The Green Sheet

GS

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

July 28, 2003
Issue 03:07:02

Inside This Issue:

Time for a New Look

As we prepare to celebrate our 20th birthday in October 2003, it is time for a new look. We've completely redesigned our Web site, and we think that you will appreciate the difference. Here's a rundown of what you will see:

New Logo

Our designer has created a distinct logo for the corporation The Green Sheet, Inc. Under this umbrella we will continue to produce our periodical publications and occasional books; in the coming months we also will unveil some new products and services.

Sleek New Design Online

Our online presence continually has evolved since we joined the World Wide Web in 1995. Our new look is bright, clean, easily read and readily navigated. We've simplified the registration/subscription process so that each reader needs only one user name and password combination to unlock all of the appropriate gates.

Innana had seven gates to open during her quest, and so will our online visitors; however, not everyone who enters will have access to the entire kingdom.

Notable Quote:

Payroll cards could stoke substantial growth. Bank of America supports payroll card programs for 600 employer clients already, issuing 100,000 Visa-branded cards that employees of those clients can use to access pay, according to published reports.

Payment is secure where you find the Thales Point

Wherever you find the Thales point, you find proven expertise in payment transaction solutions and services. From our reliable, easy-to-use Talento line to our high-performance Artema Mobile and Portable terminals, Thales is raising the bar to ensure secure payments for the World's merchants.

THALES

Self-Service Payment
Thales makes encrypted PIN pads and secure card readers used in ATMs and vending machines. Thales offers a whole range of payment handling solutions to manufacturers of self service equipment.

Mobile Payment
Thales mobile terminals guarantee fast, secure payment transactions anywhere. Primarily developed to enable delivery services, taxis street vendors, and limousines, the unit is also great for up scale retail points-of-sale.

Multilane
In some countries, Thales offers integrated solutions designed for multilane environments such as grocery stores. With their unique architecture, these solutions can be adapted to any company's existing point-of-sale data system.

Desktop Payment
Thales builds terminals using the latest and most reliable technology to make point-of-sale transactions easier, faster, and more secure. Talento is the terminal of choice for many, while Artema Desk is designed for the most demanding retail points-of-sale.

Portable Payment
Thales guarantees fast, secure payment transactions where short range mobility is helpful. Restaurants, for example, benefit from the service advantages, convenience, and economics of debit by handling payments right at the table with Thales Artema portable solutions.

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Jerry always embraced the "tag team" sales philosophy, so he enlisted wrestling star El Magnifico to help him close negotiations.

Assessing Those Assessment Fees

I work for a small MSP in Miami that processes through Vital. I would like to find out what the consensus in the industry is on how processors handle the Visa and MasterCard assessment fees when it comes time to price out a buy rate for an ISO.

Is it bundled in with the interchange rate, or is there another time that they receive compensation for these fees? Can you elaborate further? Thanks.

Cesar Pedrayes

Cesar:
We have published many articles on this subject. Please check our Industry FAQs, specifically the section on card acquiring: www.greensheet.com/industryfaq.html

Additionally, please see the article "A Primer on Card Acquiring," which appeared in issue 03:04:02: www.greensheet.com/ PriorIssues-/030402-/030402.html

Editor

Processing in Manhattan

Thanks for all of your interesting words on a raft of interesting subjects. Always informative.

I've had a "Please Help Us" request from some friends of mine who have a tourism boutique in Manhattan. They've been in business nearly eight years, do processing with American Express and have requests for Visa/Mastercard.

I've explained that they're in mega high risk territory, future delivery, yada, yada, yada. Is there anyone who will write them? Or do they have as much chance as a snowball in a place very far south of the border? Thanks for your help!

Doug McLaughlin

Doug:
Post your question in the MLS Forum at www.greensheet.com. One of our readers may be able to assist you. I also suggest that you do a search in the Forum. There have been a number of threads in the recent past on high risk merchants.

Editor

CLARIFICATION

The charters of the regional acquiring associations – Midwest, Northeast and Southeast – were inadvertently misrepresented in the July 14, 2003 issue (03:07:01) of The Green Sheet.

These associations are non-membership based organizations focused on the acquiring industry, which includes all banks, ISOs, processors, agents and any other entity that wants to participate in the payment-processing space. The staff regrets the error.

CORRECTION

The Blackstone profile in the April 14, 2003 issue (03:04:01) of The Green Sheet erroneously reported that the company is an ISO for Universal Savings Bank. However, Universal sold to Fifth Third and is no longer in the merchant business.

►►► INDUSTRY UPDATE

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NEWS

Visa, MasterCard to Face Antitrust Claims Over Currency Fees

A federal judge denied motions by **Visa** and **MasterCard** International requesting that antitrust claims against them be dismissed. The claims allege the companies conspired and hid currency-conversion fees charged to consumers for purchases made overseas. U.S. District Judge William Pauley in Manhattan is overseeing more than 20 class-action lawsuits against Visa and MasterCard concerning their currency-conversion fees, Reuters reported.

The lawsuits claim the credit card companies have conspired in a price-fixing scheme to set these fees and hide them from account-holders.

Colorado Can Charge Fees on Credit Card Payments

The **state of Colorado** passed a law in May 2003 (HB 1267) that repeals statutes that formerly prohibited state and local government entities from imposing a surcharge to cover costs of credit card payments.

As reported in the April 28, 2003 issue of The Green Sheet (Industry Update: "No More Credit at the Old Alma Mater," 03:04:02), **Colorado State University** planned to eliminate the acceptance of Visa and MasterCard credit card payments for tuition and fees as of July 1, 2003 because of the high cost of processing fees charged by banks.

However, because of the new state law, CSU officials said they will accept payments made with Visa, MasterCard, American Express and Discover, although not directly. The university is using a third-party system called CASHNet SmartPay to accept credit card payments. The company charges a fee of 2.9% per transaction.

Visa and 'The Virtuous Circle'

A new white paper developed by **Visa International** and **Global Insight**, "The Virtuous Circle: Electronic Payments and Economic Growth," reports that the role of electronic payments is "significant and sizable" in terms of promoting global economic growth and development. The white paper states that there are four key areas of growth – domestic, international, economic efficiency and capital accumulation – where electronic payments, including card-based payments, can help drive increases and efficiencies.

According to the report, electronic payment networks potentially could create cost savings of at least 1% of GDP annually over paper-based systems in any economy by increasing the efficiency and velocity of payments.

To download the Visa-sponsored white paper, visit www.corporate.visa.com/mc/documentdownloads/downloads/virtuouscircle_062303.pdf

BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

- ➤ **Borders Books & Music** will open two new superstores in Florida in the fall of 2003 – one in Clearwater in September and one in Brandon in November – bringing its total number of stores in the state to 26.
- ➤ **May Department Stores Co.** bought Chicago-based **Modern Tuxedo's** 25 tuxedo-rental and retailer shops and is adding them to its bridal-group division of retailers.
- ➤ **Dollar Tree Stores, Inc.** acquired Salt Lake City-based **Greenbacks, Inc.**, another operator of "dollar stores." Greenbacks has 100 stores in 10 states, primarily in the Rocky Mountain region.
- ➤ **Mexican retailer Grupo Gigante** plans to expand into the U.S this year and will target U.S. Hispanics. The stores all will be located in Los Angeles.
- ➤ **Wal-Mart Stores, Inc.** had in the fiscal year ending in January 2003:
  - More than 1.3 million employees worldwide and plans to hire another 800,000 over the next five years.
  - Sales of $244.5 billion, making it the world's biggest company in terms of revenue.
  - A profit of $8.04 billion.

ANNOUNCEMENTS

ETA Arrives in Washington

The **Electronic Transactions Association** (ETA) announced that its transition to the new Washington, D.C., office is complete and on schedule. The ETA's new contact information:

Electronic Transactions Association
1101 16th Street, N.W., Suite 402
Washington, DC 20036
Phone: 800-695-5509
Fax: 202-828-2639

Paradata's Byrne Receives Award

The Northwest chapter of **The Forum for Women Entrepreneurs** (FWE) honored Paradata Systems Inc. President and CEO **Shannon Byrne** with the Entrepreneurial Achievement award. FWE is an entrepreneurial organization for women who build and lead high-growth companies. Byrne has been with Paradata Systems since 1995. Before joining Paradata, she worked with her own software consulting firm, Embyr Consultants, and for Geovision, Siemens, DMR Group and Statistics Canada.

ProPay Recognized by Direct Selling

ProPay USA received the **Direct Selling Association**'s Partnership Award at the Direct Selling Association National Conference. ProPay allows small-size merchants to accept credit cards via a computer with Internet access or a touchtone phone. ProPay offers its service to more than 30 direct-selling companies and their representatives, including Mary Kay, Creative Memories and NuSkin.

PRE Certified on VeriFone

PRE Solutions, Inc.'s applications were certified to run on **VeriFone, Inc**.'s Omni 3750 point-of-sale terminal and will support VeriFone's Verix Multi-application Conductor (VMAC) utility. The VMAC allows multiple applications to reside on the same terminal, which share the system's data.

Lipman Receives Two Certifications

Lipman USA Inc.'s NURIT 2085, NURIT 3000, NURIT 3010 and NURIT 3020 point-of-sale terminals were certified for check debit processing by **Payment Option Solutions, LLC**. Lipman also received **Visa PED** approval for its NURIT 8320 terminal.

VeriFone Approved by Visa for 3DES

VeriFone, Inc. announced that it is the only vendor to have received approval by **Visa Internationa**l for Triple DES (TDES) and PIN Entry Device (PED) across its offering of point-of-sale solutions, including the Omni 3750, Omni 3600, Omni 7000MPD and the SC 5000 PIN pad. The devices also received EMVCo Type Approval Terminal Level 1, based on EMV 4.0 specifications for global smart card acceptance. VeriFone said all of its solutions support the full implementation of TDES for both Master Key/Session Key and DUKPT (derived unique key per transaction).

Alogent Recognized for Success

Alogent Corp. received the 2003 Excellence in Technology Marketing award from the **Technology Marketing Association** for its repositioning and penetration of the U.S. marketplace. Alogent provides payment-processing solutions for global financial institutions, remittance and payment processors. Alogent also received a Certificate of Merit for payment processing by **The Banker**, a publication for the international banking industry.

Tranax Has 3DES Kits Available

Tranax Technologies is offering Triple DES/EPP (Encrypted Pin Pad) field upgrade kits to all authorized Tranax distributors and certified ASPs for Tranax ATMs in the field. The cost and technical requirements of each kit will vary based on ATM model; installation instruc-

tions can be downloaded from the Tranax Web site.

Paymentech Offers Web Resource to ISOs

Paymentech, L.P. has developed the Strategic Partner Re$ource Center, a Web site for its banks and Independent Sales Organization partners. The Re$ource Center offers password-controlled access to announcements, product descriptions, a VAR database, reporting, user manuals, sales presentations, FAQs, help desk information and a support directory.

Keycorp Terminal Certified

CGI Group Inc. (CGI) certified Keycorp Limited subsidiary **Keycorp Canada Inc**.'s Interac software for Keycorp's K23 point-of-sale terminal, which supports credit and debit transactions. The K23 terminal can accept smart cards and is EMV Level 1 and 2 certified. The K23 application supports cash-back, surcharging and tipping functionality. Keycorp Canada has been a distributor of POS terminals, PIN pads and software applications for more than 10 years.

Global Payments Honored by Restaurants

The **Restaurant Association of Maryland** awarded **Global Payments Inc.** the 2003 Allied Member of the Year award. The winner was selected based on votes cast by more than 3,000 association members from across the state. Global Payments was recognized for its contributions to the restaurant industry and for serving as a merchant advocate.

TransFirst Receives Eight Bank Approvals

Dallas-based **TransFirst** has been endorsed by eight state banking associations that help members find the right processor through endorsement programs. The associations are:
- Community Bankers Association of New York State (CBANYS)
- New York Bankers Association (NYBA)
- Independent Bankers of Colorado
- The Independent Community Banks of North Dakota (ICBND)
- Community Bank Services (a wholly owned subsidiary of the North Carolina Bankers Association)
- Virginia Bankers Association
- New Jersey League of Community Bankers
- Ohio Bankers League

PARTNERSHIPS

PPI Selects SPS for ECC

Secure Payment Systems (SPS) will provide **Payment Processing, Inc**. (PPI) electronic check conversion, ACH and check guarantee services through PPI's sales chan-

nels. PPI processes for retail merchants, such as restaurants, grocery, hospitality, and MO/TO and Internet merchants.

SPS also announced that it has partnered with merchant acquirer **Central Bancard, LLC**. SPS will provide Central Bancard's retail customers with check and gift card products and services offered through the company's independent sales force.

