious patterns include:

- Average tickets exceeding the maximum ticket allowed
- Daily/weekly deposit amounts exceeding maximum limit
- Multiple authorizations to a card exceeding maximum
- Number of declined authorization attempts exceeding maximum
- An unusual pattern of duplicated card numbers appearing in batches
- An unusual frequency of same dollar-amounts appearing in batches
- Same card-number appearing over a period of time in both swiped and keyed transactions
- An unusual frequency of even dollar-amounts appearing in batches
- The batch is in an even-numeral dollar-amount
- Credits exceed debits in the batch
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ELECTRONIC PAYMENTS

News

Buyout enables iPayment to go private

In May, a group of investors led by iPayment Inc. Chairman and Chief Executive Officer Gregory S. Daily finalized a buyout that enabled it to delist from NASDAQ just three years after going public. The deal was worth at least $771 million. The stock was converted for $43.50 in cash per share.

IPayment stock ceased trading on the close of business May 10, 2006.

Several analysts downgraded the company's stock following Daily's initial offer to pay $38 per share in May 2005, when the stock price had fallen by 40% since January. The board declined that offer in favor of seeking a third-party buyer to enable iPayment to remain public.

Twenty prospective buyers were invited to bid. Eleven were serious enough to sign confidentiality agreements allowing them to look over iPayment's internal financial reports. Only one, Summit Partners, submitted a bid ($42 to $44) that the board considered to be satisfactory. Summit stipulated that management personnel, including Daily, must roll over their shares. This proved to be a stumbling block.

In November, Daily told the board he was unwilling to sell his nearly 2 million shares to a third party at the price the company was seeking. The board offered to sell to Daily for $44 per share. Daily and iPayment President Carl A. Grimstad formed iPayment Holdings, which bought the outstanding shares with an equity commitment of $206.6 million from the executives and a financing commitment of $760 million from Bank of America Corp.

IPayment, a provider of credit and debit card-based payment processing services to 140,000 small merchants, continues operations as a privately held company. Daily cited the expense of operating as a public company as a motivation for delisting. Congress is considering changing the Sarbanes-Oxley rules for public companies with a market cap below $128 million, to reduce their accounting-compliance expenses. With a market cap of $209 million, iPayment would not have benefited from any changes.

In its most recent quarter, iPayment's net income rose 11% on revenue of $170.9 million, which was an increase of 4.6% over the year-ago period.

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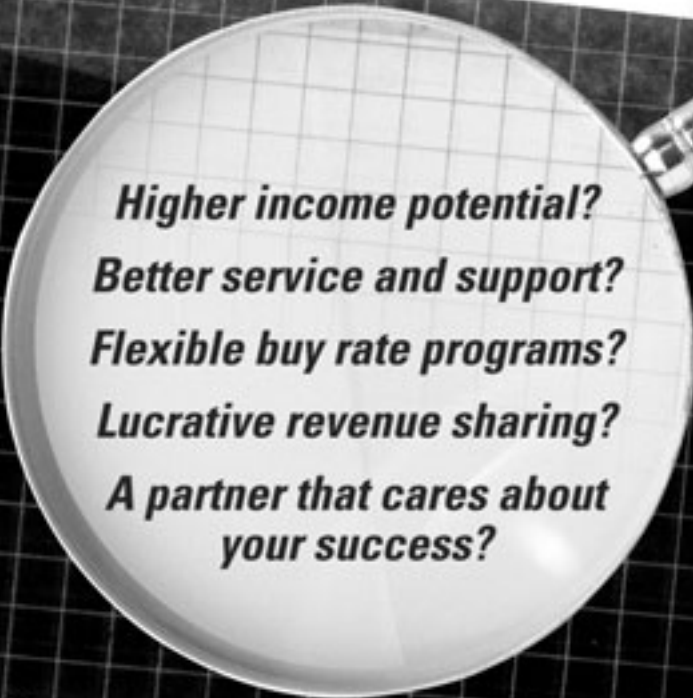
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Trojans in our midst:
When SSL is no longer secure

nternet protocol- (IP) enabled transactions entered through a Secure Sockets Layer (SSL) session are the gold standard for online security. The sessions pass through an encrypted "tunnel" providing safe passage across the Internet for financial transactions. But can SSL be subverted by clever criminals?

"If you're talking about a scenario where they spoof a Web site, the answer is yes," said Tim Callan, Group Product Marketing Manager for VeriSign. Cyber criminals create spoofs, or copies, of real sites.

Beware geeks bearing gifts

Hackers use Trojan horses to empty bank accounts. They are so sophisticated, they can evade SSL precautions. Acquired when a user visits a specious Web site or clicks a link in a corrupt e-mail message, they quietly install themselves, rifle through the cache looking for bank Web pages, which they spoof, and wait for the user to visit the bank site again.

After the user has logged in, initiating an SSL session, the Trojan can capture the data through keyloggers, or it can substitute a spoofed page, becoming a "man in the middle." The user unknowingly sends data to the hacker's server – often in another country – which forwards different transaction instructions to the bank, all within an SSL session.

"Consumers conducting online transactions cannot be confident what they see onscreen is what is really happening," said Ted Crooks, Vice President of Global Fraud Solutions at Fair Isaac Corp. "An IP-enabled merchant system dedicated to card transactions is probably more secure than a consumer PC."

Yet, no device is entirely secure. Merchants can minimize threats by keeping systems behind firewalls with up-to-date antivirus software. ISOs and merchant level salespeople can educate merchants about fraud techniques and alert them when new methods pop up.

Software to the rescue

In April, The 41st Parameter Inc. announced that its FraudNet software features SafeSession, which covertly analyzes sessions in progress for signs that a second computer is involved in the transaction.

"Detecting the smoking gun lets you know that it's happening," said 41st Parameter Chief Executive Officer Ori Eisen, former Worldwide Fraud Director for American Express Co. One way SafeSession does this is by calculating the time return differential between the computer that logged on and the one that is attempting to execute the transaction to see, down to the millisecond, if they match.

Banks, large online merchants, online payment systems and automated clearing house processors can all use the software. The 41st Parameter counts large merchants and payment processors, such as Neiman Marcus and 2Checkout.com, among its clients. "We fingerprint the victim's [PC] and the perpetrator's device. We do that with 41 parameters when you log in, such as what time zone you're in, IP address, browser settings and versions of software, without the user having to do anything," Eisen said.

Certification authorities and VeriSign are creating the High-Assurance (HA) SSL certificate, which requires a rigorous authentication procedure. Internet Explorer 7 browsers have a spoof-proof field in the address bar, making phony pages easier to recognize. The field "will toggle back and forth between the name of the [HA] site and the name of the authenticator," said Callan.

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"This has ignited a commerce market that generated more than $15 billion in revenues at the end of 2005. NFC payment processing straddles the online and off-line world," Schatt said.

(Opportunities for ISOs and MLSs are in providing merchants with payment processing services and contactless readers. See "Small is the new big: Cashing in on contactless payments," The Green Sheet, May 22, 2006, issue 06:05:02.)

Boom, bust and boom again

The hype about so-called mobile wallets began during the tech boom, but enthusiasm waned because cell phone coverage was spotty. And it plummeted when the tech bubble burst. Cell phone coverage has vastly improved since then, and NFC technology innovations have turned the concept of mobile wallets from mere vision into near-reality.

Consumers already use cell phones in imaginative ways: They take photos, play games, text message friends, search the Internet, listen to music and even vote for "American Idol" contestants, all via cell phone.

According to Patrick Besnard, a representative for the French watchmaking industry, Gen Xers no longer wear watches because they use cell phones to tell time. Some say wallets will soon go the way of watches.

NFC applications allow consumers to store credit card, debit card, loyalty card or preloaded card account information in their mobile and select a preferred method of payment at the time of the transaction.

"Carriers, card Associations, device manufacturers and banks are trying to strike the right economic balance that will allow mobile phones to become a payment form factor at the digital as well as the physical point of sale," Schatt said.

