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March 28, 2011 • Issue 11:03:02

# The economy in recovery

**W**ith more than 18 months of slow-paced, but fairly consistent growth in many areas behind us, it seems safe to say the economy is clearly in recovery mode. Although some key economic indicators, such as employment and housing are still lagging, many others, including consumer spending and business investments and revenue, have been increasing since the third quarter of 2009.

While no one can predict the future, *The Green Sheet* did gather economic data from a range of sources reinforcing the view that this trend will continue – and possibly gain momentum.

## The big picture

As a whole, the economy continues to grow at a modest pace. In February 2011, the *Ceridian-UCLA Pulse of Commerce Index* (PCI), a real-time measure of the flow of goods to U.S. factories, retailers and consumers, recorded its 15th straight month of year-over-year growth, despite a 1.5 percent drop from the January figure.

"The PCI performance in the first two months of this year suggests weakness in some parts of the economy," stated Ed Leamer, chief PCI economist and Director of the UCLA Anderson Forecast, in a report posted on the UCLA Anderson Forecast website. "Nevertheless, our outlook for 2011 is for continued economic recovery – we expect GDP to grow at the historically 'normal' rate of 3 percent, accompanied by a persistent level of high unemployment."

Similarly, the U.S. Department of Commerce's Bureau of Economic Analysis reported that the real gross domestic product (GDP) – the output of goods and services produced by labor and property – increased a total of 2.8 percent in 2010, up from the 2.6 percent increase recorded for 2009.

On a broader scale, *The Conference Board Leading Economic Index*, a composite index of indicators ranging from manufacturers' new orders to stock prices, cited an annualized growth rate of 1.6 percent for August 2010 through January 2011. (The Conference Board Inc. is a nonprofit business membership and research organization.)

According to Ken Goldstein, an economist for the organization, one way to determine the solidity and sustainability of economic recovery is through the duration (length), depth (strength) and dispersion (comprehensiveness across sectors) of the factors signaling an upturn. If all three measures are "pointing to the fact that something is developing on the positive side, that's a lot stronger than if only one is present," he said.

## Business growth expected

Businesses are expressing faith in the strength of the economy by continuing to invest in growth and development. For example, venture capital-

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**Notable Quote**

**In the very long run, some merchants might question why they are being asked to pay for a tax filing that is imposed on processors by law.**

See story on page 64



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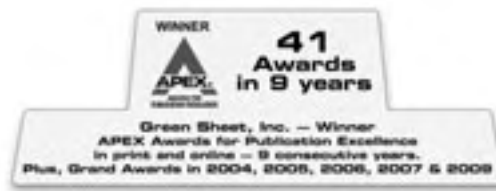
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# Forum

## Further thoughts on the economy

Brandes Elicht's article "Thoughts on the economy (in hindsight)," *The Green Sheet*, March 13, 2011, issue 11:03:01, drew responses so substantive that we expanded our Forum section to make room for them. Ideas on what set the stage for the Great Recession fill this page and continue on pages 54 and 55 of this issue.

The first response is from Scott Bolster, Vice President of Finance at National 1st Credit Union, who begins by addressing author Michael Hirsh's perspectives, which were discussed in the article.

The second response is from Steve Mott, Chief Executive Officer of BetterBuyDesign. He highlighted a section in the article pertaining to the author's use of "we" when discussing California's economy. Mott wrote, "I think you need to state that you are in California, which is why you start to use 'we.'" He then offered the feedback that follows Bolster's comments herein.

Editor

As for Michael Hirsh's conclusions about how we got here, I must say I agree that it was Washington, that without Washington opening the door, it never could have happened. But I differ on the key driver(s) and who is responsible. While I haven't read the book, unless you have worked in a bank, several credit unions and a mortgage bank as I've done over the last 20 years, you won't have an insider's view. Most economists will focus on the policies they don't like when evaluating outcomes.

To my mind, the collapse of the housing market had nothing whatever to do with Milton Friedman or Ronald Reagan. I'd be interested to hear how Hirsh reached such a conclusion and what action was taken in the 1980s to foster it. With your patience and forbearance in advance, I'll share with you what I think were the five main drivers:

1. The Community Reinvestment Act, passed by Carter and the Democrats in the late 1970s, that was originally intended to prohibit redlining in housing but was used by the Clinton Administration to enforce more lending to the key Democratic constituency of minority and low-income Americans.

I have personal experience on this front, as I recall the National Credit Union Administration calling us up at Redwood Credit Union and telling us we needed to do more lending in the Roseland area of Santa Rosa – or else. We told them, if the person was a member and was qualified, we were doing the loan. They laid off of credit

unions after the initial attempt at coercion, but the big banks were not so fortunate. They were told to loosen up their underwriting and do more lending to minority and low-income Americans, which they did until they were full-up and couldn't take any more of those loans safely from an interest rate risk and credit risk policy standpoint. This precipitated my third driver below.

2. Reduced underwriting standards pushed by the Clinton Administration in the above-mentioned push to increase homeownership for low-income and minority Americans. I refer you to this article by *Bloomberg Businessweek* and note that Bill Clinton has accepted partial blame in an interview I saw him give: [www.businessweek.com/the\\_thread/hotproperty/archives/2008/02/clintons\\_drive.html](http://www.businessweek.com/the_thread/hotproperty/archives/2008/02/clintons_drive.html).

On the face of it, increasing home ownership is a laudable goal, but we can see the results: unqualified borrowers all too often don't pay off loans, which is how the historical norms for debt-to-income and loan-to-value ratios were arrived at. If someone was qualified to get a home loan, they usually got one. Mortgage brokers in particular are in the business of making loans, not discriminating against a live one on the line.

When I bought my first home in 1995, you could not go above 38 percent for your debt-to-income ratio, but for the first time you could put down 10 percent using an 80 percent loan-to-value (LTV) first mortgage and a 10 percent LTV second mortgage. Eventually it got to nothing down, NINJA (no income, no job) loans in the mid 2000s.

3. Fannie Mae and Freddie Mac accepting and collateralizing Alt-A (less than prime) and subprime mortgage loans, that is to say, buying them and selling them into the secondary market. Clinton's appointee to run Fannie Mae agreed, at Clinton's insistence, to become a secondary-market conduit for other than prime loans, which they had never done.