Michaels Using VeriFone PIN Debit

Arts and crafts retailer **Michaels Stores, Inc**. has successfully implemented **VeriFone, Inc.**'s EverestPlus point-of-sale terminals in all 775 of its stores. Approximately 18% of Michaels' in-store transactions are online PIN-based debit. VeriFone said it has shipped 400,000 Everest terminals since 1995.

Fifth Third Wins GNC and La Quinta

General Nutrition Centers (GNC) selected **Fifth Third Bank Processing Solutions** to be its processing partner for its PIN-based debit card processing. GNC also will use Fifth Third Direct to automate back-office debit card operations by scanning receipts and other documents into the system in order to respond to customer and bank inquiries.

In addition, **La Quinta Corp**. picked Fifth Third to be its credit card processor. Fifth Third will process Visa, MasterCard, American Express and Discover transactions for La Quinta Inns and La Quinta Inn & Suites in 33 states.

Global eTelecom Renews with United Merchant

Global eTelecom, Inc. renewed an agreement with **United Merchant Services** whereby Global eTelecom will continue to provide United Merchant Services' merchants with electronic check conversion services.

Signature Partners with Merrick

Signature Card Services formed a new ISO/MSP alliance with **Merrick Bank** of South Jordan, Utah, which is looking to expand the number of card-present transactions it processes. Signature also represents Santa Rosa, Calif.-based National Bank of the Redwoods and will continue in that relationship as well.

MIST's NBS Teams with CardBASE

CardBASE Technologies and **NBS Card Technology** have partnered and combined their technologies to promote MASCOT, CardBASE's multi-application smart card product, and NBS's card-personalization system, the NBS Advantage Series, as a complete package to their customers. NBS Card Technology is a division of

Card Technology Corp. and a subsidiary of MIST Inc.

POS to Resell Ingenico Product

Payment Option Solutions, LLC will resell **Ingenico**'s eN-Check 3000 check reader. Ingenico's device allows merchants to verify that a customer's checking account has sufficient funds to cover the check.

Global Payments Gets Musical

Sam Ash Music Corp. picked **Global Payments Inc** to process its credit card and check guarantee and recovery transactions and to provide 24-hour help desk support. There are 42 Sam Ash "Musical Instrument Mega Stores" in 12 states in the U.S.

B of A Renews with Vital

Vital Processing Services renewed its payment-processing agreement with **Bank of America**. Vital will provide POS authorization, capture, clearing and settlement services to help the bank service its national merchant acquiring customers.

Certegy Will Shop at Home

The **Shop At Home Network** selected **Certegy Inc.** to

provide ACH/electronic check warranty services for its Internet and telephone order business. The Network has 400 affiliated television and cable systems, direct-broadcast satellite systems and many of its own stations.

ACQUISITION

Provident Sells its Merchant Biz

Provident Financial Group Inc., parent company of **Provident Bank**, is selling its merchant services business for a $13 million gain after taxes. The business brought in about $1 million in quarterly revenue, the Cincinnati Enquirer reported. Provident did not release the sales price or the name of the buyer.

Provident also sold its 13 Florida banks in Sarasota, Manatee and Hillsborough counties and 16 ATMs to the Royal Bank of Canada for $75 million, and it sold $471 million of sub-prime mortgage loans in order to increase profit, reduce credit risk and focus more on its banking unit in the Midwest, where it operates 65 branches in Cincinnati, Dayton and Kentucky.

APPOINTMENTS

CyberSource Appoints Sales Exec

CyberSource Corp. appointed **George Jathas** to Senior Vice President, Worldwide Sales. Jathas has more than 20 years' experience in the payment industry. He has worked at such leading companies as Chase Merchant Services, National Data Corp. (now Global Payments Inc.), First Data Corp., and most recently Promisant and Orbiscom.

PaymentWorks Hires Two

Austin, Texas-based **PaymentWorks, Inc.**, an ATM deployment company, hired **Brian Marberry** and **Janelle Reiling** to head the company's bankcard program. Marberry previously served as National Sales Director for First Bank of Beverly Hills. Reiling is the former Sales Manager for National Bankcard Systems.

TransFirst Hires Banking Veteran

TransFirst appointed **Robert M. Berry** to Senior Vice President of the Shared Services Division. Berry has more than 25 years' experience in the banking and related card issuing and merchant acquiring industries.

Berry previously worked at Keystone Advisors Inc.; he also has held executive management positions with such corporations as American Express TRS and Citicorp Diners Club.

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Stored-value Cards Become Mainstream

By Patti Murphy

First, a confession: I'm a closet television junkie. At home, we go weeks without even firing up the old portable Sony, but put me in a hotel room with a video surfboard (aka remote control) and it's downright Pavlovian.

Recently, while hotel-bound, I was struck by television ads that were being run by a company calling itself Debit Corporation of America. Contrary to what its name suggests, Debit Corporation of America doesn't operate in the debit card arena; through retailers, it sells prepaid credit cards that can be reloaded at Money-Gram outlets. Debit Corporation of America, in fact, is part of a veritable army of new players hawking prepaid credit and other types of stored-value card products.

Stored-value card products, it seems safe to say, have broken into the mainstream of the payment space. I'm not talking about phone cards; that's just the tip of the iceberg. Think store- and mall-branded gift cards. Think MasterCard- and Visa-branded cash cards that look and feel like credit and debit cards, sporting any kind of backdrop you could imagine on your checks. Think payroll cards. Think municipal parking-meter cards.

Down with Coin Meters, Up with SmartMeters

The city of Portland, Ore., is pulling out all of its coin-operated parking meters, replacing them with SmartMeters, each one of which can accept payments for up to eight surrounding parking spaces. Schlumberger, the international technology giant that has made significant strides supporting so-called smart card programs outside the U.S, designed the SmartMeters, and, of course, the chip-based stored-value cards Portlanders can use to pay for parking at the new meters.

SmartMeter Cards are reloadable, and transactions are processed through the automated clearinghouse (ACH) system. A host computer system isn't needed to support the card program because all of the "intelligence" is in the SmartMeter chip card.

This also makes it possible to support multiple programs on the card, if the city and the Portland business community are so inclined.

By the time Portland completes implementation of its SmartMeter program in 2006, there will be 1,200 prepaid card meters throughout the city. Sure, it sounds small, when you consider cities like Los Angeles and Miami would require thousands of SmartMeters. But innovative programs of this type generally start out small because small is manageable.

Cities across the nation are looking for ways to boost revenues in the face of wicked budget deficits. Portland has worked the numbers and determined it can enhance revenue collections and reduce administrative overhead. Other municipalities are sure to follow.

Observes Bob O'Neil, a business development manager at Schlumberger who has spent years in the retail payment space: "This represents a major change in what is possible in payments."

Huge Opportunities

Smart cards aren't the only devices piquing interest in stored value although applications like the Portland experiment will propel the trend and companies like Schlumberger no doubt are hopeful about such an outcome. Traditional mag stripe cards are making huge inroads into the prepaid card terrain.

**Available data suggests that gift cards are most
popular with the 25-34 age group and high-income individuals.
A poll of consumers conducted by Financial Insights earlier this year
found roughly 40% of people age 25-34 had used single-merchant gift cards
during the previous three months; about 30% had used a multi-merchant card.**

These programs sport a cornucopia of brand names – from Visa and MasterCard (as in the case of Debit Corporation of America), to McDonald's, Starbucks, Western Union and a few others that may not have national recognition.

The opportunities are enormous. Financial Insights, a Framingham, Mass., research firm that tracks financial technologies, projects that stored-value cards will be a $290 billion business by 2006, generating in excess of $4 billion in revenues to service providers.

The single biggest share of that market will be generated through single-merchant gift cards. Payroll and benefits cards also will contribute handsomely to the total. (Today, most of these applications are based on mag stripe technologies.)

Stored-value cards that Financial Insights dubs "prepaid" cards (primarily phone cards, but also loyalty cards such as the Starbucks coffee card) will account for about one-quarter of monies spent using stored-value card products and about 16% of revenues by 2006, by Financial Insights' reckoning.

The opportunities – for ISOs, MLS folks, processors and banks – are enormous

Today, 58% of the top 250 retailers offer gift cards, according to various sources. Opportunities for growing that end of the merchant market may be limited by existing processing relationships, notes Tom Wimsett, President and CEO of Iron Triangle Payment Systems in Louisville, Ky. However, there are plenty of opportunities in the "mom-and-pop" merchant market. "This is a huge market opportunity," he says.

(Wimsett is keen on this market segment. You may recall he pushed NPC into the mom-and-pop end of the credit card acquiring market before leaving the helm of that company last year.)

Available data suggests that gift cards are most popular with the 25-34 age group and high-income individuals. A poll of consumers conducted by Financial Insights earlier this year found roughly 40% of people age 25-34 had used single-merchant gift cards during the previous three

months; about 30% had used a multi-merchant card.

The next highest usage rates were reported for 35-44 year olds (35% single merchant, 24% multi-merchant). Analyzed by income, the survey results suggest gift cards are most popular among consumers reporting annual salaries of $75,000 and up (42% had used single-merchant cards, 20% multi-merchant cards in the last three months).

Usage drops with successively lower income groups, but with roughly 21% of the under $25,000 crowd using gift cards there's obviously a lot of room for growth in this market.

Payroll cards could stoke substantial growth. Bank of America supports payroll card programs for 600 employ-

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er clients already, issuing 100,000 Visa-branded cards that employees of those clients can use to access pay, according to published reports. Bank One, meanwhile, recently completed a pilot with McDonald's Corp. that could give payroll cards a big boost.

The Visa Payroll card (which forms the basis for the McDonald's/Bank One Direct PayChek card) works like direct deposit from the employer's perspective (funding accounts through the ACH) and acts like a debit card from the employee's vantage (sans checking account).

Laura Ermer, a CPA with McDonald's, says the fast food giant sees a lot of merit in payroll cards although there's no firm date for a chainwide rollout of the Direct PayChek card. Ermer discussed the pilot the company ran in three cities – Pittsburgh, Dallas and Denver – at the NACHA Payments 2003 Conference in late April.

In Denver, she said, 71% of employees are accepting direct deposit, and about half of those have signed up for the Direct PayChek card. "And the numbers continue to grow weekly," she said.

McDonald's, which may be one of the largest employers of "unbanked" Americans, pays employees at its owned and operated restaurants twice a month; the average paycheck is $500, according to Ermer.

She estimates the company issues about 200,000 checks a month to its restaurant workers. If only half those paychecks are converted to Direct PayChek cards, that would be as many Visa-branded payroll cards as BofAhas issued to date through its 600 client relationships.

Depending upon whose numbers you crunch, there are between 10 million and 20 million "unbanked" consumers in America. In the past, the absence of checking or savings accounts made these folks too high a risk for plastic.

Not anymore – payroll cards change that marketplace dynamic. Many of these folks' paycheck-cashing houses charge 1-3% of the face value to convert their paychecks to currency, then they turn around and dole out a few dollars at a time in order to convert the cash into money orders for bill paying. With a funded, name-brand debit card, most of those costs go away for the consumer.

Other types of stored-value cards, such as gift cards, offer a similar benefit. I was a little dubious about the consumer-acceptance data Financial Insights reports, so I took an unscientific poll of friends and was surprised by how many told me they regularly use or give stored-value cards as gifts. One friend put it this way: "We've all become lazy about gift giving; gift cards are great!"

So are the revenue opportunities for those supporting gift card programs!

BofA charges between $5.95 and $11.95 (depending on value) for Visa-branded gift cards. MasterCard sells a branded card it calls a "convenience card," making it available at 3,600 Rite Aid stores nationwide. The card stores amounts up to $500 at a time. The card costs $9.95 initially; reloads cost $3.95.

Wimsett suggests the best opportunities for ISOs may be in gift cards. But there are emerging opportunities, too, such as flexible spending account cards, which could prove popular in the market for health care services.

"There are certain markets that are going to be more relevant to ISOs," says Wimsett, adding "Gift cards fit right in with the ISO's retail merchant strategy."

With a potential revenue stream topping $4 billion a year in another three years, stored-value cards are not a business to be ignored.

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

Processing Services and Transaction Fees

During May 2003, three questions relating to transaction fees and processing services were posted online to the MLS Forum "Ask the Green Sheet" area. In turn, we passed these questions to our Advisory Board for their comment and response.

If you have a question concerning the payment processing industry that you would like to see addressed by the Advisory Board, please send it to paul@greensheet.com or post it online.