"In the North American and European markets, telcos and banks may finally become bedfellows with the help of third-party technology platforms [that are] agnostic to all parties," he said, adding that development of NFC standards will expand mobile commerce markets for all parties.

Up with ticket prices and loyalty

Some experts say that the engineering of mobile payment devices is now quite simple. The difficulty lies in achieving widespread adoption, not on the consumer end (they have most of what they need and can easily upgrade), but on the merchant end.

"Merchants with high-volume, low-price-point busi-

nesses are frequently reluctant to take credit cards, or invest in equipment to do so, because of high interchange rates," Schatt said. "In weighing the economic value proposition, they may not see the value of contactless cards.

"But the DoCoMo initiative in Japan has showed that convenience stores that accepted mobile payments saw an increase of 5 to 15% in average ticket prices. The retention benefits are very strong as well. Consumers could look at their mobile at the time of payment and know just how close they are to reaching a loyalty goal, for example.

"That communication is something you just can't do with a credit card. The combination of communication and commerce is very powerful and is much more enticing to a merchant, regardless of interchange."

Mobile wallet possibilities

A range of mobile wallet options are under development including:

• **Touch-and-go designs:** With this system, consumers merely position a mobile in proximity to a reader, which picks up and reads the data. This is ideal for public transit payments, event ticketing and vending

machines. It could also work for nonpayment applications like unlocking keypad locks.

• **Touch-and-confirm designs:** In this variation, the consumer must confirm acceptance of a transaction and/or enter a PIN to verify and authorize payment.

• **Touch-and-connect designs:** This is peer-to-peer data transfer. Two NFC-enabled devices are used to exchange information. This technology is used now for music downloads and photo or address book information exchanges.

• **Touch-and-explore designs:** Most experts say this is where we're headed. A mobile will store data for multiple functions (much like wallets do now) such as a debit card equivalent, a credit card equivalent (or two) and a plethora of loyalty programs. Consumers will then select the appropriate function or functions at the time of payment.

To integrate, or not

There are two options for mobile payment systems: You can integrate the process with the handset's software (mobile wallet), or simply treat the phone as an NFC chip carrier, placing the chip in the cell phone itself or in the phone's replaceable jacket (smart card).

Most experts say that the first option, integrating the data, is preferable to consumers; it allows multiple "accounts" to be stored in one place. "Using your cell phone as a smart card is convenient, in that you don't have to dig through your wallet looking for your card," Schatt said. "But it lacks the true functionality of a mobile wallet."

Although there are only 25,000 to 30,000 contactless POS locations in the United States now, a wide range of carriers, handset manufacturers and card issuers have cell phone payment systems in development.

Erik Michielsen, Practice Director, RFID and M2M, ABI Research, expects that over 50% of all mobile handsets will incorporate NFC chips by 2010. "Consumers will be able to download content by simply holding their phone close to a poster or advertising billboard," he said. "They can purchase merchandise, food, tickets, and have these transactions charged to a credit card using account information stored in the mobile phone."

Working it out together

Japan's largest mobile communications company, NTT DoCoMo Inc., working with Sony Corp., was the first to enter the market with its mobile FeliCa

products. The company conducted a market trial using 5,000 FeliCa-equipped phones between December 2003 and June 2004.

The following month, DoCoMo released its first FeliCa-equipped phones for the Japanese public. By December 2004, DoCoMo had sold 1.3 million mobile FeliCa phones. It recently announced that FeliCa is in use by 3 million cell phone customers and 20,000 vendors and retailers. Ultimately, the company anticipates 7 million subscribers.

Interestingly, what is basically a financial services product was released first by a mobile communications company. According to a Harvard Business School case study written by Stephen Bradley, Thomas Eisenmann, Masako Egawa and Akiki Kanno, the impetus for releasing FeliCa came from DoCoMo.

Approaching market saturation, DoCoMo was looking for ways to expand its reach. It didn't originally partner with a card issuer, but it has since acquired a 34% stake in Sumitomo Mitsui Card.

According to Schatt, the difficulties in the U.S. market are primarily that disparate businesses (banks, handset manufacturers and carriers) have rarely worked together, have different business models and agendas, and are finding it necessary to work closely together. "It's not the technology that is slowing this," he said. "It's the business arrangements."

Michele Janes, Director of Product Innovation and Coordination for Visa U.S.A., agrees. "While there have been tremendous strides in the technology development, business arrangements between mobile and financial stakeholders must be resolved before broad commercialization will be realized in the U.S.," she said.

In early February, Motorola announced plans for M-Wallet, a mobile payment system consisting of a software application that consumers can download to their phones and the Wallet Service Center used by the wireless carrier to manage accounts.

M-Wallet is compatible with Motorola handsets and with other handsets and PDAs. It is designed to take advantage of contactless card readers once they take off in the United States. While Motorola doesn't have agreements with card Associations or carriers yet, it is currently negotiating with them.

Innovations at Philips Arena

Nokia reached agreements with Philips Semiconductors, Chase Paymentech Solutions LLC, Visa U.S.A., ViVOtech (a software developer) and Cingular Wireless to test a mobile payment system at the Philips Arena in Atlanta.

During the pilot, over 150 Atlanta Thrashers and Hawks season ticket holders with Chase-issued Visa credit accounts and Cingular accounts were able to make contactless payments at concession stands (150 POS systems were installed in the Arena) with their Nokia 3220 mobile phones.

Fans could also download content such as ring tones, wallpapers, screensavers, and music or video clips by holding an NFC-enabled cell phone in front of posters embedded with NFC tags.

While Visa is now analyzing results, Elvira Swanson, Visa's Director of Corporate Communication, said anecdotal evidence shows that fans loved the trial. "We have pilots rolling out throughout the rest of 2006 and into 2007, and one of the things we are very interested in looking at is using this type of functionality for coupons or other merchant promotions," she said.

Philips developed the NFC semiconductor chips with Sony. Christophe Duverne, Vice President and General Manager, Identification, at Philips, is pleased that this major trial affirms how easy to use and intuitive the technology is.

"With NFC, the application possibilities are substantial," Duverne said. "By simply touching two devices together, consumers will be able to make payments, enter sports grounds, obtain information from posters and more. We're excited about the many opportunities NFC is opening up in the U.S. market."

The NFC implementation at Philips Arena is an indication that chip makers, card issuers, device makers, mobile carriers and content providers are becoming more willing to collaborate on NFC solution development. "This type of co-development is essential to NFC market growth and maturation," Michielsen said.

Other players on board

Visa is not alone in the rush to develop cell phone payment products. MasterCard International has been testing phone-based versions of its PayPass contactless payment technology since 2003. Discover Financial Services announced that it plans to launch an NFC-based cell phone payment product by the end of 2006.

PayPal has circumvented the RFID and NFC technologies completely, rolling out PayPal Mobile in early April. It is a text-message-based transaction process used by PayPal's customers in the United States, Canada and the United Kingdom.

"The two things people say they never leave home without are their keys and their mobile," said Amanda Pires of PayPal. "We talked to our customers and they said they'd like to be able to use their PayPal account wherever they are, so mobile seemed to be the answer. ... [W]e've been delighted with the response so far."

Three types of purchases can be made with PayPal Mobile: peer-to-peer, (individual to individual), text-to-buy (individual to merchant), and text-to-give (individual to charity).

PayPal has 105 million accounts, so it views PayPal Mobile as a huge opportunity, even if it doesn't reach new customers. But the company has growth in mind. "Texting is even more popular in Europe and Asia than it is here, so those are clearly markets that are ready for something like this," Pires said.

Hurdles to overcome

The stickiest physical concerns the mobile payment sphere faces are compatibility and security. But experts say those are

easily solved compared to the challenges of creating partnerships and convincing merchants to upgrade their readers.

Programming tools like Java have the potential to ensure compatibility, but many phones do not currently run Java applications.