Initially they were purely a conduit, but to protect the huge bonuses those at the top were receiving, and the social engineering goal of having more home ownership, they started keeping some of these loans in their portfolio. It got to the point in 2006 where there were so many nonperforming mortgage loans that Fannie Mae and Freddie Mac were making payments to bondholders on behalf of homeowners so that they didn't have to recall the bonds and pay them off as the debt covenants called for them to do.

Republicans such as John McCain called Fannie and Freddie on this in congressional hearings in 2005 and 2006, but the Democrats in Congress called them racists for doing so, and once the Democrats took control of



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# QSGS

A quick summary of key articles in this issue to help keep you up-to-date on the latest news and hot topics in the payments industry.

Cover Story

1

## **The economy in recovery**

Challenging as it can sometimes be to see the big picture, there is evidence the U.S. economy is improving. Judging by the metrics that supply evidence regarding economic developments, it appears the economy is recovering slowly from the crisis of 2008 – and possibly gaining momentum.

Feature

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## **Expo features pivotal moments in prepaid**

The 2011 Prepaid Expo USA, held at the Marriott World Center in Orlando, Fla., showcased how far the prepaid card industry has come in a little over a decade – from before the industry even had a name to its expanding global reach today. Industry pioneers and panel experts looked back and looked ahead to the challenges confronting the industry's growth.

View

26

## **VeriFone, Square and the market**

The dust-up between VeriFone Inc. and Square Inc. over a purported security flaw in the Square card reader highlights the threat of card skimming and the vulnerability of very small, under-the-radar merchants to fraud.

News

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## **Senators, coalition say whoa! to Durbin Amendment**

The Debit Interchange Fee Study Act, a bill sponsored by both Democratic and Republican lawmakers, seeks a two-year delay on the implementation of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Also, a bank and credit union coalition is backing a lawsuit designed to prevent enforcement of the amendment.

View

30

## **Sell electronic payments to sectors that shy away from them**

Some business sectors have traditionally avoided electronic payments, utility and auto leasing companies among them. They therefore represent potentially lucrative opportunities for ISOs and merchant level salespeople (MLSs). The trick is to address such companies' pain points – namely costs and regulatory confusion – and provide alternative solutions to those problems.

News

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## **House hears how Dodd-Frank may affect small businesses**

Lawmakers on Capitol Hill are starting to recognize the potential unintended consequences of Dodd-Frank on small financial institutions. A hearing at the House Financial Services Committee allowed witnesses to voice their concerns.

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### **Square gaining momentum despite security concerns**

On the heels of Square founder Jack Dorsey announcing that over \$1 million worth of transactions were being swiped daily through Square card readers, VeriFone Chief Executive Officer Douglas Bergeron alleged there is a security flaw in the Square device. The controversy raises the debate over what payment entity is responsible for data security.

Education

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### **Street Smarts<sup>SM</sup>: Finding opportunity in an altered business environment**

As Ken Musante's tenure as Street Smarts columnist comes to an end, the payment veteran looks back on his career and offers insights into why he started Eureka Payments LLC. Like all of his articles, his professional journey informs and educates. It is why his motto – when in doubt, sell something – rings true; it is derived from his experience as one of the feet on the street.

News

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### **Is 2011 a transitional year for financial services?**

A TowerGroup webinar presented evidence that 2011 represents a turning point for the payments industry. A host of changes in the marketplace, including diminished profitability, increased fraud and evolving consumer expectations, means banks and payment vendors must adapt and innovate to face the challenges ahead.

Education

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### **Are you missing the mobile payment train?**

The Nielsen Co. predicts more people will use smart phones than standard wireless phones by the end of 2011. Many of these converts will be on-the-go merchants, drawn to smart phones as payment acceptors because of low setup costs and ease of use. It's time ISOs add mobile payment acceptance to their product offerings.

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Education

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### IRS filing fees: Revenue and contractual shakeup

Just when merchants got used to seeing Payment Card Industry Data Security Standard fees in their statements, now come IRS reporting fees. Should processors burden merchants with this new fee? If so, what should be charged, and should it be shared? And what are the long-term implications of such a fee to that critical processor-merchant relationship?

Education

70

### New card fee rules could swell ranks of America's unbanked

The Durbin Amendment to Dodd-Frank might do the opposite of what it intended. Instead of making consumers feel more secure in the banking system, it might force more people onto the roles of the unbanked. And by doing that, consumer spending may weaken – the last thing an economy in the beginning stages of recovery needs.

Education

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### Value: Not always in the cards

The art of the deal is selling on value, not price. But selling value is not easy. It takes intelligence and insight into human nature. Understanding merchant needs, having the ability to explain solutions and being willing to go that extra mile to close the deal are just a few of the attributes required of MLSs seeking to become savvy, successful sales professionals.

Inspiration

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### Change minds, change behaviors

ISOs and MLSs are in the business of changing minds. To convince a merchant to switch from a competing service to yours, it is helpful to know that resistance to change is part of human nature and stems from fear of the unknown. To overcome the intimidation factor, follow the guidelines provided in this article.

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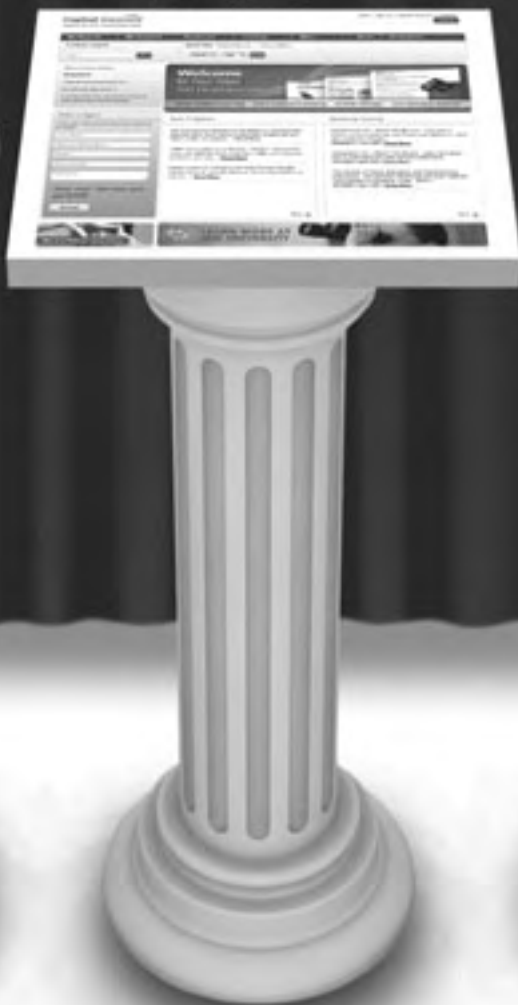
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# IndustryUpdate

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## NEWS

### Visa, Western Union respond to crisis in Japan

To assist fundraising efforts related to the devastating earthquake and tsunami in Japan, **Visa Inc.** said it is waiving interchange fees on donations made through April 30, 2011, to a select group of major U.S.- and Canada-based charities that are providing support to relief efforts. Additionally, Visa will donate to the Red Cross the revenue Visa generates from eligible contributions to the crisis through April 30.