We want to thank those members of the Advisory Board who gave of their time to respond to our inquiry:

John Arato, Golden Eagle Leasing
Mitch Lau, Money Tree Services
Bob Carr, Heartland Payment Systems
Steve Christianson, TransPay Processing
Rob Connelly, VeriFone
Steve Eazell, Secure Payment Systems
Ginger Hollowell, Electronic Money Co.
Jared Isaacman, United Bank Card
Dave Siembieda, CrossCheck
Scott Wagner, Hypercom

Transaction Fees

Our first question this month is perhaps the most complex subject in our industry:

"Everybody has a transaction fee. What exactly is the purpose of the transaction fee? Is it to cover costs of authorization? Is it just an extra fee (apart from the discount) for processing a transaction? Is it there because merchants just pay it? The real question is, if a merchant uses voice authorization at $0.65 to $0.95 each, should he still have to pay a transaction fee?"

The complexity and varied nature of the responses to this question are indicative of how complex the pricing structure is with respect to bankcard processing acquiring. Since 1983 we have devoted countless words to defining and explaining this process; obviously, we're far from finished. Here is what our Advisory Board members had to say on the subject:

Bob Carr
Heartland Payment Systems

"The purpose of a transaction fee is to eliminate the concern about being 'gamed' by the merchant or salesperson concerning the number of tickets. If there is no fee to cover the costs of processing a ticket (i.e., "bundled rate"), the experienced merchant may be highly motivated to distort his average ticket to be higher than it actually is, knowing he will get a lower rate than by telling the truth. Of course, none of our merchants would do that, but I have heard that some might try!"

Steve Christianson
TransPay Processing

"This fee is the front-end authorization fee charged to the merchants by the ISO or bank. It covers the phone call expense, processing front-end charge and the markup by the ISO or bank.

"For acquiring banks that sponsor ISOs, therefore, with the ISO getting interchange pricing, this is where the acquirer gets much of its profit.

" 'Is it to cover costs of authorization?' Yes, and other costs. 'Is it just an extra fee (apart from the discount) for processing a transaction?' No. 'Is it there because merchants just pay it?' No – as stated above, it is a real cost but is usually marked up and is part of profit for the ISO.

"The estimated average cost to an ISO for 'front end' [authorizations] is between 3 cents and 7 cents. The actual cost for the acquirer [bank] is between 2 cents to 5 cents. Then there is the cost to the ISO for back-end settlement and hosting. This can cost between 3 cents and 8 cents.

"This would make the total auth/transaction fee between 6 cents and 14 cents before the ISO makes any

profit. This settlement cost for back-end processing is as little as 2 cents. The balance is what the acquiring bank makes before it provides the transaction fee cost to the ISO.

"The real question is, if a merchant uses voice authorization at $0.65 to $0.95 each, should he still have to pay a transaction fee?' Yes, because the voice auth transaction still has to be run through the terminal and settled as normal.

"While the Prior/Post/Force sale [when used with a previously obtained authorization] cost is a penny or two less because no electronic auth is obtained, the bank does not necessarily pass that savings to the ISO and therefore the ISO does not pass the same savings to the merchant.

"The number of voice [authorizations] compared to electronic [authorizations] is minuscule, and while it may amount to a somewhat significant amount nationwide, it really is not significant enough to pass through to the merchants."

Steve Eazell
Secure Payment Systems

"[Secure Payment Systems'] true purpose is to cover our costs only. Those include telecommunications, our risk-management system and our ancillary negative data-base. 'Is it to cover costs of authorization?' [Yes,] and other costs. 'Is it just an extra fee (apart from the dis-count) for processing a transaction?' No. 'Is it there because merchants just pay it?' No, we want merchants to pay cost plus, not just what the market will bear."

Ginger Hollowell
Electric Money Co.

"A transaction fee is part of interchange plus dues and assessments. It can be bundled into the discount rate. Voice authorization carries a separate charge because the merchant is accessing a different system that has costs involved."

Jared Isaacman
United Bank Card

"Although 'Transaction Fee' is very generic with respect to the bankcard industry, it is most often referred to the cost for each authorization issued by a POS terminal or ARU [Automated Response Unit] service. The actual cost per transaction is broken down in several areas. The

only real 'fixed' transaction cost that applies to all acquirers is included in interchange. This is usually 10 cents on most interchange categories; some of the more exotic are as little as 2 cents.

"The variance in the cost per transaction is what the acquirer pays to the front-end and back-end network. This varies among acquirers based on the processing networks they contract with and the number of transactions they are doing monthly.

"The remaining portion of the transaction cost after interchange is broken down in three parts: the authorization, the capture and the clearing/settlement of the transaction. The front-end network handles the authorization portion, and the back-end handles the capture and clearing. When you add up those three portions of the transaction, you have your total network cost per transaction. Add that portion to interchange, and you have your total and effective cost per transaction.

"Other types of transaction fees are charged for non-bankcards, such as American Express, Discover, Diners Club and JCB, although only the authorization and capture portion exists since each card type settles through its respective bank. Voice Authorizations are another form of transaction costs but are far less frequent since the massive conversion from paper processing to EDC (Electronic Draft Capture) terminals. Now voice authorizations are only used during terminal malfunctions, worn magnetic stripes, code 10 authorizations and certain wireless or home-based business that would not normally be able to obtain an authorization through a terminal.

"The real question is, if a merchant uses voice authorization at $0.65 to $0.95 each, should he still have to pay a transaction fee? Well, typically, the approval code obtained from a voice authorization is 'forced' or 'offline' entered back in the terminal for settlement. At this point the authorization portion of the transaction was covered by the voice authorization (which costs 10 times more than a traditional dial-up authorization); however, the cost for the interchange transaction fee and settlement still exists. Unless merchants are set up to be billed on just the dial-up authorization, which some do – but not many – the merchant would be assessed another transaction fee.

" 'Are transaction fees there just because merchants pay it? And just to cover an authorization?' No, they are in place to cover several per-transaction costs that acquirers have to pay. They are an iatrical part of the interchange system. The point in any business is to assess your costs for doing business and providing service and generating a profit on them for your end-user. Transaction fees are part of this business, and situations where you see them waived (bundled rates) are only because the basis points were increased on the discount rate to compensate."

Mitch Lau
Money Tree Services

"Transaction fees are used for several reasons: (1) to cover the actual cost of a transaction; (2) may include 10 cents for interchange costs; (3) if the fee is high enough it may include some profit for the ISO, bank and processor. If the merchant is making many voice auth calls, then they need a wireless terminal or a new processor."

Dave Siembieda
CrossCheck

"For most authorization systems, there are certain minimum system costs involved in getting the authorization captured. In our case, the transaction fee covers the custom communications costs involved to produce authorizations via voice, terminal and Internet and provides for 24/7 access and a complete dual-authorization system for 100% backup. Unbundled, these fees are very apparent and, at 9-20 cents per transaction, minimal for the merchant. Bundled in with a discount rate, a high-ticket merchant will, effectively, be paying much more."

Passenger Transport Data

Seldom has an inquiry posted to the Advisory Board resulted in such an absence of responses:

"Does anyone know of a terminal/software application that is capable of posting Passenger Transport Data?"

If any of our readers has further information on this subject, we would love to hear from you.

Mitch Lau
Money Tree Services

"Shift 4, a Las Vegas company, may have the answer. Its phone number is 702-597-2480, ext. 3436 (Burt)."

Scott Wagner
Hypercom

"I don't know specifically whose software supports said app. I do know Hypercom does have an open operating platform, and if someone wanted to write such an application it would fit very nicely in a Hypercom terminal. Contact me directly for more info. I can be reached at swagner@hypercom.com."

Age Verification

"We are hearing more about age/ID verification Services: (a) What terminals accept age/ID verification? (b) Who has more information about age/ID verification services?"

MLS/ISOs may find that specific segments of the market will be interested in this value-added service. Although it generated a great deal of "buzz" a few years back, it never really remained on the radar screen for this industry. Perhaps as the privacy, security and Patriot Act initiatives move from legislature to implementation, age verification will become more important to the retail merchants.

John Arato
Golden Eagle Leasing

"E-SEEK has a terrific age-verification product that I believe is certified on Concord and other processors. The application is set up to read the mag stripe and/or bar code on the driver's license, depending on state. The

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program runs on the Hypercom ICE 5500 and 5700 terminals. The contact person is Sam Dishman, VP Sales, and he can be reached on 512-291-4343."

Bob Carr
Heartland Payment Systems

"All terminals accept age verification data with the proper software. VeriFone has lots of information on this topic."

Steve Christianson
TransPay Processing

"The basic programming is relatively simple. Most Zon Jr. XL's cannot be used for credit card processing anymore because of memory requirements. But they usually work well with age-verification software.

"Other terminals such as a Tranz 380 X 2, Nurits, VeriFone Omni series, which can handle multiple merchant accounts, work, too. It really depends upon the software developer and what terminals he has coded the software to work with.

"While there are probably several companies that do this service, the only one I currently have information on is called Legal Age (www.legalagesoftware.com)."

Rob Connelly
VeriFone

"Age/ID verification services are ideal for merchants operating stores that sell tobacco or liquor as well as any venues that require a minimum age limit to gain entry. Not only does it take the guesswork out of calculating a patron's age, but it can be of great use in court should any legal problems arise. Target segments include convenience stores, liquor stores, bars/nightclubs and casinos.

"ISOs can sell dedicated terminals such as VeriFone's Omni 3200SE running an age-verification application, or, ideally, age/ID verification applications can securely co-exist with the payment application on VeriFone's Omni 3700 and 3300 family of countertop terminals as well as on its Omni 3600 wireless terminal.

"VeriFone's own Easy ID application as well as solutions provided by Legal Age Security Software are certified, working and ready to be added to an ISO's portfolio of solutions. For more information on Easy ID, visit: www.verifone.com/products/software/html/easy_id.html. For information on Legal Age, visit: www.legalagesoftware.com.

"If you want more information, contact your VeriFone sales rep or call 1-800-VeriFone."

Steve Eazell
Secure Payment Systems

"It depends on the terminal. Many software applications have been written to support this product; it is just a matter of development and certification. We have software that supports that and was not that difficult to produce since we process the data on the DL magstripe anyway. Not everyone does, however."

Ginger Hollowell
Electric Money Co.

"We sell age verification. Mostly we use VeriFone equipment. It can be loaded on a separate side of the Omni 3300 or Omni 3750 or stand alone in a Tranz 330."

Jared Isaacman
United Bank Card

"Age verification is an exciting new service that is complementing traditional POS terminals. For the last six months, United Bank Card has been loading this software in all of our Nurit brand terminals that we deploy. Today, age-verification software is included free in a full or limited basis in the Talento, Nurit and Omni terminals. This is often found in the newer line of terminals since supporting the application requires additional memory.

"Since credit card terminals' core function is reading magnetic stripes on credit cards, the age-verification features are limited to states with magnetic encoded driver's licenses. United Bank Card has a made a big push in selling Nurit terminals with this capability loaded in them.

"As much as I personally may feel that it is a dupe for a youthful market that may have consumed a drink underage – and I may have been part of that at one point – there is no denying the technological advancements that we are now accepting."

Mitch Lau
Money Tree Services

"These days, age verification can be accomplished on many different terminal types. Contact the company that supplies your equipment for further information."

Dave Siembieda
CrossCheck

"We just returned from the National Retail Federation Loss Prevention show, where we talked to Chris Rocke from UVeritech. This company is developing the technology to support these services and is a leading supplier of loss-prevention equipment. The Web site is www.uveritech.com."

Reputation + Rates
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Visa Announces New Rates

Both Visa and MasterCard International have approved and finalized the terms of their settlements with retailers over debit cards. As part of the settlement terms, Visa and MasterCard agreed to lower fees charged to merchants on offline signature debit card transactions. Visa's interchange rate modifications, effective August 1, 2003, are listed below. (MasterCard's new interchange rates appeared in the June 23, 2003 issue of The Green Sheet, 03:06:02.)

The following schedule applies only to domestic, signature-based consumer debit transactions for merchants *included* in the VisaCheck/MasterMoney class-action suit led by Wal-Mart and Sears, Roebuck and Co. Domestic transactions originating from merchants that opted out of this lawsuit and from non-U.S. issued products and commercial debit products are not eligible for these new interchange rates.