However, several industry leaders, including MasterCard, Matsushita Ecology Systems Co. Ltd., Microsoft Corp., Nokia, NEC Corp., Renesas Technology Corp., Koninklijke Philips Electronics, Samsung, Sony Corp., Texas Instruments Inc. and Visa International, have created the NFC Forum, a nonprofit group established to standardize NFC technology so that all devices conforming to the standards will be compatible.

"There are potentially more security safeguards with this sort of thing," Schatt said. "In Japan, FeliCa has the capability to cancel the account or lock your phone remotely, and of course there are capabilities in the biometrics realm well beyond even that. You can lock your phone, after all, but you can't lock your wallet."

Some handsets in development will have voice authentication or fingerprint authentication built in. PayPal Mobile's text-messaging system has a built-in interactive voice response system: After transferring money, an automated system rings back and asks the consumer to enter a PIN before processing the transfer.

Sunny days ahead

According to Swanson, no matter how relationships among key industries evolve, there should be plenty of opportunity for the existing sales channel. "I would think that the relationship of ISOs to merchants wouldn't change just because the technology changes," she said.

Sam Pitroda, Founder of C-Sam, the company that created the OneWallet cell-phone platform, said this technology will create new opportunities for banks as well as carriers, cell phone manufacturers and merchants. "There are 1.8 billion cell phone users, but there aren't 1.8 billion checking accounts," he said. "So there's a big potential for banks if they can get more people to open accounts."

Schatt thinks that the U.S. market will be well worth watching as carriers, content providers and card issuers figure out the roles each party will play. "The opportunities will be too great for most parties to miss out as mobile commerce and communication grow over the next several years," he said. "It's a huge opportunity. Just huge."

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The agent bank relationship – Part I

By Michael Nardy
Electronic Payments Inc. (EPI)

When growing multiple sales channels, it's beneficial to think about the needs of specific industries when establishing or reinforcing relationships.

Banks and credit unions are an especially lucrative source for any ISO or merchant level salesperson (MLS) looking for reliable, targeted leads: Bankcard processing is as essential to these financial institutions as demand deposit accounts (DDAs) and commercial lines of credit.

Knowing how to work with this referral channel is an important part of building a successful sales pipeline. This article discusses different aspects of agent bank relationships and what you can do to solicit a bank's merchant processing business. (An agent bank offers its business customers bankcard processing services through a processor/acquirer.)

Other factors affecting the agent bank relationship, including bank liability; underwriting approvals and rejections; bank size and scope; customer service responsibilities; and the differing roles of ISOs, MLSs, MSPs and processors, will be covered in future articles in this series.

It's about more than merchant services

Keep your focus on the big picture. An obtuse view of your relationship with an agent bank will limit your effectiveness. I once attended a conference in which a self-proclaimed agent bank guru advised sales agents to just add their paperwork to the stack of papers merchants already have to sign when they board.

"Slip in a high dollar lease," he said. "The merchant won't notice, and you'll be able to make a nice commission."

Your success as a sales agent isn't in achieving high-dollar commissions on leases that you slip in surreptitiously. To be a referral source, your agent bank needs to see you as a reliable and trusted provider of bankcard services.

In addition, it's important to see agent banks as opportunities not just for referral partnerships with leads flowing in your direction, but also as venues where

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you can show your value by helping to further their business interests.

This is especially true when working with smaller banks and credit unions, those with just a handful of branches. Ask yourself some questions when thinking about a particular agent bank relationship: Do you bank at that location? Do you actively try to recruit potential customers for that bank's services and not just feed off the leads that the bank generates for you?

Do you want this financial institution to grow as your business grows?

These issues are all integral to successful bank partnerships. In offering your merchant and sales services to banks, try to put a value on yourself as not just a sales agent, but also as a valuable source of knowledge, information and access.

For example, you could offer a book of potential clients to a bank that wants to grow or acquire customers in industries in which they currently have little or no market share.

> **In offering your merchant and sales services to banks, try to put a value on yourself as not just a sales agent, but also as a valuable source of knowledge, information and access.**

Be the go-to source for important information

There is an art to selling that involves listening and advising as much as getting customers to sign paperwork. As sales agents working with banks, it's also crucial that you are up to date on new technologies emerging in the marketplace and are able to offer the latest products to banks and their customers without appearing as though you're simply trying to up-sell at every opportunity.

New technologies are introduced almost monthly, whether they're related to wireless processing, charge-by-phone, electronic checks or gift cards. Attending trade shows and bringing back new products to your bank partners is one element to success as an ISO or MLS. So is being knowledgeable about processing rules and compliance issues.

Take a proactive approach to keeping the bank's customers happy. Let the agent bank know when a customer calls about wireless processing or when a new competitor in

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the marketplace offers a lower rate. This will ensure that the bank knows you are looking out for its interests as well as your own.

If a new bank enters the market and tries to lure customers with promotions such as eliminating statement fees or offering free gift cards, you need to be flexible enough to show the ramifications of these promotions on a portfolio level, should the bank wish to compete head-to-head with these types of marketing campaigns.

Strategically, any agent bank relationship must be an equal partnership for both the ISO or MLS and the bank or credit union. A one-sided relationship will not work. Thinking the bank is there solely to benefit you and giving nothing in return will quickly sour any bank on the prospect of working with you.

Brand 'em and hold 'em

A bank is like any other company in a crowded marketplace: Having a clear brand identity is essential to separating it from the crowd. Most bank branding resources are devoted to radio ads, marketing pieces and print media, all of which can get very expensive.

A lot of time and energy is spent on marketing campaigns. After all, finding a great catch phrase or hook can elevate a bank clearly above the local competition in the eyes of new businesses that are looking for banking services.

As an ISO or MLS, are you a marketable entity as well? How much time do you spend thinking about the best way to market your services? If you are working with an ISO, does it provide marketing pieces (such as statement inserts, stickers, ads, slicks, etc.) for you and your potential bank partners?

Why not give an agent bank the opportunity to choose a branding campaign that focuses on the bank as the single-source solution for DDAs, loans, mortgages, commercial lines of credit, savings plans, bill payment and merchant services?

I like the idea of branding a merchant program in the bank's name and applying its unique marketing approach to the merchant services business.

One agent bank that focused on a local, small-town approach to banking used a statement stuffer we developed at EPI. It emphasized the local aspects of our sales agents who were working with that bank.

We wanted to show the bank's customers that EPI provided the same hometown feel and service that the bank did. We wanted to show potential customers that we

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knew their names, frequented their businesses and cared about their unique needs.

Some banks, however, choose a very hands-off approach to merchant services and other peripheral services. They prefer to be unbranded for a variety of reasons. One is to distance themselves from problems that occur when funds are placed on hold or a customer is having technical difficulties with credit card equipment.

It's no surprise that a processing partner can cause problems with a bank's customers, and many banks would prefer not to be tied to them in their customers' minds.

I, on the other hand, see a seamless connection between our agent bank customers and our merchant processing services. Should problems arise, it's our responsibility to assist our banks and their customers in finding acceptable resolutions. Private-labeled or not, nothing we do should ever damage the primary relationship between merchant and bank.

Helping the bank helps you too

An agent bank's local advertising is typically its responsibility, should it choose to market merchant services to its banking customers.

However, inserting that bank's collateral into merchant statements or supplying merchants with paper that is boxed with the bank's logo or that contains other marketing materials inside is a great tool for private-labeling the bank's merchant program.

Additional items may be branded as well including overlays (die-cut vinyl keypad coverings for terminals), welcome kits, reference cards, processing guides and help desk phones.

Such branding helps reinforce the bank's image and brand identity. This enhances merchant retention and attracts new merchants when they see that another business is utilizing the bank for its merchant services.

Every effort you make on behalf of your agent banks will ultimately help you as well.

Michael Nardy is Chief Executive Officer of Electronic Payments Inc. (EPI), a founding sponsor of the National Association of Payment Professionals and one of The Green Sheet magazine's Industry Leaders.