In the United States, charities eligible for waived interchange fees are the American Red Cross, AmeriCares, Habitat for Humanity, Mercy Corps, Oxfam America, Save the Children, US Fund for UNICEF and World Vision. Canadian charities include the Canadian Red Cross, CARE Canada, Oxfam Canada, Oxfam-Quebec, Save the Children Canada, UNICEF Canada and World Vision Canada.

The **Western Union Foundation** contributed \$50,000 to the international nonprofit organization Mercy Corps in support of its local partner, Peace Winds Japan. On March 14, Peace Winds flew in 30 family-sized tents for homeless survivors in Kesenuma in addition to materials to construct a 100-person shelter. Peace Winds is also working to deliver other essential items that are in short supply, including food, water, blankets and medicine.

### Credit volume growth overtakes debit

Consumer card spending jumped 8.5 percent in February 2011 over the same month in 2010, according to **First Data Corp.**'s SpendTrend analysis. The dollar volume growth exceeded January's year-over-year increase of 7.4 percent. Consumers demonstrated renewed

faith in the economic recovery as the unemployment rate dropped to 8.9 percent in February, according to First Data.

For the first time in over two years, credit dollar volume growth of 9.9 percent was higher than debit growth. Signature debit volume grew 8.7 percent year over year, while PIN debit grew at just 6.1 percent. Average ticket growth of 0.1 percent for the month was due exclusively to rising gas prices. In the travel industry, dollar volume growth was 13.6 percent, again partially due to rising fuel prices.

### RSA founder Weiss launches USR for mobile payments

The founder of the company that became RSA launched **Universal Secure Registry LLC**, a company whose technology enables secure mobile payments. Kenneth Weiss was founder and Chief Executive Officer of Security Dynamics Technologies Inc., which is now the RSA Security Division of EMC Corp., and invented the SecureID standard for identity authentication.

USR holds a series of new personal identification, authentication and mobile phone transaction application patents invented by Weiss. USR's technology reportedly provides a remote, universal electronic repository for personal information. It integrates a mobile phone with a secure remote server to act as a trusted agent for transactions, including mobile payments. USR's electronic wallet uses near field communication and Bluetooth technologies; it is available to third parties for licensing.

### European payment conference to focus on risk mitigation

The focus of the Second European e-Commerce Payments and Risk Conference will be mitigating the risks of mobile and electronic commerce. Hosted by

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- In February 2011, 46 percent of **Chevrolet's** retail sales were four-cylinder engine models, up from 40 percent a year ago, according to information released by the car manufacturer.
- Apple Inc. may have sold more than 500,000 iPad 2 tablets during its debut weekend (March 11 through 13), according to **Piper Jaffray & Co.** and **Deutsche Bank** analysts. Stores run by Apple, Target Corp. and Best Buy Co. Inc., sold out, analysts said.
- **Costco Wholesale Corp.**'s net retail sales rose 11 percent to \$20.45 billion for the second quarter of fiscal year 2010 (ending Feb. 13, 2011). The wholesale club operator benefited from stronger business overseas, according to a company statement.

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## Industry Update

the **Merchant Risk Council**, the conference will be held in Barcelona, Spain, May 18 to 20, 2011, and have 35 speakers.

Sessions will cover the following topics:

- Industry trends from the merchant's perspective
- Multicountry fraud management
- Fraud in the online gaming sector
- Eliminating merchants' fraud losses involving digital goods
- Alternative payments' role in e-commerce
- SecureCode and risk-based authentication
- Chargebacks and fines
- Global security

Roundtable discussion topics will include: payments, advocacy and data-sharing, as well as benchmarking. For information, visit [www.merchantriskcouncil.org](http://www.merchantriskcouncil.org).

### SVP calls for council nominees

Payment technology provider **eWise** called for executive nominations to the Marketing Advisory Council of **Secure Vault Payments**. The newly commercialized organization, which uses the automated clearing house network and eWise's Online Banking ePayments platform, is an alternative payment option developed

by **NACHA – The Electronic Payments Association** and **eWise**. Council members are expected to bring expertise to help guide SVP's market development, according to NACHA. Up to 20 nominees representing financial institutions, merchants, billers and gateway service companies will become founding members of the council. All council members are expected to be seated by April 15, 2011, and to serve for one year. To complete a nomination form, visit [www.ewise.com](http://www.ewise.com).

## ANNOUNCEMENTS

### Alpha Card hits milestone

**Alpha Card Services Inc.** celebrated its 10th anniversary with an updated company logo to reflect its greater dedication to excellence. The ISO, founded in 2000, now has a free wireless terminal program and a dedicated retention department.

### Armstrong Bank signs with Clearent

**Clearent LLC** is providing merchant card processing services for **Armstrong Bank**, which has 17 locations in Oklahoma. Clearent's Payment Card Industry (PCI) Data Security Standard (DSS) compliance process was a selling point, according to the bank.

### Columbus Water Works works with SVP

**Columbus Water Works** chose **SVP** as an online payment option for residents of Columbus, Ga. The payment option operates through the utility's Electronic Transaction and Payment system from **Innoprise Software Inc.**

### EMG's green program increases by 38

**Eliot Management Group** added 38 merchants to its Green Merchant Program in the fourth quarter of 2010, bringing the program member total to 321. The program issues no paper statements. EMG makes donations to conservation organizations on behalf of merchants who join the program. Since the program's inception in April 2009, EMG has donated over \$30,000 to organizations like the Nature Conservancy and the Arbor Day Foundation.

### ECAF honors Trustwave

The **European Card Acquiring Forum** gave **Trustwave's** TrustKeeper a Data Security Award. TrustKeeper is the company's security web portal, which guides merchants through the process of achieving compliance with the PCI DSS.