Visa U.S.A. Check Card Rates

Consumer Debit Products (new)

- CPS/Retail – Check Card (Signature-based) 1.23%

- CPS/Retail – Credit 1.23%
- CPS/Retail Key-Entry 1.23%
- CPS/Retail 2 (Emerging Markets) 1.23%
- CPS/Hotel and Car Rental – Card Present 1.23%
- CPS/Hotel and Car Rental – Card Not Present ..1.23%
- CPS/Card Not Present 1.23%
- CPS/e-Commerce Basic 1.23%
- CPS/e-Commerce Preferred 1.23%
- CPS/Account Funding 1.23%
- CPS/Automated Fuel Dispenser 1.23%
- CPS/Passenger Transport 1.23%
- Express Payment Service 1.23%
- Electronic Interchange Rate (EIRF) 1.23%
- Standard Interchange Rate 1.23%
- CPS/Supermarket –
  Check Card (Signature-based) $0.26

Note: No change to Visa's current Check Card II interchange rates

The following schedule applies only to domestic, signature-based transactions for merchants **not included** in the VisaCheck/MasterMoney class-action lawsuit:

- CPS/Retail – Tier I ....1.39% + $0.10
- CPS/Retail – Tier II ....1.43% + $0.10
- CPS/Retail Key-Entry ....1.85% + $0.10
- CPS/Retail 2 (Emerging Markets) ....1.43% + $0.05
- CPS/Hotel and Car Rental –
  Card Present ....1.58% + $0.10
- CPS/Hotel and Car Rental –
  Card Not Present ....1.58% + $0.10
- CPS/Card Not Present ....1.85% + $0.10
- CPS/e-Commerce Basic .... 1.85% + $0.10
- CPS/e-Commerce Preferred ....1.80% + $0.10
- CPS/Account Funding ....2.14% + $0.10
- CPS/Automated Fuel Dispenser ....1.50% + $0.05
- CPS/Supermarket – Tier I 1.20%
- CPS/Supermarket – Tier II ....1.20% + $0.05
- CPS/Passenger Transport ....1.70% + $0.05
- Express Payment Service ....2.00% + $0.02
- Electronic Interchange Rate (EIRF) ....2.14% + $0.10
- Standard Interchange Rate ....2.49% + $0.10
- CPS/Retail –
  Check Card (Signature-based) ....1.25% + $0.10
- CPS/Supermarket –
  Check Card (Signature-based) $0.40

Signature
- Signature Standard ....2.63% + $0.10
- Signature Electronic ....2.14% + $0.10

Commercial Products
- Standard Interchange Rate ....2.63% + $0.10
- Electronic Interchange Rate ....2.14% + $0.10
- GSA Purchasing Card Large Transaction ..0.95% + $35
- Purchasing Card Large Ticket ....0.95% + $35

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Mini-ATM Promoter Settles with FTC

Columbus, Ga.-based Merchant Payment Solutions, Inc. (MPS), a promoter and seller of mini-ATM business ventures, recently settled with the Federal Trade Commission over charges that the company misrepresented potential earnings to prospective buyers of its business opportunities.

MPS was one company of 77 targeted in a law-enforcement sweep called "Project Busted Opportunity" led by the FTC, Department of Justice and 17 state policing agencies. MPS was promoting its mini-ATM business opportunities or "franchises" through a Web site, www.mini-atm.com. On the Web site, interested parties were urged to call a toll-free number to learn more about the business. The Web site is no longer online.

In its complaint, the FTC alleged that MPS and its President, Steven Todd Knight, misrepresented the earnings potential of MPS' mini-ATM business by suggesting that an ATM placed in a location visited by 500 customers a day would generate approximately $450 in profit per month.

The FTC also alleged that MPS did not back up these earnings claims, which is a violation of the FTC's Franchise Rule. The Franchise Rule requires a franchise to provide prospective franchises with a "complete and accurate basic disclosure document containing 20 categories of information, including information about the litigation and bankruptcy history of the franchisor and its principals," and to disclose the number or percentage of prior purchasers known by the franchise to have achieved the same or better results.

Under the terms of the settlement, Knight and MPS are required to pay a $22,000 fine for consumer redress, are prohibited from making false claims regarding any business venture and are required to comply with the Franchise Rule. The FTC will continue to monitor MPS' records.

"Business-opportunity scams and work-at-home schemes are frauds that can cost consumers their life savings and destroy their dream of owning a successful small business," J. Howard Beales III, Director of the FTC's Bureau of Consumer Protection, said in a statement.

Project Busted Opportunity used undercover agents and technology to "sting" businesses such as MPS that allegedly were using deceptive earnings claims and paid-off individuals or "shills" to provide misleading references about the fraudulent business ventures and verify earnings claims. Investigators posed as prospective investors and listened to sales pitches from the companies' operators who hyped the business.

Businesses targeted in the sting ranged from work-at-home envelope stuffing and work-at-home medical-claims processing to vending machine and mini-ATM businesses.

MicroFinancial, Inc.'s subsidiary, Leasecomm Corp., also settled this year with the FTC over charges that Leasecomm allegedly financed "get-rich-quick schemes" of vendors that targeted consumers for entrepreneurial-style business opportunities ("Leasecomm Settles with FTC, Cancels $24 Million in Customer Debt," The Green Sheet, June 23, 2003, issue 03:06:02), such as Internet Web malls, multilevel marketing programs, medical billing software and coupon-clipping programs that are typically featured on infomercials and at conferences.

As part of the settlement, Leasecomm renounced $24 million in court judgments against its customers and agreed to amend its leasing contracts and debt-collection practices.

Leasecomm denied any unlawful activity.

The Leasecomm settlement was not part of the FTC and DOJ's Project Busted Opportunity. ◼

Citigroup, Inc. Buys Sears Credit Card Division

Sears, Roebuck and Co. announced that it will sell its credit card division to Citigroup, Inc. Citigroup will pay about $3 billion, or a 10% premium, for the portfolio, which has receivables valued at $29 billion. Sears' expectations of generating at least $6 billion in revenue from the sale will be met; the retailer also will keep $3 billion in cash from the portfolio.

Citigroup agreed to pay Sears at least $200 million annually for 10 years for new accounts and sales on credit.

Sears announced plans in March 2003 ("Come Buy the Costly Side of Sears," The Green Sheet, April 28, 2003, issue 03:04:02) to sell its revenue-draining credit card business, which includes its proprietary cards and co-branded MasterCards. Up to this point, Sears has been the third-largest issuer of MasterCards and the eighth-largest credit issuer in the U.S. Sears has offered proprietary store cards for 91 years

$200,000,000

Annual payment by Citigroup to Sears for new accounts and sales on credit.

of its 117-year history.

Citigroup is the largest credit card issuer in the United States. This transaction will increase its North American market dominance, adding more that 100 million active accounts to its portfolio.

Citigroup was one of several possible buyers negotiating for the Sears portfolio. The deal is expected to be complete by the end of 2003.

Sears will use the infusion of after-tax cash from the sale to pay off debt, pay dividends to shareholders as well as for corporate purposes. The company expects to have between $4 billion and $4.5 billion available for those expenses.

Without the credit card business, Sears will be able to focus on various repositioning efforts under way in the retail sector. Plans include scaling back on its "softer side" approach and instead strengthening the more traditional lines of tools, appliances and apparel that have been successful revenue generators for the company recently and in the past.

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Front and Center with Service for All Sides

Throughout his sales career, Jim Poulson has serviced a number of different segments of the payment industry. He has worked on the processor side of the business, the acquirer side, the software side and the terminal manufacturer side. And no matter what "side" he has been on, he has continued to work hard at fostering relationships with his clients and staying abreast of trends and new technologies.

"The thing that's served me so well in this industry is my technology background –whether it's integrated systems, wireless, e-commerce or mobile commerce – they are all built on data communications, which is the expertise I developed early on in my career," Poulson said.

Poulson has worked for a number of companies, including NCR Corp., Attachmate Corp., ARCO's PayPoint Electronic Payment Systems (acquired by BP plc in 2000 and later sold to First Data Corp.), Hypercom Corp., CyberCash (formerly ICVerify and now part of First Data), B3, Lipman U.S.A. and, currently, VeriFone, Inc.

"Each of the different companies, whether it's their philosophies or management styles, gave me new tools in my bag," he said. "Different companies perceive the same industry in different ways, and exposure to that is definitely a good thing."

While in college, Poulson remained focused on pursuing his childhood dream of doing sales. His father was a career salesman, and Poulson said his father had a great deal of influence on him.

Poulson earned a B.S. in Business Administration at Drexel University in Philadelphia, with an emphasis in marketing and computer systems management, and got his big break with NCR in 1986. He was hired right out of college "as a young pup" into NCR's national accounts program, which prepped account managers to become team leads on Fortune 500 accounts. Poulson went through eight months of extensive full-time sales and product training.
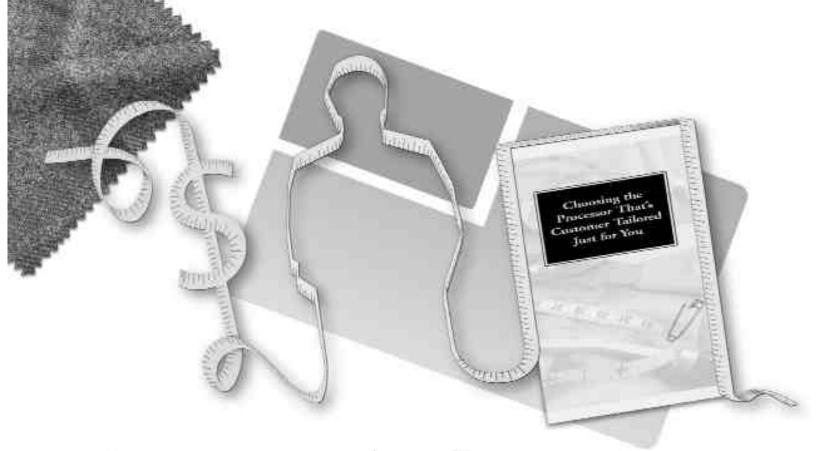
"I had the choice at NCR because of my technology background to go the technical path or go the sales path. And I chose sales just because it was more fun," he said.

As an account manager at NCR, Poulson serviced ARCO, which at the time still owned PayPoint. This is how he became more acquainted with the payment industry. NCR had sold ARCO a solution that automated payments at its convenience stores. "They were the first convenience store to do scanning and pay-at-the-pump way back when that stuff was bleeding edge," Poulson said.

After five years at NCR, Poulson left the company to join Attachmate – a software company that sells programs that automate PC connectivity to mainframes. At Attachmate, ARCO was still one of his accounts although from a different angle than payment processing.

"I've always been open to opportunities that tap my skill set – particularly in companies that are commercializing new technology. That's something that I really have a passion for," he said.

Poulson's steadfast account service for ARCO paid off – a few years later ARCO recruited him to build a national sales team at PayPoint. He was PayPoint's first non-ARCO hire. PayPoint had only two or three accounts at the time, and the company was looking to expand dramatically. Poulson was brought in to hire, train and field a team of six sales reps across the U.S.

At PayPoint he also had his first experience, in 1994, working with ISOs, including Chico, Calif.-based ISO National Data Funding Corp. Poulson described how two executives at NDFC, Scott Hatfield and David Paul, helped him understand the merchant account business.

He said at that point in his career his exposure to the industry had only been at the national merchant level. He really didn't understand the "knockin' on doors, mom-and-pop

retail business." Hatfield and Paul gave him the inside scoop.

"Jim has taken his own path and has gone way beyond what I showed him," said Hatfield, Executive Vice President of NDFC. "He probably understands technology and emerging markets better than anybody. He's got a great reputation in the industry. He puts his nose to the grindstone and gets the job done."

Perhaps an example of his commitment to building relationships, NDFC remains one of Poulson's customers today.

"I really believe strongly in developing clients for life," Poulson said. "I think the clients I do business with trust me because I'm a straight shooter. I think the best policy for a salesperson in our industry is to set customers' expectations appropriately."

Poulson is more than willing to share a thing or two about what he has learned about sales over the years. For instance, it's OK to say "no" to customers if necessary; it's also important to put your customers' shoes on your feet in order to help them solve a business problem, he said.

"If you're always focused that way, in my opinion, that is how you achieve success," Poulson said. "The key in our industry is to keep the merchants involved. Keep them in your mind and make sure their best interest is in your heart."

Poulson's favorite quote is from Zig Ziglar, a faith-based promotional speaker: "You can get everything in life you want if you will only help enough other people get what they want."