EPI is one of the nation's fastest growing privately held payment processing companies offering ISO and MLS profitable partnership programs and cutting-edge tools to help their portfolios grow. To learn more about EPI, visit epiprogram.com or e-mail Nardy at mike@elecpayments.com .

Education (continued)
Visa requires change to merchant agreements

By Theodore F. Monroe
Attorney at Law

Visa U.S.A. has again changed its rules for acquirers and ISOs, thereby necessitating an immediate change in all merchant agreements. This sets the stage for sanctions by Visa and/or civil litigation for those who fail to comply.

All tri-party merchant agreements (between an acquirer, an ISO and a merchant) must now include a separate, stand-alone disclosure page clearly informing the merchant that the acquirer has primary responsibility for the merchant relationship.

This development is part of the Acquirer Risk Program, which Visa initiated in January 2004 to reduce the risk associated with acquirers' increasing dependence on ISOs and other agents in managing merchant relationships. The program seeks to clarify acquirers' obligations and accountability in exercising appropriate control over all aspects of operations.

The disclosure page must clearly apprise the merchant of the following member bank responsibilities:

- A Visa member is the only entity approved to extend acceptance of Visa products directly to a merchant.
- A Visa member must be a principal (signer) to the merchant agreement.
- The Visa member is responsible for educating merchants on pertinent Visa operating regulations with which merchants must comply.
- The Visa member, not the ISO, must provide, administer and control settlement funds for the merchant.
- The Visa Member, not the ISO, must hold, administer and control all reserve funds that are derived from settlement.

The disclosure page must contain the member bank's address and phone number; it must also disclose that the member is primarily responsible for the merchant relationship and may be contacted at any time for any reason.

Merchant responsibilities

The disclosure page must clearly inform the merchant that he or she is primarily responsible for:

- Complying with cardholder data security and storage requirements
- Maintaining fraud and chargebacks below established thresholds
- Reviewing and understanding the merchant agreement
- Complying with Visa's operating regulations.

The disclosure page must include the following:

- Merchant's name, business address & phone number
- Title of the individual signing the document on behalf of the merchant
- Agent/salesperson's name.

The page must be dated and signed by the merchant's principal owner or authorized officer to confirm that he/she has reviewed the document. A copy must be provided to the merchant at the time of signing, and the merchant must retain it. The member must also maintain a copy in the merchant's file.

By requiring these disclosures, the program seeks to improve merchant account administration. For example, after numerous recent compliance audits, Visa determined that acquirers' insufficient oversight of merchant underwriting and compliance monitoring represents the most prevalent risk in this area. The program therefore prescribes daily oversight of merchant underwriting and monitoring as a "member best practice." It requires acquirers to advise merchants that acquirers are responsible for

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educating merchants on Visa operating regs with which merchants must comply.

Thus, acquirers must carefully review (and periodically update) their merchant agreements and disclosure pages to faithfully reflect all current key Visa operating regulations in a way that fairly apprises merchants of the rules governing their conduct.

Visa's audits also revealed that acquirers often had limited or no access to merchant files and ISO reporting; improperly allowed ISOs to hold merchant reserves in several cases; and, in rare cases, entered into tri-party agreements through non-member sub-agents. Visa has attempted to address these issues in its disclosure page requirements.

Potential ramifications of the disclosure page rule are significant. According to Visa, acquirers that fail to provide an appropriate disclosure page for each merchant agreement will be in "serious violation" of the Acquirer Risk Program. This may result in fines or reduction conditions for the acquirer. Acquirers and ISOs that fail to adhere to Visa's new disclosure page rule also are likely to find themselves in litigation if any of their merchants fails to comply with Visa's requirements concerning data security and storage, fraud and chargeback thresholds, or otherwise.

Indeed, providing inadequate disclosures, or none at all, furnishes any merchant with a vehicle for shifting blame to the acquirer and/or ISO should the merchant fail to comply with Visa's requirements. This represents a clear litigation trap. It's important to note that Visa's sample disclosure page fails to satisfy the rule's requirements in several respects. For example, it does not include a plain statement that the member bank:

- Is primarily responsible for the merchant relationship
- May be contacted at any time and for any reason
- Must provide an executed copy of the disclosure page to the merchant at the time it is signed
- Must maintain a copy of the disclosure page in the merchant's file as part of required due diligence.

So, rely on Visa's requirements, not its sample, in drafting disclosure pages. Now is the time to carefully review and update your merchant agreements to ensure full compliance with these new requirements.

This article is for informational purposes only. Please consult an attorney before relying upon it for your specific legal needs. Theodore F. Monroe is an Attorney whose practice focuses on the electronic payment and direct marketing industries. For more information about this article or any other matter, please e-mail Mr. Monroe at monroe@tfmlaw.com or call him at 213-622-7509.

Education (continued)

Card Association news you can't ignore

By David H. Press
Integrity Bankcard Consultants Inc.

Many ISOs will be shocked by Visa U.S.A.'s new requirements for all tri-party agreements. Effective June 1, 2006, a stand-alone disclosure page is now mandatory when an agent and/or processor is a party to a merchant agreement. It isn't required when the merchant agreement is limited to the merchant and member bank.

Basically, the disclosure page ensures that the merchant is aware of the member bank's involvement in the process and that the merchant agreement is not just with the ISO. The disclosure page must be a separate document and contain the Internet protocol's minimum address resolution protocol standards. The document also must be provided to the merchant at the time of solicitation, signed by the merchant and given to the merchant along with the merchant agreement.

Member banks were sent information on disclosure page format, and requests for exceptions must be submitted to Visa by members. Compliance monitoring is scheduled to begin in June 2006. Members with agents who do not comply may be subject to fees or other special conditions. (More information about disclosure page requirements is in "Visa requires change to all merchant agreements" in this issue of The Green Sheet.)

Publication updates

MasterCard International updated its Merchant Rules Manual effective April 6, 2006. It is available online at *www.mastercard.com/us/wce/PDF/12999_MERC-Entire_Manual.pdf* .

The manual contains excerpts from MasterCard member publications that provide information applicable to merchants. The update reflects recent changes to MasterCard's security rules and procedures.

It includes MasterCard's Bylaws and Rules pertaining to merchant card acceptance and published in April 2005. Subjects include use of the MasterCard marks, prohibited practices, merchant obligation to honor all MasterCard cards, authorization and presentment of transactions, and the secure treatment of card account and transaction data.

The manual also excerpts MasterCard's Chargeback Guide, published in May 2005, which covers such topics as how to complete the sales transaction; deal with suspicious cards; handle credits and returns; and fulfill special procedures that pertain to particular types of transactions including hotel/motel, cruise line and car rental.

In addition, it contains excerpts from the company's Security Rules and Procedures, newly published in January 2006. These address responsibilities of the member bank regarding any merchant from which the member acquires MasterCard transactions. It also describes various MasterCard programs and clarifies common areas of confusion among ISOs and merchant level salespeople (MLSs).

The update also delineates acquirers' responsibilities for merchant education, which not only helps merchant retention, but it also lowers ISO risk. Merchant education may also allow an ISO/MLS to retain high-residual merchants that tend to get into chargeback trouble. The text of this section follows:

> Once a merchant is established, an acquirer must institute an ongoing relationship of fraud prevention, including an education process consisting of periodic visits to merchants, distribution of related educational literature, and participation in merchant seminars. The acquirer regularly, as reasonably appropriate in light of all circumstances, must review and monitor the merchant's Web site(s) and business activities to confirm and to reconfirm regularly that any merchant activity related to or using a MasterCard mark is conducted in a legal and ethical manner and in full compliance with the Standards. (Section: 7.2.3)

Educational tools online

Visa recently made merchant education easier by posting its educational tools (most of which are free) on a Web site that is accessible to any merchant: *www.visafulfillment.com/visamerchant/main.asp* .

Also available for merchants are materials displaying the new Visa brand mark that appears on newly issued Visa cards, at the POS and in marketing materials. The new mark continues to use the blue, white and gold colors, but the word "Visa" is much more prominent. Transition to the new Visa brand mark will continue over the next five years. These materials, as well as a variety of other brochures and pamphlets, can be ordered online at *www.visafulfillment.com/visamerchant/macro/macro.asp?id=88* .