### Global Payments signs new casinos

**Global Payments Inc.** will provide its VIP LightSpeed cash-access services to 10 new casino clients. Signing for check-cashing and cash-advance services in Michigan

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## Industry Update

are **Gun Lake Casino** in Wayland, **Motor City Casino Hotel** in Detroit and **Odawa Casino Resort** in Petoskey. Oklahoma clients include **Fort Sill Apache Casino** in Lawton and **The Stables Casino** in Miami. New Wisconsin clients are **St. Croix Casinos** in Turtle Lake and Danbury and **St. Croix Casino Hertel Express** in Webster. Other new clients include **Yakama Nation Legends Casino** in Toppenish, Wash., and **The Cosmopolitan** in Las Vegas.

### JHA named top provider, passes mobile milestone

**Jack Henry & Associates Inc.** said its ProfitStars division was named to Nine Lives Media Inc.'s MSPmentor 100, a list and research report identifying the world's top 100 managed service providers. The report, available at [www.mspmentor.net/top-100-msps](http://www.mspmentor.net/top-100-msps), is based on data from MSPmentor's global online survey conducted during the fourth quarter of 2010. In addition, Jack Henry signed its 350th financial institution client for the goDough mobile banking system. Introduced in 2007, goDough supports subscribers to 73 mobile service carriers.

### SECU turns to Oberthur for EMV technology

**Oberthur Technologies Inc.** is providing Europay/

MasterCard/Visa (EMV) chip technology to **State Employees' Credit Union** for its portfolio of 1.6 million debit cardholders. The North Carolina-based nonprofit cooperative is migrating to the chip technology for increased transaction security.

### Omaha Mission automates donations with FTNI's ETran

Omaha, Neb.-based **Open Door Mission** implemented the ETran ePayment system from **Financial Transmission Network Inc.** While processing donor checks, ETran associates the contribution with the donor and identifies the campaign that generated the donation before delivering the encrypted data to the mission's database, thereby automating record-keeping and reducing errors.

### USA ePay offers replacement equipment to mobile merchants

**USA ePay** said it will offer replacement hardware at no cost to mobile merchants using any of its competitors' Apple Inc. iPhone or iPod Touch processing systems who agree to switch to USA ePay. The program is effective until the end of May 2011. USA ePay's PaySaber Jr. provides end-to-end encryption. The company said the move is prompted by other popular processing systems that do not follow industry guidelines for encrypting data.

### VeriFone wins Latin American contract

**VeriFone Inc.** will supply its PAYware Merchant card payment and hosted settlement service to **Arcos Dorados**, which manages the McDonald's brand in Latin America. Arcos Dorados is the largest restaurant operator in Latin America and the largest McDonald's franchisee in the world. To start, PAYware Merchant is being integrated with a proprietary POS system at 220 restaurants in Argentina and Uruguay.

### Xsilva Systems takes retail award in POS category

Retail TouchPoints awarded the Next-Gen Retail Award in the Payments/POS category to the LightSpeed Mobile Mac-based POS system from **Xsilva Systems Inc.** It was one of 10 companies recognized by Retail TouchPoints for innovative solutions at the National Retail Federation's annual convention.

## PARTNERSHIPS

### Aspen, Chase Paymentech offer processing to GM

**Aspen Marketing Services**, in conjunction with **Chase Paymentech Solutions LLC**, is offering payment processing to General Motors' 4,500 dealerships nation-


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## IndustryUpdate

wide. The arrangement gives the dealerships a broad range of payment options, including fleet cards for service and parts. Aspen manages the GM sales and service retention program.

### BluePay teams with Preston Todd

Card processor **BluePay Processing LLC** engaged **Preston Todd Advisors** to find specialized payment technology companies for possible acquisition. BluePay is looking for target companies that will enhance its existing payment processing technology. Preston Todd specializes in deal origination services in the payments sector.

### Cynergy Data teams with Aircharge for mobile processing

**Cynergy Data LLC** partnered with **Aircharge** to offer mobile transaction processing. Aircharge is integrated with Cynergy's VIMAS system and works on a range of smart phones.

### DPT and Streetline link parking systems

**Digital Payment Technologies Corp.**, a maker of electronic pay stations, is working with **Streetline Inc.** to enable data integration between the companies' parking systems. The partnership pairs the DPT pay stations

with Streetline's Parker smart phone application that lets drivers locate unoccupied spaces.

### E-Debit Global and ebackup create JV

**E-Debit Global Corp.** created a joint venture with **ebackup Inc.** through ownership participation in Capital Six Ltd. The venture formalizes an existing partnership, creating an end-to-end payment delivery and processing system to provide card services across North America, with ebackup supplying a PCI-compliant data center and additional network infrastructure. The shared approach creates economies of scale, according to the companies. E-Debit Global, a financial holding company in Canada, supplies and maintains POS and automated banking machines for Canadian financial institutions.

### EVO adopts Apriva for mobile payments

**EVO Merchant Services Inc.** partnered with **Apriva Inc.** to provide EVO merchants with mobile payment capability. Based on AprivaPay payment software, EVO Mobile Pay is compatible with Apple iPhone 3G, 3GS and 4G devices. EVO will add a Google Inc. Android version in the near future.

### Fifth Third integrates mobile check deposit from 3i Infotech

**Fifth Third Processing Solutions LLC** partnered with **3i Infotech Inc.** to offer Fifth Third customers 3i's eCapture mobile check deposit capabilities as a hosted service. The initiative begins with a pilot program involving **Town and Country Bank** in Salem, Mo.

### Moneris adds ThreatMetrix software to e-commerce

**Moneris Solutions Corp.** will integrate the **ThreatMetrix** Fraud Network into its e-commerce network to deter online fraud. ThreatMetrix hosted software enables fraud analysts to detect proxy usage, botnets and script attacks, and incorporates other fraud strategies to validate online transactions.

### Payments Gateway chooses Trustwave for PCI compliance

**Payments Gateway**, a member of ACH Direct Inc., is offering PCI DSS compliance validation assistance from **Trustwave** to its Level 3 and 4 merchants. Merchants can access the services through Trustwave's TrustKeeper web portal.

### Maryland association opts for Heartland

The **Restaurant Association of Maryland** chose **Heartland Payment Systems Inc.** as its exclusive endorsed provider of card processing and check-management services. The 44th state restaurant association to partner with Heartland, RAM has 2,000 members.