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business, Poulson still longed for more knowledge. While working at B3, an application service provider, he also completed a Master's in Technology Management at Pepperdine University in December 2000. The degree involved an in-depth study of the commercialization of new technologies in a global environment. Part of the program allowed him to spend a month abroad visiting companies in Europe and Asia to get a sense of how they do business.
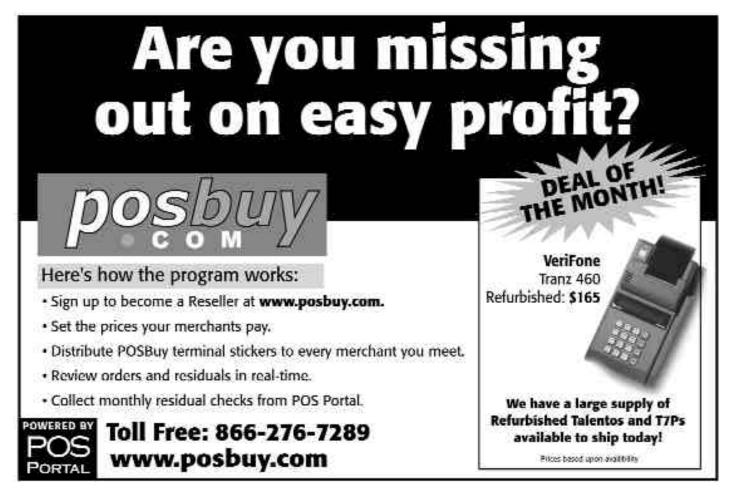
"I found the intellectual challenge of grad school really kept my brain fresh," said Poulson. "When grind-ing on something at school, I'd find I'd come up with a solution for a problem at work."

Poulson boasts a collection of books on the different approaches to suc-cessful selling and philosophies of doing business. One book he recom-mends as "absolutely critical" for all salespersons is titled "Make Success Measurable!: A Mindbook-Workbook for Setting Goals and Taking Action," by Douglas K. Smith. The book describes how to set "smart" goals that are outcome-based rather than activity-based.

"Jim really exemplifies the traits of a highly successful salesperson – he's passionate about his industry, he's constantly learning about it and he works his network of contacts – not only for business development but also ongoing positioning for his employer," said Richard Crone, Vice President, Financial Services for Dove Consulting. "It's just that kind of talent that's in very short supply."

Crone and Poulson worked together at CyberCash, an Internet payment services company, in 1998. Poulson served as head of sales for the entire company, overseeing both software and services, and later as the General Manager for the software

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side of the business.

"I think Jim is viewed as more than just a sales manager," said Crone. "When I was working with him he was really perceived as a consultant – as a thought leader – because he really knew the industry inside and out."

Poulson has been with VeriFone since March 2003, serving as Sales Manager and managing the account team that services First Data, one of VeriFone's largest clients. He also managed the First Data account while at Hypercom from 1996-98.

Poulson is quickly gaining a reputation for his enthusiasm and knowledge of wireless technologies in the payment industry. Before coming to VeriFone, Poulson served as Executive Vice President of Sales at Lipman USA. In that role he gained a lot of experience with wireless

point-of-sale such as Mobitex, Motient and CDPD although he did have some exposure at Hypercom – he sold the first two wireless deals there.

Poulson said he was lured to VeriFone by the company's latest product set and use of new technologies such as Ethernet/IP, SSL, CDMA, GSM/GPRS and wireless WAN and LAN technology on terminals with 32-bit processors. VeriFone is bringing these new products to market, which provide a much faster transaction and, Poulson said, a lower cost to merchants.

"VeriFone has largely rebuilt itself, and the products that are coming out of the company today rival anything they've ever done historically," he said. "VeriFone is applying some very cutting-edge technologies to what I think most people would say

has been sort of a ho-hum point-of-sale for the last few years."

As a salesperson who has worked in the payment processing industry for more than a decade, Poulson certainly has seen a lot of change, and part of that is the evolution of the point-of-sale terminal.

"In the old days you could have whatever your favorite terminal was to pull out of your trunk – and that's what you presented and that's what you sold, because that's what you knew," he said.

"Today you need to stay abreast of the changing technologies and the different offerings that are available and make sure that you're selling solutions to your customers that not only solve their problems today but position them for the future, so they don't have to replace that terminal in 12-24 months."

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GS Online from Page 1

Our "target audience," the focus of our attention, always has been the ISO/MLS – so to you go the riches of our publishing empire. The banks, equipment manufacturers, processors and other industry players will have access to most of the information.

Some of our most popular information will be available on several pages throughout the site. "News from the Wire," "Subscription Registration," "Subscription Change Form" and "Fast Finder" will be on each of the main sub-pages.

The Site Map will be maintained as a dynamic representation of the site. So if you can't keep this article taped to your monitor, just click on Site Map to find the exact spot on the Green Sheet Online that you are seeking.

MLS Portal

This page and its sub-links will require a user name and password. All current subscribers and registered users of the MLS Forum already have an ID and password that will enable access to this page and all of the sub-pages. New subscribers who identify themselves as MLS/ISO/MSP sales professionals will be given the key to this gate.

The MLS Portal will link to:

- For Immediate Release
- Fraud Prevention Tips (PDF)
- Industry FAQs
- Knowledge is Power
- MLS Forum
- MLS Opportunities
- Preview Issue of The Green Sheet
- Resource Guide Online
- Retailbusiness.com
- Street Smarts
- Trade Association Links

Publications

All visitors to GS Online will have access to this page and its links. This is the archive area for The Green Sheet, GSQ and the books we have published.

- Company Profiles
- GS Archive
- GS Current Issue
- GSQ Archive
- GSQ Current Issue
- Industry FAQs
- Industry Leader Profiles
- Our Books
- Sarcasm Sells (Cartoon Archive)

Industry Resources

- Book Reviews
- Registered ISO Network
- Trade Association Directory
- Tradeshow Directory

This page and most of its links will be available to all visitors to our Web site no matter whether they are registered subscribers to our publications. Here we have listed general resources for the payment processing industry, including books reviews, a listing of the relevant trade associations and a tradeshow directory.

However, our newest service, the "Registered ISO Network," will be available to newly registered users only. "The Registered ISO Network" is intended to be a networking space for sales professionals who have paid the fee to register with Visa/MasterCard. This space is designed for those professionals to share their business experience and knowledge with each other in order to strengthen the payment processing industry.

Membership in the Registered ISO Network is limited to ISO/MSPs who have registered with the Visa and/or MasterCard associations. All registration information is mandatory and will be available to all registered users of the Network. The Green Sheet staff will confirm all contact information and will contact the bankcard associations to confirm the status of each new registrant.

Same Mission After All These Years

This may scan with Paul Simon's immortal words, but we think we're anything but "crazy after all these years." Our mission always has been to support the independent salesperson. The payment processing solutions and services have changed since 1983, but we still are focused on telling you what to sell, how to sell it and for whom.

Our new look will enable us to open up new advertising opportunities, with banner ads available on all of the main pages, singularly or "run of the site." We will include logos for an up-charge with the Resource Guide Online. Sponsorship positions also are available online. Please contact our sales department for additional information on these and all of our advertising opportunities.

We look forward to your feedback on our efforts. Let us know what works and what doesn't, what you need more of and what you're searching for us to add. Please write to paul@greensheet.com and let me know how we're doing on "bringing the right stuff to the right people, right now!"

Good Selling!

Paul H. Green

Partnerships for Success – Part II

I n my previous column, we discussed the importance of effective vendor partner selection. Paramount to smart partnership is compatibility, service and price. When it comes to choosing the right ISO partner or merchant account provider, additional factors come into play.

Since the most important vendor is your ISO partner or merchant account provider, it's imperative that all issues are examined. In keeping with my commitment to make this column interactive and ensure that your voice – the voice of the Merchant Level Salesperson – is heard, I placed the following post on The Green Sheet MLS Forum for feedback on merchant account program selection:

"In an effort to educate the Merchant Level Salesperson about the important issues when considering a merchant bankcard program and, in an effort to educate the bankcard companies you're working with as to what's really important to you, I'm dedicating my next column to the hot topic of merchant account program selection.

"As such, I'd like feedback from you, the hard-working MLS. Which of the following are the most important considerations in deciding which merchant account program to represent ... and why?
  • Residual compensation program
  • Sales representative agreement (terms and conditions)
  • Reputation/experience in the industry
  • Front-end processing platforms
  • Vendor relationships
  • Partner support
  • Customer support
  • Risk management and loss prevention
  • Accurate and timely reporting of commissions

"Please let me know what you think. Your voice needs to be heard. Also indicate whether you'd like your name and company noted in the article."

The response to my query was overwhelming. Agents across the country weighed in on picking the right ISO partner. Here are just a few of their comments. As always, at the end of the article, I'll give you my opinion.

MLS Forum Posts

"Well, they are all obviously very important, but if I had to pick one, just one overall, then in my humble opinion I would have to go with door number 2: 'Reputation/experience in the industry.'

"I believe this to be the key most important item listed because, to me, everything else is crap if they do not stand by their word and their agreements. Usually, the ISO's exposed in the open with nothing to hide, the ones who have a [good] reputation, are the ones you can count on. Not everyone will be happy with them, but in the overall scheme of things they usually will come out on top. In my limited time doing bankcard, I can easily think of five off the top of my head whose reputation/experience has made me decide they are definitely great to work with.

"As far as the other items listed, they are all important, too, and if each of those categories is running smoothly then that's what I consider BONUSES to an honest, ethical ISO that has a great reputation in the industry with good knowledge and experience at the helm."

– Mike Robinson

"The question you ask has a simple answer, from my skeptical point of view. I've become skeptical after learning the hard way – by discovering the same lessons so many of us have had to learn in this business. Reputation of the company is by far the most important

"The best Agent Program ever!"

"Be Rich!"

"Become our ISO!"

"Be our Partner!"

"Instant Approvals!"

"Signing Bonus!"

"Be your own Boss!"

"Amazing Lease Factors!"

"Make Loads of Cash!"

"Incredible Buy-rates!"

"Join Us!"

CONFUSED?

Choosing the right processing relationship is often confusing and a hassle. It is important that bankcard professionals focus on the values that will help them succeed. Real values like "care" and "financial growth."

Yeah sure, we offer an "interchange plus" pricing structure, revenue share in all fee categories and online reporting. But without care, and a plan for personal growth, it's tough in this industry to develop the "kitten" into the "lion." We can help you grow.

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"All companies may claim great customer service, lowest rates, good contracts, etc. but I'm not going to trust an advertisement or what's in the contract. The contract is no better than their reputation for doing what's right rather than looking for a way to legally screw the customers or the reps writing the deal. Reputation is key, and everything else will fall into place."

– Neil Mink

thing I'm going to consider. It doesn't make any difference what the company claims as far as how good their service [is], the contract, the residuals or anything else, for that matter.

"What other reps in this business have to say about the company is what matters. If they have a good reputation, then it's most likely they have decent customer service, fair contracts and pay residuals. What we need most is a better way of communicating with each other so we might learn more of how a company performs according to the people who count most – the street-level reps writing the business.

"All companies may claim great customer service, lowest rates, good contracts, etc. but I'm not going to trust an advertisement or what's in the contract. The contract is no better than their reputation for doing what's right rather than looking for a way to legally screw the cus-

tomers or the reps writing the deal. Reputation is key, and everything else will fall into place."

– Neil Mink

"Which of the following is most important when you get in your car and want to drive to work?
   1. Gas in the tank?
   2. An engine that will run?
   3. Tires on the axles?
   4. Brakes that will work?

"Would you expect an automobile to be in good working order if any of the above were missing? Probably not. So why not expect the same in this MLS industry. All the named factors must be present for me to want to work diligently for the time I spend. They are all equally important and all equally expected."

– "Melzer" (MLS Forum User Name)

"I think that the single MOST important factor is having a contract that protects and ensures a continual residual income stream to the agent – especially in light of all of the acquisitions going on in the industry lately. After all, the best pricing and service in the world won't matter if the acquirer gets bought and the residuals go along with it.

"That being said – the car analogy is right on track. However, I think that the EXACT mix will vary according to the type of portfolio being built. For instance, if a company has a strong focus on MO/TO and Internet deals, then they will be more interested in liberal underwriting and strength on the e-commerce/risk-management side."

– Chris West

"Additional perspective on your post might go this way: You list nine strong reasons on what you believe are attributes that are necessary to make a successful business operate. And I agree with you so totally (no pun intended) I challenge you to pick just one of those nine categories and ignore it so completely that it gets a grade of "F" and then give me your opinion on whether TMS would still be a leader in this POS industry.

"My point? Like the car analogy, the thing simply cannot operate without all the significant parts in place

operating perfectly. And if you do not provide the absolute complete parts offering, then you will finish far from the front of the pack. I think you and Matt must know that because the attention to the details are obvious!"

– Melzer

Ed's Rating

First, I would like to thank all of the Merchant Level Salespeople who sent such intelligent and articulate responses to my post. I hope you recognize that your voice has been heard. Surely, the companies that are actively seeking your business will respond accordingly. Personally, it was very heartening to see that the #1 issue was "Reputation/experience in the industry." I am in total agreement with this. After all, a contract is only as good as the people who stand behind it. I think that many merchant account providers have an image in their minds that the Merchant Level Salesperson is out there screaming "SHOW ME THE MONEY" when in reality you're saying very politely, "Please treat me and my customers fairly."