MasterCard also provides merchant education information at *www.mastercard.com/us/merchant/solutions_resources/industry_solutions/index.html* .

David H. Press is Principal and President of Integrity Bankcard Consultants Inc. Call him at 630-637-4010, e-mail dhpress@ibc411.com or visit www.ibc411.com .

Education (continued)
Masterfully managed merchants: Your customers for life

By Mike Grossman
Cynergy Data

Let's face it. As ISOs and merchant level salespeople (MLSs), you work diligently to attract new customers. Once you have them, though, must you work just as hard to keep them? You bet.

Your merchant customers are worth a lot more than their initial transactions. Consider the sales volume that a given merchant will deliver in a week, in a month and in a year. Then project that volume over the business's potential lifetime. That should make it very clear just how important it is to keep merchants from jumping ship.

One way to do this is to deliver great customer service. How do you do that? Develop a true partnership with your customers. Take initiative. Develop superior mer-

chant management techniques. And exceed expectations with each customer service interaction.

Study your merchants

Managing merchant relationships means approaching each customer in a systematic, timely and effective way. Being organized and proactive counts. Why not keep track of all merchant communications, history, needs and performance? After all, success for any business is entirely dependent upon that business's relationships with its customers.

Merchant management is a complete business strategy. It encompasses marketing, selling, troubleshooting and training, all with an eye toward super-charging customer service. It can include:

- Tracking customers' purchasing behaviors and key business challenges
- Analyzing internal sales data to recognize profitable merchants and their needs
- Managing customer relationships to achieve improved ongoing sales effectiveness
- Troubleshooting each request as if it were of the utmost importance.

Effective merchant management tools enable ISOs to allocate resources by introducing reliable systems, processes and communication procedures between staff and customer. But it's not just about using the right software; it's very much about tailoring business to customer needs.

Employ advanced technology

Advanced technology plays a role here, but it needs to be used in the right way. For example, at Cynergy Data, our Vimas account management software enables ISOs to submit, route, track and resolve merchant issues with speed and accuracy. Technology allows you to stay on top of problems while you are busy doing what you do best: selling.

With the help of technology, you can more easily attract and retain profitable merchant customers. Many reputable companies offer advanced technology designed to do just that. It's important to choose products that help you focus on your customers' needs and maintain effective relationships with them.

Make sure that the software system you choose will, at a minimum, allow you to attach files (in as many prevailing formats as possible) directly to merchant request tickets so that you, as well as any and all of your customer

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service specialists, can view them immediately and resolve each issue quickly and accurately.

Implement your system

A good strategy includes training sales employees and amending business methods while deploying appropriate technology. A merchant management system can be easily implemented by adhering to some basic principles:

- Capture information that quickly identifies your customer. Using your own Web site or an online service for this can be very helpful. Customers can enter their own details conveniently, and with automatic response.
- Access customer information through a database management system, which acts as the centralized system that is accessible to you and your customer service personnel.
- Mine data to analyze your customers, understand their businesses and recognize their needs going forward. This enables you to match merchants to sales programs that are appropriate for their evolving needs.

Create a customer service culture

Treat merchants as partners. They know whether they can trust you by the way you service them, and usually they judge you on the small issues. (When you handle big problems, you know full well that your customers are watching you closely.)

Products are not personal, but customer service is. The most effective customer service approaches lead to customer satisfaction. This increases new account sales through word-of-mouth. It also leads to higher merchant loyalty and retention rates. Here are several thoughts on how to establish an effective customer service culture:

- **Customers are the reason for work, not an interruption:** How many times have you gone into a store only to wait while someone is on the telephone or busy doing some non-service task? Employees often lose sight of the customer's importance and get consumed in lesser day-to-day duties. Sure, there are tasks that need to get done, but you cannot sacrifice customer service. Make it a top priority. Without your merchants, you have no company.

- **Train, train and then train some more:** Cross-train your entire staff, regardless of area of responsibility, to assist all types of merchants. When customers become upset they want their problem solved as soon as possible. When training staff, use role playing so that they can confidently recognize and experience difficult service challenges.

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• **It is OK to say yes, even when your rules say no:** When employees can be flexible in making troubleshooting decisions without fear of repercussions from their superiors, they are more willing to serve customers to the best of their ability. Often you, or your employees, might routinely say no to customers in certain situations; however, such refusals can have huge consequences. Ask yourself, "Am I willing to potentially lose 10 residual sales opportunities because of this interaction?"

• **Always offer alternatives:** Shift from the problem to the process for resolution. Offer several options. Put yourself in your customers' place. Involve merchants in determining solutions. Clearly explain any limitations that exist.

• **Ask merchants what they think:** The best way to find out if you are satisfying customers is to ask them. Formal efforts could include customer surveys, interviews or comment/suggestion cards. Informally, get out and talk with your merchants. Ask them how they feel about your service. Ideally, use a combination of both methods.

You may be thinking, "Why should I go ask for trouble? Who knows what I might hear?" That's the very point. Most merchants will not voice their disappointment with your service. They will simply leave and never return. If you don't ask about the quality of your service, you might wrongly assume, for example, that you can reduce service levels because you get few complaints. This can turn off your customers and cause problems that you never intended.

Asking customers for feedback sends a message that you care about your business and about them. While you might hear some criticism, you might also learn what you are doing right and gain insights about what you should modify.

Bottom line: Every interaction is a selling opportunity. Make the most of each and every one. 🔲

Mike Grossman is the Executive Vice President of Sales for 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 Mike Grossman at mikeg@cynergydata.net .

Education (continued)
Ingenious lead generation

By Ken Boekhaus
Electronic Exchange Systems

If I only had more good leads ... How many times have you heard these words from a merchant level salesperson (MLS)? It always seems the quantity and quality of leads are all that stand in the way of great sales stats. Yet sales reps make it sound like leads should fall from the sky like manna from heaven.

Lead generation is work, hard work. But effective lead generation is necessary to sales success.

Reel in referrals

Most successful sales reps sell primarily to referrals. This may sound like manna from heaven, but they have worked long and hard to create the environment that generates those referrals.

▶ **Establish relationships with people who have merchant contacts. Accountants, lawyers, Web site developers, cash register installers and retail strip developers can be excellent sources for merchant leads, especially new merchants just setting up shop.**

People don't refer anyone to a salesperson unless they feel good about doing so. The referral reflects on the referrer. Therefore, they are staking their reputations, to some extent, on the referrals they make. If you are providing a high level of service to merchants, they are more likely to refer other merchants to you. If they don't remember who you are, they can't refer business to you.

Therefore, you must make contact, follow through, provide excellent service and ... ask for referrals.

Ask and you shall receive

I am amazed at the number of MLSs who don't do this. If you ask for referrals, you will get a lot more leads than if you just sit back and wait for them. Start asking as soon as you have a merchant set up, trained and processing.

Ask if merchants are happy with your service. Then, ask them if they know any other merchants who would benefit from your level of service. Each time you provide them with exceptional service, ask again for referrals.

Rewards can be very effective in generating referrals. It doesn't take much. I know reps who pay $50 or $100 for referrals. Others just buy a client lunch once in a while. Rewards work well as part of direct mail campaigns. They give merchants the motivation they need to pick up the phone and call you.

Trade associations and franchisors can be terrific resources. There seems to be a trade association for about every conceivable vocation and hobby these days. Most of the national trade associations likely have credit card programs, but most of the smaller ones don't.

Even if associations have programs, they may be unhappy with their current acquirers. The sales cycle for a trade association or franchisor can be long, but persistence can pay big dividends. If you are the preferred provider for a trade association or franchisor, you have a great entrée into new accounts, and your probability to close will be greatly improved.

Seek reciprocity

Solicit the businesses that you patronize, especially if you are a regular customer. This seems obvious, but this avenue is often overlooked. Make a list of businesses you frequent, and then work the list. If you are unlikely to land an account at a particular business, consider shopping elsewhere.