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## ACQUISITIONS

### Calpian partners with Cooper & Schiffrin

Calpian Inc. acquired certain retail card processing residual streams from Cooper & Schiffrin LLC, a Cincinnati, Ohio-based ISO. Calpian paid \$725,000 in cash and issued 417,277 shares of common stock as part of the deal. Cooper & Schiffrin, now a venture partner of Calpian, does business as the Sterling Buying Group.

### Fiserv buys partner M-Com

Fiserv Inc. acquired Mobile Commerce Ltd. (M-Com) to enhance its existing mobile channel capabilities.

The companies became partners in 2008, developing Mobile Money. Terms of the deal were not disclosed. Fiserv will integrate M-Com's mobile payment technology into current products.

### Visa acquires e-commerce platform PlaySpan

Visa bought PlaySpan Inc., a formerly privately held company whose payments platform handles transactions for digital goods in online games and social networks. The move reportedly complements Visa's 2010 acquisition of CyberSource Corp.

## APPOINTMENTS

### EMG hires Haslam

Eliot Management Group appointed Tim Haslam Director of Business Development and Regional Sales Director for the Intermountain Region. Most recently, he was Vice President for the Western Region at Lynk Systems.


### Overo joins Pearl Capital

Cash advance firm Pearl Capital hired Jude Overo to head its ISO channel. Previously, Overo was Vice President of Sales at On Deck Capital.

### Kahuna promotes Philipps

Kahuna ATM Solutions promoted Pamela Philipps to Vice President of Affiliate Development. She joined the firm in 2006.

### Waskey joins ChargeSmart

ChargeSmart hired Andrew Waskey as Vice President of Payment Solutions, responsible for business-to-business customer and alliance partner relationships. Previously, Waskey was Vice President of Sales at Dalcom Consulting. He is also a veteran of Payment Processing Inc. and Global Payments. 

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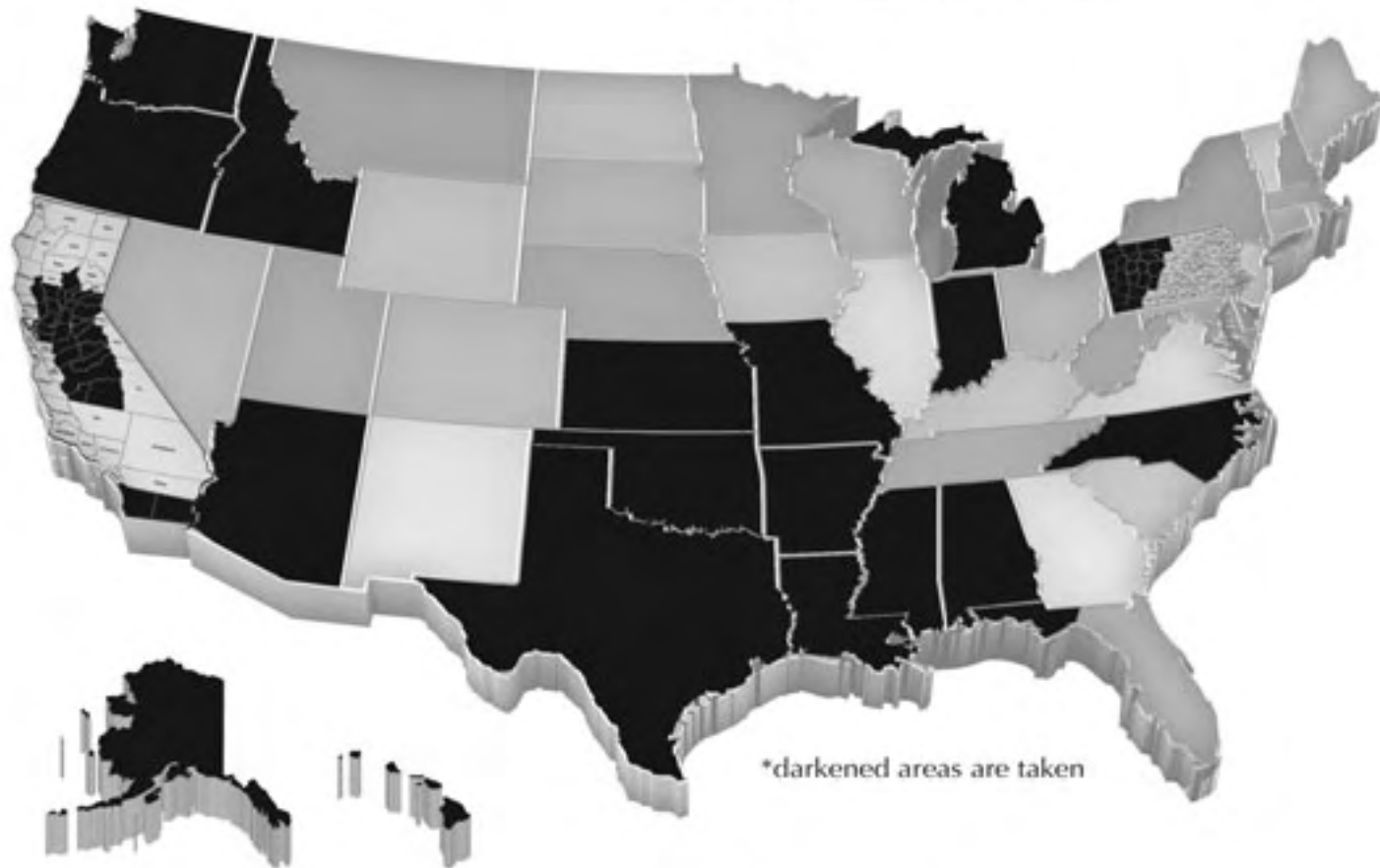
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Insiders report on payments**VeriFone, Square and the market****By Patti Murphy***The Takoma Group*

**V**eriFone Inc.'s chief executive officer raised some serious questions of late about Square Inc.'s miniature card swipe device designed to plug into the Apple Inc. iPhone. In an open letter to the card industry and consumers, VeriFone CEO Douglas G. Bergeron asserted that Square overlooked a "serious security flaw" that puts consumers at risk.

"In less than an hour, any reasonably skilled programmer can write an application that will skim – or steal – a consumer's financial and personal information right off the card using an easily obtained Square card reader," Bergeron wrote. "How do we know? We did it. Tested on sample Square card readers with our own personal credit cards, we wrote an application in less than an hour that did exactly this."