As always, I'd love to hear from you. Please send feedback on this topic (and any others) to streetsmarts@totalmerchantservices.com. My next column will discuss the latest trends in effective lead generation. Please watch for my Green Sheet MLS Forum post on this timely topic. Obviously, this is a hot one, and I'd really like to include your opinions in that discussion.

"You can't build a reputation on what you are going to do."
– Henry Ford

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

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

Skimming and Bust-outs

By David H. Press
Integrity Bankcard Consultants, Inc.

When I sat down to discuss device fraud with James Kollar, Assistant to the Special Agent in Charge of the United States Secret Service Los Angeles Field Office, I knew I was in for an education. Many of the schemes that have been prevalent over the last several years continue to grow at a record pace.

Kollar's squad, which consists of 20 full-time agents, is handling nearly 100 cases with an average dollar loss of between $100,000 and $1 million.

Many of the cases involve "skimming," which is the lifting of the magnetic stripe data from a legitimate credit card and placing the encoded information onto "white plastic." This white plastic credit card is then used at a collusive merchant location.

Many of these are businesses set up with the sole purpose of committing credit card fraud. The proceeds from this type of credit card fraud have been tracked overseas to foreign nationals who fund well-known terrorist groups.

There are many places the credit card information can be skimmed, with restaurants being the most prevalent.

A collusive server takes the credit card used to pay the check and runs the card through a second magnetic stripe reader, the "skim" card reader. These readers are small and can fit in the server's pocket.

Once the shift is over, the server can take the reader, attach it to a computer and recover all of the credit card information from the reader. The card information is then magnetically encoded onto fake credit cards that can be used at collusive merchants.

Skimmed credit card information also can be placed on the magnetic stripe of a lost or stolen credit card. These cards can be used at almost any type of merchant location.

Kollar indicated that thieves are getting more and more sophisticated and technologically savvy. There was one scheme where a skimming device was placed on a gas pump; when the customers swiped their credit cards and entered their PIN to complete the sale, the information was obtained for later use.

Another recent device was recovered from an ATM in the heart of the city. Many customers reported to the bank that the ATM was not working properly but had no idea that their credit card information was being compromised.

Thieves have begun to use high-speed weatherproof cameras, mounted nearby and focused on the skimming devices. These cameras are hooked up to a transmitter that relays the credit card information to the thieves' location.

Kollar reports that his squad is also working more "bust-out" merchant locations than ever. Abust-out merchant is one that is set up primarily to commit credit card fraud.

The merchant buys a small amount of inventory and generally sets up shop in a strip mall, submits an application

to an eager sales rep and begins perpetrating credit card fraud.

These merchants are around for only 30 to 45 days – just long enough to generate enough money, then pack up and move to another location, set up another shop, apply to another processor and start the scheme all over again.

One of our ISO clients became suspicious of a merchant and contacted us to perform a detailed site inspection. We discovered that the location listed on the merchant application was closed during normal business hours. We contacted our client and found out that credit card transactions were being run while we were standing at the front door.

We waited and observed the owners leave the building. After obtaining some additional information, the case was turned over to law enforce-ment. The storeowners were arrested and are awaiting trial on federal credit card fraud charges. They were involved with a group that not only skimmed the credit card numbers but also used white plastic. They were operating a true bust-out.

Good underwriting can prevent losses from both of these schemes, and with a little training and the proper risk-management parameters in place, losses can be minimized. New merchant applications need to be scrutinized, and the application information should be verified.

Many of these thieves use Internet sites to sign up for merchant service. Today, with many Merchant Level Salespeople not even doing site inspections on new merchants, it makes it easy for the thieves to conduct business.

Monitoring new merchants is critical. Since most of these transactions are swiped, your risk-monitoring department should review transactions for all new merchant locations. Once you get a feel for what these new merchants are doing, then you can reduce the monitoring.

Not properly underwriting and monitoring new merchants can cause big problems down the road when chargebacks start coming in and get rejected from the merchant's DDA account. A visit to the merchant location will reveal that the merchant is gone and there is no chance of recovery.

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

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Legal Ease
Who Owns an ISO Portfolio?

By Adam Atlas
Attorney at Law

Many processors and even more ISOs do not know who owns an ISO portfolio. It is in the interest of both parties to an ISO agreement to have a clear definition of title in the portfolio and portfolio portability.

For every merchant signed by an ISO, the ISO and the processor should have a clear expectation of how revenue and liability for that merchant will be allocated between them:

1. During the term of the ISO agreement
2. Upon termination of the ISO agreement without any default
3. Upon termination of the ISO agreement with a default
4. Upon a sale of the interest of the ISO in the portfolio by the ISO
5. Upon the sale of the interest of the processor in the portfolio. The intent of the ISO and the processor should be plainly obvious and understandable on a reading of the ISO agreement.

The clauses of the ISO agreement that describe title, liability and portability of a portfolio are the most important clauses of the agreement because they ultimately will determine the long-term value of the business of the ISO.

The following are some important questions to keep in mind when negotiating the clauses of an ISO agreement that describe title, liability and portability of the portfolio:

1. Is the term "portfolio" clearly defined in the agreement?
2. Does the agreement clearly describe what rights the ISO and the processor each have during the term of the agreement in all residuals? For example, if the amount of residuals varies according to the number of merchants signed each month, is it clear how much in residuals will be owed to the ISO if that monthly target is met or if it is not met?
3. How does the agreement address uncollected merchant debt? Is the liability of either the processor or the ISO limited in respect to this debt? If either party's liability is limited during the term of the agreement, does that limitation carry forward following termination of the agreement?

4. Which of the two parties has a right of action against merchants for uncollected merchant debt? If the ISO agreement says that the ISO has this right of action, does the merchant agreement also reflect that right?

5. What are the obligations of support and maintenance for merchants of each party following termination of the agreement? Is the merchant agreement consistent with the ISO agreement in this regard?

6. Does the processor have right of first refusal over the transfer of the portfolio by the ISO?

7. What is the precise procedure by which the processor can exercise its right of first refusal, if any?

8. Following termination of the ISO agreement, what kind of security has the processor given the ISO in any remaining revenue stream owing to the ISO?

9. If the merchant transfers its portfolio to another processor, how are the outgoing processor's rights limited in information concerning the merchant portfolio? In other words, can the outgoing processor solicit business from the portfolio that has been transferred?

10. Does the agreement include an obligation on the part of the processor to provide real-time access to merchant portfolio data? Real-time access for ISOs to merchant portfolio data is becoming the industry standard.

If the answers to any of the questions listed above are at all unclear to either party to an ISO agreement, then that party should insist on the agreement being redrafted so that these questions are clearly answered.

The best time to adjust the wording of an ISO agreement is obviously before it has been signed. The second best time to adjust the wording is after it has been signed but when the relationship between the ISO the processor is a good one. The worst time to negotiate the wording in an ISO agreement is when there is a conflict between the ISO and the processor.

Careful review by both parties of an ISO agreement before signing is like checking a boat for leaks before it goes to sea. It's a "must do."

Beyond Bankcard
'Round and 'Round with Visa POS

By Lin Fellerman
Secure Payment Systems

To say that what goes around comes around is hardly novel or original. Yet I see the inception of the Visa POS check program as bringing us full circle. But first let me clear up more than a few misconceptions regarding Visa POS.

Given: The Visa POS check program was created to take advantage of the fact that existing Visa member institutions also have a base of demand deposit holders against which existing paper check transactions could be electronically converted and ultimately debited like a Visa "check card" but without necessity of the plastic medium.

Moreover, Visa network bandwidth for authorization and settlement easily can accommodate substantial additional transaction traffic over the existing infrastructure.

The Cast of Characters: Participating member Visa financial institutions, merchant acquirers, third-party authorizers and participating merchants.

Let's create some basic definitions so that we are all on the same page. After all, I personally have heard some incredibly off-the-wall interpretations of what the Visa POS check program is all about.

My guess is that if I were to talk to 100 different ISOs and acquirers I would get 90 different interpretations. So in the interest of science and humanity, here goes nothing!

1. "Participating banks" are those Visa member financial institutions that have contracted with Visa to accept authorization inquiries for checks drawn on themselves and presented to participating merchants for which the bank will provide one of three possible services: (a) conversion only, (b) conversion with verification or (c) conversion with guarantee.

2. "Third-party authorizers" are those processing entities that have contracted with Visa and merchant acquiring partners to accept authorization inquiries for checks drawn on a non-participating bank and presented to merchants for which the third party will provide one of three possible services: (a) conversion only, (b) conversion with verification or (c) conversion with guarantee.

3. A merchant bankcard acquirer will establish the relationship between itself and the merchant and will contract with a third-party authorizer for the handling of all non-participating transactions.

4. A third-party authorizer will create a transaction fee/tiered buy rate pricing structure that a merchant acquirer essentially will treat as its "interchange" cost.

5. A merchant acquirer will (a) establish a "retail" transaction fee or (b) a "retail" discount rate if guarantee is involved or (c) a combination of the above based upon its wholesale cost structure, which is defined as its back-room authorization and settlement processing overhead, participating bank transaction interchange as well as the stated third-party interchange expense.

6. A third-party authorizer (which by coincidence also can be an acquirer) will debit the check writer via the ACH and then subsequently transmit such information to the partnering merchant acquirer that then creates daily integrated "Visa POS check" settlement for the merchant by means of the existing Visa settlement process.

   The acquirer then can report such data by either (a) a single merchant month-end statement delineating bankcard batches/settlement and Visa POS batches/settlement or (b) two month-end statements where one statement represents bankcard volume/settlement and the other identifies check-related Visa POS volume/settlement.

7. A participating merchant should see the authorization as a seamless process in that VisaNet will be switching the transaction requests to the appropriate party (the participating bank or the third-party authorizer). Terminal behavior/prompting is the same in either case given one uniform terminal processing specification was given to all participating processors. A merchant does not know and should not care whether a given transaction is participating or not; authorizations, reporting and settlement behavior are the same in all instances.

Services Offered

1. **Conversion Only** – A participating bank validates an account as being "live" though a third party may or

may not do account validation (transaction fee).

2. **Conversion with Verification** – A participating bank validates an account as being "live" as well as funds present. A third party may or may not do account validation and likely will check against national/regional/proprietary negative files (transaction fee).

3. **Conversion with Guarantee** – A participating bank or a third party also will assume the risk in the event the electronic debit fails to post (discount plus transaction fee).

So if this all sounds too good to be true, then why the delays in ramping up the program?

First, so that the merchant sees integrated batch data, merchant bankcard acquirers need to write a lot of code to integrate third-party transaction/settlement/chargeback data as well as the participating bank transactions into their own legacy authorization, settlement and accounting systems.

Second, you need participating banks, otherwise the batch data only would encompass transactions author-

ized by the third party; or, looking at it another way, it would be the equivalent of what already occurs today in a traditional check conversion transaction, yet without Visa POS.

Unfortunately, participating banks also have code to write to determine which of the three service types described above applies to any given transaction and then perform the appropriate processing function, not the least of which includes taking risk on guarantee transactions.

And, finally, third-party authorizers have code to write, procedures to implement and processes to initiate:

• To receive and respond to transactions from a Visa Issuer Access Point.

• To determine which service feature is required for any given merchant.

• To debit consumer funds via the ACH.

• To partner with a merchant acquirer.

• To transmit daily files and fund the acquirer who in turn funds the merchant.

• If necessary, to charge back the acquirer given a rejected ACH entry for a non-guarantee transaction.

And the list goes on.

As is the case with NACHA point-of-purchase transactions, business checks cannot be run through the VisaNet third-party authorization system unless the third party cannot determine whether the check is a business check.

So for all those checking accounts whose MICR line begins with the check number, yep, they're out of luck – unless, of course, the third party has written a "work around" to split dial (directly to the third party without going through VisaNet) those types of checks.

Canadian checks have the same problem ... and yes, the same split-dial solution can apply. And while they are not "converted," they certainly can be verified or guaranteed depending on the option chosen.

Additionally, many of the third-party providers already up and operational on Visa POS do not support (a) magnetic swiping of a check writer's driver's license or (b) check imaging or (c) dealing with a "paper" check when the consumer refuses to sign the authorization receipt.

But, alas, those issues are easily fixed. At least within our

company we've already addressed all these "opportunities" and more within our own set of proprietary terminal enhancements.

Perhaps the more interesting issue is pricing. And since the traditional interchange model is being used, let me offer up a few comments.

> **Given that participating bank interchange is currently fixed at 1.00% plus $.07 per transaction and third-party interchange can float based on the fee structure of the third party (typically based on four to six different interchange tiers depending on the merchant standard industry classification), the merchant acquirer must create a blended fee structure to generate ISO "buy rates."**

Given that participating bank interchange is currently fixed at 1.00% plus $.07 per transaction and third-party interchange can float based on the fee structure of the third party (typically based on four to six different interchange tiers depending on the merchant standard industry classification), the merchant acquirer must create a blended fee structure to generate ISO "buy rates."