Network, network, network

Networking is another often underutilized source for good leads. The people with whom you network may be leads themselves or may be able to refer you to others who are leads. Participate in local organizations that have a lot of business members such as chambers of commerce, Jaycees, Lions Clubs and so forth.

When you attend, work at meeting new people, and make sure they know what you do and how you benefit your merchants. Always, always, always have business cards with you.

Establish relationships with people who have merchant contacts. Accountants, lawyers, Web site developers, cash register installers and retail strip developers can be excellent sources for merchant leads, especially new merchants just setting up shop.

Don't ignore the networks you belong to that you might not recognize as networks, for example, Little League baseball, karate classes, card clubs or your faith community.

Also, networking groups of every stripe are springing up. Search online for groups that interest you or look like potential lead sources. I'll bet every one of you thinks you're networking already. The question is, are you

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networking as much as you can and getting the most out of it? Likely not.

Consider lead lists

You can always resort to lead lists; there are many available for sale. There are lists for new businesses, by SIC (standard industrial classification) code, by region, etc. If you google "leads list" you will get 142 million hits, so there is no shortage of lists to buy.

Keep in mind that many of these are not as current or accurate as you would like. Also note that your competitors are likely working many of the more popular sources.

Also, free lists are available through county government records for business license applications and new business name filings. New business names are published in local newspapers as well. New business license lists are typically less worked by your competitors because, in most cases, you have to request them at the county offices.

Keep those eyes peeled

Humans are designed to have selective perception. When you drive down the road, you really don't notice a lot of the things you see. If you did, your brain would go on overload. For example, you don't really notice all of the Toyota Camrys that you pass unless you are in the market for a Camry.

If you are not looking for leads as you pass through life, you will not notice them. Leads are all around you. You just have to look for them. Drive different routes to the same destinations. Go to new places. Meet new people.

Generating leads is work. But if it were easy, everybody would have the same leads. Work a little harder than the next guy (or gal) and you will have all the leads you need. Just don't sit back and wait for them to fall into your lap.

Ken Boekhaus is Vice President, Marketing and Business Development for Electronic Exchange Systems (EXS), a national provider of merchant processing solutions. Founded in 1991, EXS offers ISO partner programs, innovative pricing, a complete product line, monthly phone/Web-based training, and quarterly seminars. For more information, please visit EXS' Web site at www.exsprocessing.com or e-mail Boekhaus at kenb@exsprocessing.com . EXS is a registered ISO/MSP for HSBC Bank USA, National Association.

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ADVISORY BOARD

Data security on the mind – Part I

Over the past two years, the media have been abuzz with news about financial data security leaks and identity fraud. We'd like to better understand the implications for the acquiring community, especially concerning ISOs and merchant level salespeople.

Perception (including the public's) plays a crucial role in our industry's reaction to recent events. With this in mind, and understanding that members of The Green Sheet Advisory Board represent different industry constituencies, we asked them the following questions:

1. How secure do you perceive your transaction processor to be vis-à-vis the industry as a whole?

2. Do you believe our industry takes threats of data security breaches seriously?

3. How do you perceive your organization's liability with respect to such breaches?

4. Do you provide in-house training on data security for your sales staff and/or merchants?

5. Do you think your merchants are engaged in necessary diligence with respect to the treatment of their customers' transaction data?

6. Do you believe it is appropriate, or even possible, for ISOs and processors to reserve against liabilities associated with data security breaches?

7. How familiar are you with the Payment Card Industry (PCI) Data Security Standard? Do you consider your organization to be PCI compliant? What about your clients?

8. Should there be some underlying criteria for evaluating PCI compliance?

Because we asked a lot of questions, and responses were lengthy, we've divided this article into two parts. (Look for Part II in a future issue.) Following is the first set of GS Advisory Board member responses, in alphabetical order:

Kim Fitzsimmons,
First Data Merchant Services

Data security is critical to the future of electronic payments. As the world's leader in electronic payment processing … First Data is committed to safeguarding the integrity and confidentiality of our clients' data.

We employ numerous procedures to ensure that the information remains intact and confidential and that our systems are regularly tested. We offer and institute extensive data security measures throughout the complete lifecycle of the products and services we provide. We continually address our approach to data security to best avoid any type of threat to our customers and consumers.

We work with industry forums and government entities in education and solution offerings related to data security and fraud prevention. This includes a number of efforts from conducting Fraud Forums sponsored by the STAR Network and our participation in BITS, a nonprofit consortium of 100 of the largest financial institutions, to developing and managing an insider fraud prevention service.

First Data has systems in place to approach the highest levels of data security to help prevent breaches; however, we are also in a unique position to help thwart criminals who look to conduct fraud after the data are stolen. We take these actions in the interest of safer commerce.

First Data has dedicated many resources to understand and comply with PCI requirements. Entities that First Data owns, contracts with or connects to, that process, store or transmit cardholder information, are required to comply with PCI. First Data validates compliance via a corporate audit-contracted, PCI-approved assessor. First

Feature

Data requires that vendors acting as a service provider or data storage entity demonstrate compliance with PCI.

In order to develop long-term and viable solutions to the issue of data security, all stakeholders, including consumers, the government and businesses, must share ownership and work closely to ensure safe and secure transactions while protecting consumer privacy.

Ben Goretsky, USA ePay

1. The transactions processed through the USA ePay system are processed in the most secure way. We always use a secure connection, and the key identification method for a transaction combined with an MD5 encryption algorithm makes it one of the most secure in the industry.

2. Do we as an industry take threats of data security breaches seriously? No. Should we? Yes. Threats can escalate to large attacks. Even though we have learned from past experiences of DoS [denial of service] attacks and identity fraud, the new hacks out there are a lot more dangerous.

3. We take every attempt into consideration. Liability is something we need to assume if our system encounters the breach. Most of the time, though, we have noticed that merchants' Web sites encountered attacks and breaches, and in those cases we cannot be held liable for a merchant or hosting company that has become irresponsible with security. On a gateway level, it is *our* responsibility.

4. We do provide training for our sales staff as well as for our resellers/ISOs so they can inform merchants.

5. It is the merchant's responsibility in respect to the treatment of sensitive data on a customer's transaction information *to an extent*. We still believe that if merchants are not informed properly by their reseller or merchant service bank then how can we expect merchants to know these responsibilities?

On a gateway level, we always hear the line from the merchant "but we were never told." The merchant bank [also] needs to inform the merchant, set the laws, make the laws known, and then it is up to the merchant to follow these rules, regulations and responsibilities properly.

6. This is a very sensitive topic. We can't just go and freely point the finger and at the same time walk away from all responsibilities and liabilities. The gateway is liable for making sure merchants do not encounter a breach. The ISO is liable for making sure merchants are properly informed and educated about security and their responsibilities, and merchants are liable for making sure they follow these responsibilities set forth to them.

7. We were one of the first gateways to become PCI compliant. Merchants who use the gateway are compliant even though it gets tricky with merchants who store data and were not informed that they should not. We also offer our merchants proper security scanning from ScanAlert to make sure they are compliant.

8. There already are: the scan, the penetration tests, the onsite audits are all criteria which are currently evaluated for PCI compliance.

Jared Isaacman, United Bank Card Inc.

1. Having lived through the hell that the CardSystems Solutions Inc. security breach represented … I know the insecure feeling of having a lot of merchants on an unstable processing platform. That being said, I am very satisfied with my current front-end network (Chase Paymentech Solutions LLC) … I have seen their operation and understand the means by which they bring transactions into their platform. It is very secure, very stable and avoids third-party providers.

Feature

2. Perhaps not so much three years ago, but presently data security is a hot topic. ISOs and merchants of all sizes now have various forms of PCI guidelines that they must follow. Audits are even being required of organizations that don't touch the transaction. This is very positive as it makes all parties accountable and avoids gaps in the transaction flow that were not previously screened.