The letter, which was posted on the web along with a video demonstration, asks that "Square do the responsible thing and recall these card skimming devices from the market."

Like that's going to happen. Square has attracted a lot of big-name investors who, according to published reports, have placed bets on Square to the tune of about \$200 million. Besides, if the risk posed by Square is, indeed, as serious as Bergeron contends, why tip off fraudsters to yet another option for scamming the card systems?

**Putting Square into perspective**

Card skimming is a serious problem, and it's probably one of the easiest ways to compromise payment systems. But information from the mag stripe on a credit or debit card, in isolation, isn't sufficient to complete fraudulent transactions. That would require card verification value numbers, or in the case of debit cards, PINs.

I know this because my debit card was compromised while I withdrew cash from an ATM not long ago. It happened at an ATM on the outside wall of a bank branch. Apparently, some enterprising crook attached a skimming device to the ATM (in a busy downtown district) one

Saturday night and positioned a miniature camera nearby to record customers entering their PINs. The skimming device was gone by the time someone at the bank thought to investigate. I was one of a dozen or more folks whose cards were compromised that evening at that ATM.

Similar scams have been reported recently at gas pumps as well as ATMs in several Southwestern states. In Utah crooks have been capturing PINs with miniature cameras stashed inside empty soda cans and cigarette packs, according to a report in the March 13, 2011, *Daily Herald* in Provo, Utah.

**Many ... businesses still use old-fashioned "knuckle busters," or worse, like a small-town plumber I once hired, they make their own card imprints the old-fashioned way, with paper and pencil, and later submit the transactions as card-not-present items.**

The U.S. Secret Service estimates that ATM card skimming results in losses (primarily to financial institutions) totaling \$1 billion a year.

To put this into perspective, consider that Square, as of early March, was processing \$1 million a day in payments initiated through iPhones, iPads and Android mobile devices. That's not a lot of payments. In fact, it represents but a fraction of the estimated \$600 billion in annual Visa Inc.- and MasterCard Worldwide-branded credit and debit card payments processed through Square's acquirer, Chase Paymentech Solutions LLC, in 2010, according to the "The State

of Acquiring," 2010, *GSQ*, Vol. 13, No. 4, December 2010.

I'm willing to bet that a large share of those Square payments are taking place in high-tech meccas like Silicon Valley. No one I know personally uses Square. In fact, I'm married to someone who prides himself on having been an early adopter of nearly every high-tech gadget since the Commodore 64 computer (an early "home" computer for which cassette tapes were the storage medium), and Square hasn't even made it onto his radar.

I suspect a lot of other folks were similarly in the dark before VeriFone raised a red flag with its open letter, which included directions for "downloading the sample skimming application and viewing a video of this type of fraud in action." (The video has since been removed.)

**Meeting small business needs**

Here's something else that doesn't seem to make sense: Square isn't the only such device in the market. ROAM



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## View

Data Inc., for example, has developed a similar card swipe device and application that's compatible with any mobile phone, not just smart phones. A 2010 recipient of the Electronic Transactions Association's Innovators Award, ROAM developed ROAMpay especially for small to midsize businesses and distributes the device through dozens of ISOs, including Sage Payment Solutions, Total Merchant Services Inc. and North American Bancard.

Yet Bergeron only mentions Square in his letter, contending that the Square card reader doesn't encrypt the information it captures. The response to that letter from Jack Dorsey, founder and CEO of Square, and a co-founder of the social networking phenomenon Twitter, suggested concerns raised by Bergeron were unfounded.


In an open letter posted on the Square website, <http://squareup.com>, Dorsey stated, "Our partner bank, JPMorgan Chase, continually reviews, verifies and stands behind every aspect of our service, including our Square card reader. And we are constantly improving the payment experience to enhance security." Dorsey also pointed out that credit cardholders are well-protected against fraudulent charges under federal law.

There's a message here that appears to have been obscured: products like Square and ROAMpay respond to a

market need that has long been ignored by terminal manufacturers and acquirers alike: credit card acceptance by really small businesses.

I'm not talking about the mom-and-pop restaurants that get 10 or 12 card payments a day, but rather those really small businesses that maybe get 10 to 12 card payments a month. Many of these businesses still use old-fashioned "knuckle busters," or worse, like a small-town plumber I once hired, they make their own card imprints the old-fashioned way, with paper and pencil, and later submit the transactions as card-not-present items.

Square and ROAMpay devices respond to changing market dynamics. Research shows that consumers born after 1990 are keen on mobile payments and similar alternatives to traditional credit and debit payments.

Most recently, the *Consumer Payments Preferences Study*, conducted by Hitachi Consulting and the Bank Administration Institute in 2010, revealed that although only 5 percent of consumers have mobile devices that can be used for payments, 46 percent of those folks are under the age of 35. 

*Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. She is also the founder of InsideMicrofinance.com. Email her at [patti@greensheet.com](mailto:patti@greensheet.com).*

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# Sell electronic payments to sectors that shy away from them

By Tim Brinkman

*ChargeSmart*

**M**any ISOs and merchant level salespeople (MLSs) want to help businesses that are typically averse to accepting electronic payments bridge the gap between entrenched and newer payment forms. But payment professionals often lack the experience to sell viable processing alternatives to these potential goldmines.

Some are intimidated by the frequent changes to card company regulations. In response, they have elected to stick with what they know, which is selling solutions that have been proven over time to markets they know well. But the reality is that, in doing so, ISOs and MLSs are limiting their potential revenue streams.

A significant opportunity exists among organizations that have historically avoided card acceptance because of their slim operating margins (utility companies and auto leasing companies are good examples). These enterprises recognize that their customers are clamoring for card-based payment options, and they understand that if they cannot provide such options, their customers might seek providers that will better meet their needs.

## Attracting new merchant relationships

ISOs are perfectly positioned to help these organizations give their customers what they want. And while the traditional model may not always work for these merchants, there are alternatives that will.

The primary reason many organizations resist accepting card payments is cost. As mentioned in the preceding section, because of their operating margins, many enterprises simply cannot absorb the processing costs associated with card acceptance. For a utility company with margins of only 10 percent, a processing cost of 2.5 percent yields an impact on its pretax income of 25 percent, which makes traditional card acceptance difficult to justify.

These same merchants also have reservations about accepting card payments because they are not able to surcharge and lack the expertise to offer a convenience-fee model.