However, as is the case with Visa debit, which recently has been the focus of a major re-engineering of its interchange basis, there are many industries whose existing return-check loss structure is much lower than the Visa POS 1.00% mandated participating bank interchange.

While I can cite grocery stores, convenience stores, fuel stations and auto dealers, to name just a few, many other industry types might find it difficult to embrace this increased cost basis without observing new cost-saving or revenue-generating program features.

Moreover, to create an appropriate blended rate the merchant acquirer

might need to coerce the third-party authorizer to create an artificially low rate (and lose money) to offset the higher participating bank interchange rate. Somehow, I just don't think that dog will hunt.

On the other hand, if a merchant only uses the Visa POS guarantee feature for a given set of transactions that the merchant's internal policy or sophisticated server-based risk-management system defines as above average risk, then the 1.00% rate could be considered quite competitive.

But if that selection process is not determined in a transparent, automated fashion by an in-house computer system, then the merchant will need to train store personnel to select verification for some transactions and guarantee for others, according to prescribed store policy (a real-time process not normally seen today in the small-merchant environment).

So, all in all, what do I think? Well, the burden of growth clearly swings on the addition of participating banks, so if Visa is successful in that channel then acquirers and third parties will over time slowly and surely come online in greater numbers.

Of particular note is that by definition increasing participating bank membership takes business away from third-party check companies!

Finally, please note the Catch-22: If participating bank interchange rates stay at the current 1.00% level (which is not the marked-up, final retail price of the acquirer or ISO), then, unless merchants opt to selectively guarantee the checks they accept, third-party check firms may have a material internal cost advantage that translates into lower direct prices to ISOs and merchants.

On the other hand, if participating bank interchange is reduced to create more attractive pricing for that set of merchants that chooses to guarantee all checks, then by definition a participating bank's appetite to perform guarantee may be equally reduced given its lowered revenue stream. All in all, it should be a good show!

Lin Fellerman is Founder, President and CEO of San Diego-based Secure Payment Systems, a national provider of electronic check and gift card processing services. Before founding SPS in 1996, Lin was a 20-year employee and 10-year President of Telecredit/Equifax Check Services (now Certegy Check Services).

To learn more about SPS, visit www.securepaymentsystems.com or e-mail Lin at lfellerman@securepaymentsystems.com

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Is M-commerce Dead and Buried?

By Lynn Ward

If m-commerce is to become a reality, "it has to save time, it has to be convenient, and it has to work everywhere," Mike McCamon of the Bluetooth Special Interest Group said.

Back in early 2000, mobile commerce seemed to have sky-high potential. A global survey found that 61 percent of respondents imagined they soon would be using wireless devices as universal payment tools, and the analysts who compiled the survey predicted that overall revenue generated by m-commerce would total $100 billion in 2003.

"The hype came in a big way, and then it died in an even bigger way, because the hype was never really justified to begin with," Yankee Group analyst Adam Zawel told the E-Commerce Times. "But m-commerce is not dead on the vine; it's just a much longer growing season than we expected."

Shallow Grave?

Although some may think m-commerce is a spectacular failure, others in the industry believe it is a sleeping giant whose time has yet to come. "It's still too early to tell whether it will be successful or not because it hasn't really existed yet," said Verizon Communications' (NYSE: VZ) Jeffrey Nelson, executive director for corporate communications. "For Verizon Wireless, it's too early to begin implementing an m-commerce strategy. It's something that we're thinking about, but it's years down the road."

Nelson told the E-Commerce Times that, over time, there have been many different ideas about the definition of m-commerce. At one time, it was seen as consumers using a wireless device to buy soda from a vending machine or order books from Amazon.com (Nasdaq: AMZN). At another, it was defined as a mobile phone spitting out a coupon for 10 cents off a latté as a consumer strolled past a Starbucks (Nasdaq: SBUX).

Although mobile commerce has many facets, including the ability to conduct wireless banking, access the Internet or find information on the fly, most consumers now think of it as a wireless wallet -- the ability to make financial transactions at a point of sale using a wireless device.

In this scenario, consumers are recognized by the signals they emit, most likely from their wireless phones or PDAs, and they can purchase goods and services from vending machines and businesses without having to use a checkbook, credit card or cash.

But making the wireless wallet a reality will require an evolution of both technology and consumer attitudes that is still far in the distance. "I spend all my time on m-commerce, but I can't pick a point when all of these pieces are going to come together, when it's all going to work as perfectly as we'd like," Zawel said. "But while I can't pinpoint the date, I am convinced that we will continue to see a move in that direction because the idea is so compelling."

A Resurrection?

Zawel explained that a three-phase process will be required to fully implement a wireless wallet: a communication phase, a content phase and a commerce phase. He said we are just beginning to move beyond the communication phase: More than 50 percent of the U.S. population now uses a wireless phone for voice or text messaging communication.

The phase we are entering, the content phase, is one in which people purchase content that is then delivered to

their wireless device. Such content may include graphics, games, information such as sports scores, and ringtones. "We're predicting people in the U.S. will spend $50 million just buying ringtones this year," Zawel said.

But he noted that m-commerce content providers are facing the same struggle as every other Internet content provider. "As consumers, we've been trained to expect a lot of stuff for free online," Zawel said, "and content providers are struggling to charge for content, whether it's a newspaper Web site or a sports Web site. Will they start out with a few years of free content on wireless, or has their patience been worn thin by their Internet experiences?"

The Commerce Challenge
Zawel said he sees the final phase as the commerce phase, in which consumers are using wireless devices to purchase real goods in the physical

world that are not necessarily delivered to their wireless device. Once we enter this phase, consumers will begin to accept m-commerce fully. But Zawel said that early in the commerce phase, it will be a challenge to convince consumers to leave their credit cards at home and let their phones do the purchasing.

"The industry will have to include some incentive for the end user," he noted. "If we're talking about using a device at the point of sale, it's going to have to be quicker and cheaper than pulling out cash or a credit card."

To make the wireless wallet a reality, Zawel said, companies are actively investing in the m-commerce of tomorrow, from the smallest player serving as an intermediary between billing vendors and content providers, to the largest mobile carriers like Verizon and AT&T (NYSE: T), which see m-commerce as one of their top five initiatives.

What Will It Take?

Mike McCamon, executive director of the Bluetooth Special Interest Group, told the E-Commerce Times that several factors must be in place to make m-commerce and the electronic wallet a reality. First, consumers will need easy-to-carry wireless devices that they will always have with them, and terminals will have to be available at stores or in vending machines. Both of these devices must have the necessary infrastructure to enable transactions.

Second, there must be a high density of both consumer devices and terminals, and they must be pervasive. "It has to save time, it has to be convenient, and it has to work everywhere," McCamon said.

Last, and most difficult, there must be a worldwide standards initiative. McCamon recalled that when he lived in Europe, not all of his credit cards from the United States worked there; conversely, his Bank Suisse credit card did not work in the United States. "That's an industry that's been around for nearly 40 years, and we still don't have universal standards," he said.

Nevertheless, McCamon said the Bluetooth Special Interest Group is bullish about the future of m-commerce and about devices that think and interact with their environments without user intervention. "I'm optimistic, but also very realistic that this will take time -- a lot of time."

Why Not Now?

As m-commerce technology becomes available in the future, McCamon said, consumers will say: "'My credit card works pretty well, and I never have to charge it. So what's my value-add for me as a consumer?' All too frequently in the technology industry, we take the 'Field of Dreams' approach, believing that if we build it, they will come. Too often we don't ask ourselves what the problem is that we're really trying to solve."

He added that m-commerce defied earlier predictions not because consumers or vendors did not like the idea or the technology behind it; rather, he said those in the industry simply did not do a good job of explaining how m-commerce could improve everyone's lives.

"I think this is true of all technology products, not just short-range financial transactions," he noted. "Twenty years ago, we had to explain to people why laser printers were better. To make m-commerce work, we'll have to explain what the value is for them, and I think we still have some work to do on that."

COMPANY PROFILE ◀ ◀ ◀

First Data Merchant Services, Third-party Sales Channel

ISO contact:
John Burtzloff
Senior Vice President of Sales
Phone: 805-552-2300
E-mail: jburtzloff@csi-corp.com

Company address:
6101 Condor Drive
Moorpark, CA 93021
Phone: 805-552-2020
Fax: 805-552-8011

Program highlights:
• Agent and ISO-focused
• Innovative
• Flexible
• Operational excellence
• Technology-driven
• Strength and resources of First Data Corp.

The Rules of Acquisition

"Opportunity plus Instinct equals Profit."

– Quark, "Star Trek: Deep Space Nine"

For years it seemed that "resistance was futile," but it's obvious that First Data is familiar with the Ferengi "Rules of Acquisition." According to Doug McNary, Executive in Charge of the First Data Merchant Services third-party sales channel, FDR has succeeded by enabling the companies it has assimilated to continue doing what they do best. Leaving management intact has allowed newly acquired subsidiaries to continue to grow and thrive in the payment processing industry.

First Data's merchant acquiring business, offered through agents and ISOs, includes:

- Credit card processing, including MasterCard, Visa, American Express, Diners Club, Discover, JCB, ATM/debit, electronic benefits transfer (EBT) and checks.
- Debit card processing, including all ATM/debit cards.
- Quick payment services (QPS), stored-value cards, store-and-forward processing.
- Electronic benefits transfer (EBT).
- TeleCheck: Cardservice partners with the industry leader in check guarantee services to offer a check service program to suit every merchant. Along with traditional check guarantee service, Cardservice provides electronic check acceptance (ECA) service with the Eclipse terminal. ECA allows merchants to process checks in the same manner as credit card acceptance – by converting paper checks into electronic checks at the point-of-sale, then automatically depositing the funds into the merchant's account.
- TeleCharge service provides point-of-sale bankcard authorization through the use of a touchtone telephone.
- LinkPoint Secure Payment Gateway for all online, Internet, Web-based transactions to support e-commerce.
- VirtualCheck for online, electronic check processing for Internet purchases.
- POS hardware and software, including terminals, peripherals, printers, wireless applications and all applications.
- Deployment and service through TASQ Technology.

FDR's third-party channel offers a comprehensive program that serves a fully diverse merchant marketplace. From small businesses to national accounts, from retail to Internet, from low volume to high risk, it promises the best products at the most competitive prices.

First Data now offers Merchant Level Salespeople and ISOs several business-model options with long-

34%

FDMS share of total merchant
services revenue

3 million

Merchant locations serviced by FDMS

$2.8 billion

2002 FDMS revenues
(22% growth over 2001)

$1.9 billion

FDMS revenues from transactions
(37% growth over 2001)

10.2 billion

Total FDMS transactions

$562.5 billion

Total FDMS transaction dollar volume

– Source: First Data Corp. Annual Report 2002

term benefits and revenue-generating opportunities. If an MLS/ISO wants a processing relationship only, a range of authorization and settlement services are available and clients can manage their own back-room services and bank relation-ships.

Alternatively, if the MLS/ISO wants to focus on sales and FDR can manage the back office, FDR's model allows the MLS to share in the overall revenue generated by the relationship with the merchant. This includes the ability to turn a revenue stream into a source of capital.

The new third-party organization enables First Data to be a one-stop shop for all MLS/ISO transaction products and services. The range of services and opportunities available through the third-party channel include:
• Access to all of the products and

services available from First Data Corp.
• Access full deployment and product-application programming and training through TASQ Technology
• Develop an entrepreneurial business
• Maintain the long-term value of their merchant relationships
• Generate significant capital
• Ensure their income and create future security

One of the benefits FDR offers through this new program is choice, through multiple MLS/ISO models:
• Cardservice International
• FDMP Omaha
• TASQ Technology

The multiple programs are supported through a systematic structure of training and support for the sales professional. FDR has installed:
• Three sales VPs – Western,

Central and Eastern sales divisions

- 11 regional sales managers
- Monthly new agent training
- Dedicated sales support focused exclusively on agents
- 24/7/365 customer service in 140 languages and dialects.
- Dedicated merchant Web site, Mymerchantoffice.com, for 24/7 account and transaction history and information.
- Support of First Data resources and infrastructure.

The third-party sales channel is national, with international channel opportunities through the strength and resources of the global First Data Corp.

This enables the MLS/ISO independent businesses unlimited choices to run the operations and ensure success. The channel offers the global scale and resources of First Data Corp., with specific expertise and dedication to MLS/ISO needs.