I also believe that third-party processor registration with Visa and MasterCard is significantly more difficult, as is finding a member bank to sponsor you for that purpose.

This makes it harder for smaller players to enter the business and begin taking on a great deal of responsibility like transaction processing. The last year especially has seen remarkable changes industry-wide on PCI enforcement, regular audits and greater entrance requirements in the third-party processor arena.

3. I believe every ISO's primary responsibility is to its merchant customers. If a data security breach occurs at your processing platform, you are immediately responsible for rectifying that situation, including converting merchants to a more secure platform. There are costs involved with this, and they can be quite significant.

If data security results in a platform's being shut down before you have the opportunity to move your merchant customers, then that risks lawsuits from your merchants, sales offices, etc. These are all very real liabilities that can be avoided by choosing your partners in transaction processing carefully.

Although United Bank Card is PCI compliant, we still do not touch any of the cardholder data or store it. As such, our exposure to any form of security breach is nonexistent. We have multiple firewalls, independent networks with no outside connectivity and advanced forms of encryption. A compromise of our network would be like a bank robber using the best drill to bust open a safe that had no money in it.

4. We do have extensive training for our customer service, technical support and risk management departments that have access to read-only and truncated credit card numbers. We also have high-level encryption of our merchant customers' personal information such as Social Security numbers and bank accounts. There is not a single piece of confidential or secure data that is stored in a plain text format on our networks.

5. We undertook a pro-active initiative with

AmbironTrustWave and Discover Card to ensure that all our merchant customers were compliant. This included free network vulnerability scans of all our e-commerce merchants … to ensure that those most susceptible to a security breach have proper systems in place to protect cardholder data.

6. I think these reserves are already in place. The top of the food chain (next to the banks) in the payment processing world are the BIN [bank identification number] holders and third-party processors. They all put up significant reserves and pay ongoing sponsorship fees to cover the liabilities of a sponsor bank.

7. Not only have we been compliant with the principles of PCI for years, but we have also undertaken the full audit as if we were a front-end platform, even though we do not touch the flow of transactions.

Joe Natoli, Retriever Payment Systems

1. Very secure on levels 1, 2 and 3, as direct requirements by the card Associations are strictly adhered to. Level 4, which is left up to the merchant, is less than realistic in assuming that each acquirer can contact each level-4 merchant and determine whether any of the operating procedures, hardware or software have changed in the past 30 days. I believe systems integrators should be responsible for level-4 merchant compliance.

2. Yes, very seriously.

3. I believe the card Associations have shifted an unfair percentage of liability to the acquirer. Once the merchant is set up, it is difficult for the acquirer to control or closely monitor any changes that a merchant, value-added reseller or hardware provider may institute.

4. Yes, we have also added questions to our application that would help further enhance the technology set up at the merchant's location during the time of boarding.

5. Some are; however, I do not believe today that all merchants fully understand the ramifications of handling cardholder data, even though many acquirers, including Retriever, make it a priority to explain what they may or may not do when setting up their account.

6. No. There is no predictable way of reserving against the liability of the potential magnitude a cardholder data breach can cause.

7. We are very familiar. We have undergone a full SAS 70, BIG 4 Financial and System Audit, and a full PCI audit and certification.

8. Yes. In addition to volume and transactional size, [there should be] a technology component whereby merchants on secure dial-terminal technology are exempt.

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MasterCard shares vs. liability: Which is more 'priceless'?

Depending on whom you talk to, either MasterCard Inc.'s share price or its legal liability could be deemed "priceless." The card Association (NYSE:MA) had its initial public offering of stock on May 24, 2006 at $39 per share, raising almost $2.4 billion.

Merchants involved in the class-action lawsuit alleging antitrust violations against MasterCard and Visa U.S.A. (see "Card Association transparency bodes well for industry," The Green Sheet, May 22, 2006, issue 06:05:02) are fighting MasterCard's plan to pass on liability from its member banks to public shareholders.

In a letter to the judge presiding over the case, sent two days before the IPO, the plaintiffs challenged the agreements, which altered ownership of the card Association, as a fraudulent means toward eliminating MasterCard's ability to charge its member banks for its liabilities.

Market cheerleaders

The first research firms that covered the stock issued buy ratings. Gabelli & Co. Inc. Analyst David Siino gave a target price of $43 per share. That may be a conservative valuation, however. "We estimate EPS [earnings per share] growth of 16.5% through 2010," Siino wrote. "Our 2007 Private Market Value is $60 per share."

Siino apparently agrees with merchants that MasterCard's member banks have insulated themselves against litigation penalties. "With the transition to new ownership, MasterCard will lose its ability to assess issuers in order to recover all or a portion of payments for settlements, judgments and litigation.

"While not proclaiming ourselves to be legal experts, it is worth noting that MasterCard has a liquid balance sheet, with $1.9 billion of cash … and substantial free cash-flow generation … to buffer it from adverse outcomes," he advised investors. Research firm Morgan Keegan & Co. issued an "outperform" rating on the stock.

MasterCard will use $650 million of net proceeds to increase capital and fight legal and regulatory challenges. The balance of proceeds, $1.75 billion, has gone to member banks, reducing their cumulative stake to 41% of equity.

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NewProducts

**Thermal printer
SNAP swabs**

Clean printers make happy merchants

**Product: Thermal printer
SNAP swabs**

Company: POS Supply Solutions

Most POS termi-nals in use today contain a thermal printer, and trans-action after transaction, receipt after receipt, a printer's heads need to be cleaned every so often. Dirt, dust, ink, paper particles and other nasty bits can get lodged inside, result-ing in streaks, smears and printing errors.

This is where you, a merchant level salesperson, come in. Literally. What better way to get your foot in the door than offering to clean a merchant's POS printer?

POS Supply Solutions, formerly US Paper Supply (the company recently changed its name to better reflect its product line), offers thermal printer SNAP swabs to get the job done. Here's how they work: A cleaning solution is right inside the swab. Simply squeeze the swab to satu-rate the foam tip with liquid, and then run the swab over the print head until clean.

Swabs are 4.5 inches long and come 25 to a box, which costs $11.95 plus shipping. The products also make nice leave-behind gifts for merchants.

POS Supply also sells card reader and check reader cleaning cards.

POS Supply Solutions

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www.uspapersupply.com

Have Nomad – Will travel

Product: Nomad printer
Company: PeriPheron Technologies Ltd.

In a popular television Western of old, a footloose gunslinger kept a derringer pistol in his belt. A righteous arbiter of right and wrong, Paladin was a hero for the 1950s. If a less lethal version of the show were made today, its title might be "Have Nomad – will travel," and *packin'* would mean carrying a wireless receipt printer.

Canadian-based PeriPheron Technologies has added

New**Products**

the Nomad belt-worn unit to its line of POS receipt printers. Equipped with three wireless IrDA ports and Bluetooth capability, it also has USB and RS232 connections. An integrated magnetic stripe reader enables collection of credit card data.

No longer must back-office bookkeeping staff struggle with copies of nearly illegible receipts. With eight megabytes (MB) of flash memory and 256 kilobytes of RAM, the Nomad can be open source for embedded systems, while containing drivers to support Windows, Windows CE/Pocket PC and Palm operating systems.

PeriPheron Nomad printer

Weighing 2.9 pounds, including the paper roll, the printer is also a system that can be configured for a variety of applications, like mobile delivery. It measures 6.5 inches x 3.3 inches x 7.4 inches. Users may clip it to a belt or carry it in its shoulder-strap carrying case. A vehicle mount adaptor plate for snap-in/snap-out adapts it to a mobile computing vehicle.

The unit was designed for ergonomic ease and to stand up to the rough treatment a printer in the field must endure. The paper roll is designed to stay in place if the device is dropped. The user interface has five LED lights, including one for battery condition; two control buttons; and an audio piezo system.

The print head is a Seiko LTPV445 four-inch clamshell. It performs direct thermal printing at 208 dots per inch.