## Overcoming hurdles

On the regulatory side, many merchants are unclear regarding the specifics of Visa Inc., MasterCard Worldwide

and Discover Financial Services business rules, as well as the Payment Card Industry (PCI) standards. Thus, they are dissuaded from accepting card payments by the cost of compliance.

What these organizations need to recognize – and more importantly, what ISOs and MLSs who take the time to become educated can help them realize – is that, in providing more payment options to customers, they will benefit from an increased revenue stream.

## Cutting costs

Significant cost savings can be realized simply by accepting electronic payments versus paper checks. In keeping with the utility company example, these companies spend, on average, \$7 to \$11 per year, per customer, to process paper checks. Processing the same bills electronically through a third-party alternative model costs them nothing. That's right, nothing.

Multiply that savings across hundreds of thousands or even millions of customers, and it adds up quickly to a substantial number. Additionally, as a result of more payment options made available to customers, merchants benefit from the reduction in the number of delinquent payments and defaults.

## Staying competitive

As payment consultants, ISOs and MLSs must clearly communicate with merchants that there is a legitimate risk that they will be left behind as their competitors in the industry learn about alternative payment methods and start accepting card payments.

It all boils down to honest pricing and understanding the industry well enough to make an educated decision about offering the right solution. ISOs and MLSs have an immediate opportunity to take advantage of this. By acting as payment consultants to their merchants, they can explore untapped markets more successfully and generate revenue gains for themselves. The key is to be able to present the right product, operate it transparently and ensure it is compliant with card industry rules.

A significant opportunity exists today in offering merchants nontraditional solutions because many merchants recognize the growing need to provide card acceptance and want someone to guide them through the process. Payment professionals who recognize this, and take the time to foster these relationships, stand to benefit greatly. ■

*Tim Brinkman is Chief Executive Officer of ChargeSmart, an alternative payment solution enabling card acceptance at no cost to the biller, allowing businesses to meet their customers' card payment preferences without the expensive fees and technical challenges associated with traditional card acceptance programs. For more information, contact Tim at [tbrinkman@chargesmart.com](mailto:tbrinkman@chargesmart.com) or visit the company's website at <http://corp.chargesmart.com/>.*

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# Selling Prepaid



## Prepaid in brief

### NEWS

#### Gift card crime ring exposed in Phoenix

Media outlets reported 36 people were indicted as part of an **organized crime ring** in Phoenix that apparently perpetrated over \$1.2 million in gift card fraud. Reports said Scottsdale, Ariz., police were alerted in April 2010 to a man auctioning off retail gift cards online. Investigators subsequently uncovered a gift card scam that reportedly defrauded the Angel Tree holiday toy program that provides Christmas presents to the children of convicted felons.

#### Hidden fees cause consumers to forgo banks

Dublin, Ireland-based research firm **Research and Markets** issued a report that concludes the U.S. underbanked remain reluctant to use traditional bankcards primarily due to fears of hidden costs and fees. According to *Wooing the Underbanked*, the 43 million underbanked in the United States spend approximately \$10.4 billion on over 324 million alternative financial services products. Therefore, that population represents an "immense, untapped consumer segment" for prepaid cards, the report said.

#### India launches prepaid electric meter initiative

The **Maharashtra State Electricity Distribution Co. Ltd.** began installing prepaid electricity meters in homes across India, according to *The Times of India*. The meters are recharged over the Internet, as well as via "coupons" in the form of prepaid cards inserted into the meters. The MSEDCL plans to set up 20 self-service vending machines across the state to enable consumers to buy recharge "coupons," the news outlet said.

### ANNOUNCEMENTS

#### BillMyParents traffic triples after website redesign

**BillMyParents**, the teen payment solution and Socialwise Inc. subsidiary, said its newly redesigned website resulted in a tripling of the number of monthly unique visitors, to over 90,000.

#### First Data granted multipack activation patent

**First Data Corp.** reported that the United States Patent and Trademark Office granted the world's largest acquirer a patent for technology that allows merchants to save time at the POS by activating bulk packages of prepaid cards at one time, without having to scan or key in the account number of each prepaid card individually.

#### Retirement community taps STS website for new revenue

Sun City Lincoln Hills, a retirement community in Lincoln, Calif., enlisted the aid of Smart Transaction Systems' **GiftCardGreatness.com** to sell physical and virtual gift cards online to its population of over 11,000 retirees, thereby creating a new revenue stream for the retirement community.

#### 'Voucher' provider sets 2010 processing record

Vienna, Austria-based prepaid "voucher" provider **pay-safecard group** celebrated its 10th anniversary with the news that it increased its processing volume in 2010 by 40 percent over 2009.

#### Western Union connects FX to smart phones

Money transfer specialist **The Western Union Co.** launched a foreign exchange payment service to enable the traveling employees of small and medium-sized businesses to make payments via smart phones, with currency exchange rates locked in prior to the transfer of funds.

### PARTNERSHIPS

#### i2c expands in three continents

Prepaid card processor **i2c Inc.** reported additions to its global client roster in Europe, Central and South America, and Africa. The new i2c partnerships are with service companies from Stockholm, Sweden; Sao Paulo, Brazil; Johannesburg, South Africa; and Belize.

#### Mentez to distribute game cards in Brazil

Social game publishers **Mentez LLC** and Zynga joined for game card distribution in Brazil.

Latin America-based Mentez will reportedly distribute Zynga Game Cards and PIN numbers at more than 1 million retail locations and Internet cafes across the South American country.

## Visa, aid agencies team for disaster relief

Visa Inc. and the Cash Learning Partnership, a consortium of humanitarian aid organizations, partnered to provide disaster relief aid to victims via prepaid cards and other digital tools. The project will reportedly leverage Visa's experience working with governments around the world to disburse benefit payments.

## YESpay enters golf world with EMV service

YESpay International Ltd., a Europay/MasterCard/Visa compliant processor of chip and PIN gift cards, integrated its capabilities with Tee-On Golf Systems Inc.'s golf management software, which is designed for the POS retail environments of golf course clubhouses.


## ACQUISITIONS

### Neovia completes Optimal Payments acquisition

Neovia Financial PLC, U.K.-based provider of the Neteller virtual wallet and the Net+ prepaid card, completed the acquisition of Optimal Payments. The acquisition was announced in January 2011, at which time Neovia revealed it intended to change its name to Optimal Payments PLC.