First Data is intensely focused on creating more value and choices for the MLS/ISO businesses. "Their success is our success," McNary said. It appears to be FDR's new number one rule of acquisition.

First Data's Vision of the Future

First Data Merchant Services is committed to delivering the products and services that ensure the success and revenue-generating potential of MLS/ISO partners.

This new program will enable FDMS to become and remain the merchant's advocate and champion, finding and delivering ways to accelerate and improve the transaction process.

At press time, Doug McNary stated that, "Recently, Hypercom announced that it will close its Horizon Group's St. Louis facility. TASQ Technology, a majority-owned subsidiary of First Data Corp., worked with Hypercom to transition some of Horizon's supported services and assets.

"This arrangement now enables TASQ to offer Horizon clients the highest service levels for POS equipment, deployment, repairs, tele-training, supplies and other services."

FDMS is looking for MLS/ISO partners with a can-do attitude and a tireless commitment to excellence. According to McNary, "We offer a great place to work, to grow and to enjoy long-term opportunities."

Certified Merchant Services has taken tremendous strides to set the standard of what the ideal processor should be with their ongoing commitment to ethics, integrity, customer service and agent support. In the electronic payments industry today, I cannot think of a better place to be than with CMS.

Mary F. Dees
President Elect, Electronic Transaction Association
General Manager, Certified Merchant Services

Certified Merchant Services is one of the most solid and reliable processors in the industry today, as evidenced by their unwavering commitment to excellence. If I were an Independent Sales Office, I would have no hesitations partnering with CMS.

Scott Rutledge
President
The Phoenix Group

I have been an agent with CMS for the last three years, and during that time, I've always been impressed with the professionalism and assistance given me by CMS Agent Support. I want everyone to know what great, caring people we have working for us at CMS.

Michael O.
Agent

Discover the CMS Advantage Today

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- Clear and Conspicuous Merchant Agreement
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In order to better serve our merchants and agents, CMS has spent the last year developing a proprietary data management program that enables us to handle customer service concerns and agent support needs faster than ever before. Now, more than ever, the ideal choice for your processing needs is Certified Merchant Services. Call us today to experience what others are saying.

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877.309.1099
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NEW PRODUCTS ◄ ◄ ◄

Fast Returns on Gift Card System

Product: Tiosk Card Issuing Kiosk System

Company: Tiosk ....

Tiosk, LLC has introduced a gift, stored value and loyalty card issuing system for merchants. The product is automated and unattended and comes in a tabletop or floor model version.

The new "Tiosk" products hold up to 300 magnetic stripe cards. Both the tabletop and floor versions are interactive and have an LCD display with a touchscreen and backlit screen. At the Tiosk, customers can purchase gift cards, make balance inquiries and view and print transaction histories.

Merchants will benefit from onscreen advertising and branding opportunities and freed-up staff.

Tiosk's solution can augment any existing gift card system, and it works with multiple gift card providers. Best of all, Tiosk says the system can pay for itself in three months: If customers purchase 150 gift cards at $50 each in three months, that almost equals the cost of the system. Tiosk also offers leasing options.

Tiosk, LLC

7327 East Tierra Buena Lane
Scottsdale, AZ 85260
480-368-3672
www.tiosk.com

Paymentech.

Fraud Alerts Via E-mail

Product: In$tant Alerts

Company: Paymentech, L.P. ....

Paymentech is arming merchants with a fraud-fighting weapon that will give them an edge on exception items. The company now offers customers a system that will send them an e-mail when an out-of-the-ordinary transaction occurs at one of their merchant locations. With this information in hand, merchants can address pesky exception items before they become a problem.

Paymentech's Web-based system, called In$tant Alerts, can send an e-mail as quickly as 10 minutes after the transaction. Not only do merchants get the e-mail, but the product also allows them to view activity reports on their exception items online.

Paymentech will customize In$tant Alerts for each customer's specifications – a merchant decides how its transactions should be flagged by the system. It can flag unusual activity that may indicate fraud, such as abnormally high same-day card usage or a high dollar amount of return transactions.

The system monitors high-risk transaction categories such as chargebacks, retrievals, velocity and interchange qualification.

In$tant Alerts is part of Paymentech's Web-based Re$ource Online suite of products. It is designed for the restaurant, lodging, retail and petroleum/convenience store industries.

Paymentech, L.P.

1601 Elm Street
Dallas, TX 75201
1-800-708-3740
www.paymentech.com

More Lanes, More Flexibility

Product: Ingenico 6500 payment terminal
Company: Ingenico

I ngenico announced the development of a new POS terminal intended for use at multilane retailers. The terminal, called the Ingenico 6500 (I6500), offers merchants plenty of options and flexibility at the point-of-sale.

The I6500 is a customer-activated terminal with a large, bright graphical display and screen-addressable keys that provide customers with clear and intuitive prompts throughout the checkout process.

The terminal can be connected to a cash register, a PC or to a store's local area network (LAN); it also supports add-on devices such as check readers or bar-code scanners.

Merchants choose between two models of the I6500: one with signature-capture capabilities or one without. Both forms of the device contain an integrated PIN pad as well as an integrated magnetic stripe reader and an EMV (Europay/MasterCard/Visa standard)-

approved smart card reader. The signature capture-enabled terminal has a glass display screen for responsiveness and durability.

Standard communication options, such as RS232 ports and USB connectivity, are available with the I6500; optional communication modes include RS485 ports, Ethernet (TCP/IP), ISDN and an analogue modem.

The terminal is secure – it is PED approved and Triple DES ready.

Ingenico

1003 Mansell Road
Atlanta, GA 30076
770-594-6000
www.ingenico-us.com

At last, MICR-compliant Ink

Product: VersaInk
Company: G7 Productivity Systems, Inc.

G7 Productivity Systems, Inc. has released VersaInk, the first MICR-compliant ink for printing checks, images and high-quality documents. The ink produces accurate figures of checking account numbers and bank-routing information on the bottom of self-made checks for payment processing.

Before VersaInk, only specialized MICR toner for laser printers was available for creating bank-accepted checks in-house. Inkjet printers were excluded from creating MICR-compliant checks.

The VersaInk formula is patented, and the composition of the magnetic pigment protects against fading and fraudulent alterations. Currently, VersaInk cartridges are available for more than 150 Hewlett-Packard printer models.

You can purchase VersaInk on G7's Web site (www.g7ps.com). The product is coming soon to office superstores and computer retailers in the U.S. and Canada. G7 says VersaInk print cartridges are comparable in price to "non-compliant" ink cartridges of printer manufacturers.

G7 Productivity Systems, Inc.

P.O. Box 270459
San Diego, CA 92198
800-303-2620
www.g7ps.com

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PAID ON SIGNING

Microsoft Excel-lence

Web sites, e-mail, search engines ... the computer has become entwined with our everyday lives. Most of us rely on the computer in one form or another. There is a software package to meet most any need. But perhaps the ones we use most are the so-called office function packages. These packages make it easy to produce flawless documents, prepare professional presentations and create detailed budgets, reports and track almost any imaginable product, procedure or event.

If you haven't discovered the versatility of spreadsheet software, you might want to give it a try. Spreadsheets can help you keep track of everything involving your merchants and residuals. One of the most popular spreadsheet programs is Microsoft's Excel. This application is part of the Microsoft Office Suite.

Many of us are self-taught on software packages. We have not gone through any specialized training. We can function well enough within the software but could use some tips to save time and energy.

To help users who are new to Excel and also those who have some experience using the program, here are some tips to maximize your time and help you utilize more of the features available to you.

Comments

As you build a worksheet, you may want to make a note, either to yourself or someone who will be viewing the worksheet later. You can insert comments into specific cells by clicking "Insert" on the toolbar and then scrolling down and clicking "Comment." A box will appear with the user name and a place for you to type in the comment.

When you move the cursor to another cell, the box will close and a small red triangle will appear in the upper right hand corner of the cell you just left. This red triangle lets you know a comment is there. In order to see the comment, just place the cursor over the triangle.

AutoFill

If you build spreadsheets with a lot of repetitive data, the AutoFill function will become your new best friend.

INSPIRATION ◄ ◄ ◄

In the lower right hand corner of a highlighted cell is a small square. If you place the cursor over this square, a small "+" will appear. Simply click and drag the mouse to the end of the row or column you would like to fill and the data from the first cell will appear in each of the cells you just selected.

If you are using a series of numbers or text (e.g., 1,2,3 or Jan, Feb, Mar, etc) Excel will do the work for you. Just follow the steps above EXCEPT you must enter the appropriate information in two consecutive cells (Jan, Feb) instead of just one. Place the cursor over the last cell (in this case Feb) and then click and drag to the desired cell. Excel will fill in the rest of the cells with the corresponding label (Mar, Apr, May, etc.). This will work with numbers, dates or lists of text.

For series that aren't consecutive (such as odd numbers

DATEBOOK

Financial Insights
Insights 2003

Highlights: This informative conference will provide financial institutions with an overview of today's market conditions, major trends and issues. The program will benefit those responsible for driving technology innovation and maintaining profitability in a difficult market. Attendees include senior-level executives, business managers, CIOs, IT directors and marketing managers from financial services institutions and vendors from a variety of market sectors.

The program will address all aspects of business development and strategic planning, competitive analysis and business intelligence, information technology operations, best practices and minimizing business risk. Conference topics include delivery channels; payment; credit and collections; wealth management; customer-centric/customer-relationship management; trading technologies and risk management; small business; trade finance; and treasury management. One-on-one meetings, Q&A sessions, lunch, breaks and networking receptions will provide opportunities to meet Financial Insights' analysts. Former SEC Chairman Harvey Pitt is the keynote speaker, and Vanguard Group founder John Bogle also will speak.

When: September 3-4, 2003

Where: Ritz-Carlton Hotel, Boston

Registration Information: Visit www.financial-insights.com/insights2003

Electronic Transactions Association
2003 Midyear Meeting

Highlights: Plans for this year's ETA Midyear Meeting include educational sessions, presentations and opportunities for networking and developing business in the more relaxed atmosphere attendees have come to appreciate about this event. This year's keynote speaker is Frank Abagnale, who will speak about fraud prevention – and his own personal story, the subject of the movie, "Catch Me If You Can." Social gatherings include a golf tournament, cocktail party, ice cream social and disco party with K.C. and the Sunshine Band.

When: September 16-18, 2003

Where: Boca Raton Resort and Club, Boca Raton, Fla. Hotel reservations can be made by calling 888-503-2622; mention that you are attending the ETA conference.

Registration Information: Visit www.electran.org

only) highlight the first two or three cells in the series and then use the AutoFill to drag down. Excel will fill in the cells following the series you have input.

Multiple Worksheets

If you are creating more than one worksheet but are using a lot of the same data, it may be helpful to create or change more than one worksheet at a time. You can use the copy-and-paste feature, but there is another way.

At the bottom of the left-hand corner of the work area, where the sheet tabs are located, click on the tab of the first worksheet you would like to open, then hold down the CTRL key and click on the next sheet you wish to work on. Now, whatever you do on one sheet will be duplicated on the other open sheet. You can create as many sheets as you like this way (up to the maximum of 255 allowable by the program).

Toolbar

The toolbar at the top of the workspace contains icons you can select to quickly reach frequently used commands. You can customize the toolbar by adding buttons that you use more frequently instead of constantly scrolling through the drop-down menus, or you can remove buttons you do not use.

To customize your toolbar, right-click anywhere in the toolbar. Choose "customize." A dialog box appears. From this box you can click an icon on the toolbar and drag it anywhere on the sheet and drop it. The icon then will be removed from the toolbar; or you can add an icon by choosing it from the dialog box, clicking on it and dragging it to the toolbar.

Customizing your toolbar makes it easier and faster to perform the tasks you use most often in a spreadsheet.

If you haven't done so already, take the time to explore the different functions available in Microsoft Excel. Don't be afraid to experiment. Scroll over the toolbars and open items from the menus so you can make full use of this powerful application.

Good Selling!

Paul H. Green

Only ABANCO gives ISOs a "single source" platform of five fully loaded services plus progressive customer support. This one piece, one solution cuts merchant attrition by 75% while increasing residual income by 125%.

ABANCO's robust package delivers a real powerhouse of services:

- Interchange plus 4bps, 100% above
- 12 cent transaction fee
- Check Conversion/Guarantee at 1% Buy Rate
- Faxed Applications
- Same day full deployment
- Full merchant training and on-going support
- Net lease funding, no out-of-pocket

- One Terminal-5 services, Fully Loaded Residuals
- VISA/MASTERCARD Credit Card processing
- Non-Bank card processing (Amex, Discover, Diners, etc)
- Debit Card processing
- Electronic Check Conversion/Guarantee
- Gift and Loyalty programs, 100 card minimum
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