The unit uses paper rolls 4.4 inches wide and 140 feet long and can also print labels. The Nomad prints six sizes of bitmap fonts with variable boldness and spacing and uses PCX, BMP and GIF graphic formats. A five-cell NiMH battery pack can be swapped out easily, according to the company.

Today's mobile workers may not be heroes, but they can be packin' a printer.

PeriPheron Technologies Ltd.

604-738-9654
www.peripheron.com

Honey, I shrunk the terminal

Product: V^x 570

Company: VeriFone

New models of countertop payment terminals are reaping the benefits of Moore's Law, which decades ago predicted a doubling of processor power every 18 months. They're also enjoying the fruits of microprocessor miniaturization. Case in point: VeriFone's newest, highly compact terminals are bushwhacking transaction time.

Sporting a faster processor than previous models, the V^x 570 terminal provides a logical migration path for users of the VeriFone Omni 3750. The new unit also has more memory, an enhanced anti-glare display, Secure Sockets Layer (SSL) encryption and a USB port.

The communications module can be configured initially for a dial-up connection or a combination of dial-up and Ethernet. It also can be switched to Ethernet at a later date. Merchants already equipped with broadband can immediately process payments through this always-on connection.

Verifone V^x 570

The unit was designed to ensure that channel partners can smoothly shift merchants who want to continue using their existing Omni 3750 applications, while getting a performance boost from a speedier model that provides greater flexibility in the number and type of applications it handles.

The V^x 570 is powered by a 200 megahertz ARM9 32-bit reduced instruction set computing microprocessor, which can be manufactured using a 0.13 micron process (or greater).

Memory includes four MB of Flash and two MB of SRAM, with an option for 12 MB of total memory. That is triple the maximum memory of the previous model.

Other features include:

- 128 x 64 pixel white backlit LCD display, supporting 8 lines x 21 characters
- Triple-track bi-directional magnetic card reader
- 3 x 4 numeric keypad, plus eight soft-function keys and four screen-addressable keys
- Integrated thermal printer
- SAM card reader (one or three modules optional)
- 14.4 kilobits-per-second modem
- Standard paper roll 58 millimeters x 25 meters
- Optional larger paper roll 35 meters long

The new model adopts recent security measures, such as end-to-end SSL encryption and VeriShield file authentication; Payment Card Industry Data Security Standard PIN entry device approved by Visa and MasterCard for debit and other PIN-based transactions; and EMV level 1- and level 2-type approval.

Application separation at the hardware and software levels reportedly minimizes the need to recertify existing payment applications every time an application is added or modified. Third-party applications can coexist securely.

The unit still weighs just 1.65 pounds. Someday when ARM processors reach the nanometer zone (below 0.10 micron process), V^x units won't lose much weight, but oh, the places they'll go.

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Inspiration

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It is never too late to give up our prejudices.
– Henry David Thoreau

Your attitude can have a tremendous effect on whether you simply survive, barely making it through each day, or whether you flourish day in and day out. Given this fact, you've probably been told many times in life to have a positive attitude, but listen up: That may not always be the best advice.

Why? you ask. Just as it is unhealthy to have a negative attitude and automatically assume the worst from everyone and everything, it's also dangerous to see events through rose-colored glasses and assume life is perfect and challenge free. Perhaps telling someone to have an "open minded" attitude would be better advice.

If you have an open-minded attitude, you are free to form

Attitude adjustment

We all know what attitude is. It's certainly easy to notice attitudes in other people, especially when they collide with our own. We like to spell those kinds of attitudes with a capital "A." But often attitude is there permeating everything we do. And we don't even notice. Attitude embodies our perspectives about how things are and how they should be.

If you haven't thought about the impact of your attitude lately, it's time for an attitude assessment, and possible adjustment.

Inspiration

your own opinions in response to all manner of situations and individuals. And you are free to act in ways that are appropriate for each situation as it arises.

The benefits of an open attitude

If your attitude is open, you can see each event and person as an opportunity. In each instance, you have the freedom to form your own opinions and decide whether you wish to work within the situation.

You are able to judge each circumstance on its own merits and decide how you will behave. You can see the potential and risks with clarity and without bias. When your mind is open, you listen to others, assess the situation and then determine what your actions will be.

The risks of a closed attitude

If you have a closed mind and attitude, you prejudge events before experiencing them. Instead of making things happen, you are inclined to sit back and wait for the right thing to happen, and until it does, everything else is wrong.

Having a closed attitude can lead to feelings of victimization as well as loss of control of your destiny. You may only be able to anticipate one outcome for each event, and if the reality is not the exact outcome you had envisioned, you believe it to be a failure.

Open sesame

If you practice being open-minded, you can combine reality with personal power. You can accept circumstances and people over which you have no control. You can see a situation for what it is rather than what you think it should be or what you want it to be.

This clarity allows you to use your time and energy to focus on effecting change where you do have power. Having an open mind allows you to make the most of your efforts while minimizing your frustration and sense of powerlessness.

Your attitude affects your perspectives, beliefs and judgments. Practicing an open-minded attitude allows you the freedom to form perspectives, beliefs and judgments on a case-by-case basis, and then act accordingly.

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Association of Credit and Collection Professionals (ACA) International
67th Annual Convention and Expo

Highlights: ACA International's annual meeting is the place for asset buyers, attorneys, creditors, vendors and other collections professionals to learn about regulatory and market changes that affect them.

General sessions include a panel discussion by state regulators titled, "Navigating Industry Regulation at the State Level." The panelists are expected to give insight into how the industry can work with state officials on complex compliance matters. They will answer questions on everything from licensing to data security.

Workshop sessions include "Disaster Planning: Are You Really Ready?" and "Electronic Transactions: Complying with the New Reg E." The latter will explain what businesses must do to comply with the new provisions of Regulation E, which takes effect Jan. 1, 2007. More than130 exhibitors are expected.

Networking opportunities include an evening aboard the USS *Midway* and the Foundation Golf Tournament.

When: July 9 – 12, 2006
Where: Manchester Grand Hyatt San Diego, San Diego
Registration: Visit *www.acainternational.org* or call 952-926-6547

Midwest Acquirers' Association (MWAA)
Fourth Annual Conference

Highlights: MWAA's meeting is geared to ISOs and merchant level salespeople. Arrive early to attend the MWAA-sponsored Bankcard Job Fair and a Field Guide Seminar (see "MWAA to offer job fair, sales seminars" in this issue of The Green Sheet). The seminar has two parallel tracks: "Grow and Develop Your ISO" and "Bankcard Sales by the Experts."

MWAA conference keynote speaker Stephen Montague will explain the science of hiring a smart sales staff. General session topics include: contactless technologies, "Scary Security in the MLS Office," and "Technology Prescription for 2007 Solutions." Attendees will have time between sessions to visit the vendor hall and network with colleagues.

When: July 18 – 21, 2006
Where: Palmer House Hilton, Chicago
Registration: Visit *www.midwestacquirers.com* or e-mail *info@midwestacquirers.com*

NACHA – The Electronic Payments Association
The Payments Institute East

Highlights: The Payments Institute is an intensive five-day course aimed at helping participants achieve a higher understanding of the payments system. Attendees get an overview of the entire payments system including core topics such as the automated clearing house, card systems, electronic check, international payments, risk management and fraud, and emerging technologies.

The curriculum is designed to accommodate both the novice and the experienced payments-system professional. The collegiate experience reportedly gives participants the opportunity to focus on key applications, implementation approaches, best practices and case studies. Participants are also offered networking opportunities with other payments-system professionals.

When: July 23 – 27, 2006
Where: Emory Conference Center Hotel, Atlanta
Registration: Visit *www.nacha.org* or call 800-487-9180

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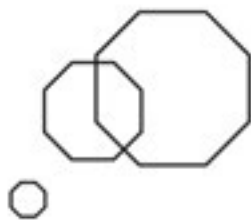
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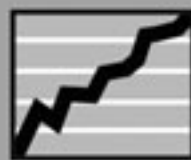(877) 642-7649
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