## APPOINTMENTS

### Blackhawk exec becomes PayPal VP

Don Kingsborough, the man credited with inventing the gift card mall concept, joined PayPal Inc. as Vice President for Retail and Prepaid Products. Kingsborough was the founder and CEO at Safeway Inc. subsidiary Blackhawk Network. 



## Features

## Expo features pivotal moments in prepaid

The 2011 Prepaid Expo USA, held at the Marriott World Center in Orlando, Fla., March 6 to 9, featured a look back at the prepaid card industry's beginnings, key moments in its development and a look ahead at a potentially vibrant future.

But panel presenters and tradeshow participants agreed

that to secure that future, much work and vigilance is needed to ensure current and future regulation and legislation do not derail expected prosperity.

Though the industry is still considered young and growing, Steve Streit, founder and Chief Executive Officer of Green Dot Corp., recalled the very early days of prepaid, when a conference involved 30 people standing around in a hotel lobby, before the term "prepaid" was even invented.

In a one-on-one interview with Robert Safian, keynote speaker and Editor of *Fast Company* magazine, Streit said 10 years ago the term used to describe the product was "host-based stored-value."

When Streit started Green Dot in the late 1990s, only a handful of companies issued such cards. These included American Express Co. with its Cobaltcard, Visa Inc. with its Pocketcard, and cards issued by NetSpend Holdings Co., founded around the same time as Green Dot.

"Certainly in the retail space, there wasn't a retail category or anything like that," Streit said. "We were the first to use the name 'prepaid' as far as I know."

Streit, who was a radio station programmer and executive for 19 years, recognized a niche market in "credit cards for kids" to serve college-age consumers without access to credit cards who needed a way to pay for goods and services on that relatively new technology called the Internet. Green Dot's first product was the MasterCard Worldwide-branded I-GEN card launched in 98 Rite Aid drugstores in the Washington, D.C., area.

Streit said a turning point for Green Dot was in 2007, when it partnered with Wal-Mart Stores Inc. to power the Visa-branded Wal-Mart MoneyCard. Green Dot reported that, as of March 2010, 3.4 million active MoneyCards were in circulation in the United States, making the Monrovia, Calif.-based company the largest provider of general-purpose reloadable prepaid cards in the country.

### 52 days

A pivotal moment for the entire industry came in 2009, when Congress was debating the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit CARD Act).

In a panel discussion, Talbott Roche, President of Blackhawk Network, said the industry was caught "flat-footed" by that first piece of major legislation to target prepaid.

The Network Branded Prepaid Card Association – then only a three-year-old organization – lacked the expertise to educate Capitol Hill staffers and legislators on the industry. The NBPCA asked Roche to spearhead a lobbying effort on behalf of the industry.

## Selling Prepaid

With the monetary and human capital of 13 prepaid card companies behind her, Roche and her delegation spent the only time allotted to them – 52 days – educating Congress on how the Credit CARD Act would "decimate my business model and that of many others in the industry, and thereby make these products not available to consumers," she said.

The intense lobbying efforts resulted in lawmakers amending the Act to exempt most types of prepaid cards from the legislation. Roche took away from that experience that Congress is not interested in understanding how legislation will affect the business community, but rather in how consumers will be impacted.

The second lesson Roche learned was the importance of establishing relationships with lawmakers now and maintaining those relationships over time, before that next piece of potentially disastrous legislation is introduced.

Roche said attempting to change legislators' minds in essentially one meeting, as Roche characterized what her ad hoc delegation accomplished in 2009, is not an ideal plan of action.

Kirsten Trusko, President of the NBPCA, said the association is much better prepared today to face legislative

challenges because of its larger membership base, more lobbying experience under its collective belt, and a proactive mindset when engaging with regulators, legislators and law enforcement. "And that makes a huge difference – to really be out front," she said.

### Opportunities abroad

Undoubtedly, a pivotal moment for prepaid card providers has arrived in India.

A panel discussion devoted to the nascent Indian prepaid market highlighted prime opportunities abroad. India has an ethnically diverse and literate population of 1.18 billion, with over half of the population under 25 years of age, said Naveen Surya, Managing Director, Itz Cash Card Ltd.

There are approximately 17 million merchants across the country, said James Miffrin, AmEx Vice President and General Manager, Global Payment Options - India.

But only 2 to 3 percent of transactions are conducted electronically, he added, which points to a long and profitable "runway" for migrating cash payments to electronic ones.

Furthermore, about 600 million consumers in India own mobile phones; 85 percent of those are prepaid, pay-as-



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## Selling Prepaid

you-go handsets that function as mobile wallets, said Deepak Bhutra, Vice President, Prepaid Cards, India and South Asia, MasterCard Worldwide.

According to Bhutra, MasterCard has experienced "huge traction" with travel cards in India, where businesses use the cards to fund the expenses of their employees for travel abroad.

In December 2010, MasterCard acquired the prepaid card program management operations of Travelex, making MasterCard the exclusive card brand for Travelex's prepaid offerings, which include the popular CashPassport travel card.

"Absolutely we believe that prepaid is the way to go in the Indian market," Bhutra said. 📍

## 'Sea change' in banking to benefit prepaid

**I**mplementation of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may significantly reduce banks' revenues from interchange fees on debit card transactions. Consequently, reloadable prepaid cards are poised for dramatic growth as an alternative to basic checking accounts, said management advisory firm Bretton Woods Inc. in an updated research paper.

According to *Analysis of Reloadable Prepaid Cards in an Environment of Rising Consumer Banking Fees*, the Durbin Amendment to Dodd-Frank is causing a sea change in banking. Banks are being forced to raise fees on checking accounts to offset the potential revenue shortfalls from lower interchange fees they can charge merchants on debit card payments.

In contrast, lowered card activation and other fees on reloadable prepaid cards, combined with added features like text message alerts and credit building tools, are causing consumer adoption of the cards to increase, the study said.

The net effect is that reloadable prepaid cards are becoming more competitive with checking accounts and will continue to grow in popularity in the coming years, the report concluded.

### Debit versus prepaid

The report cited statistics that compared what consumers can expect to pay annually for different financial products, based on similar usage patterns.

Basic checking accounts cost between \$218 and \$314, while fees on general-purpose reloadable (GPR) prepaid cards range from \$76 to \$380 annually.

The report noted that GPR card costs would decrease after the first year by subtracting the initial card activation fee; additionally, card users that maintain the same cards will also help reduce annual costs.

Apparently banks are taking notice of these trends. Michael Flores, Bretton Woods' Chief Executive Officer and author of the study, told *Selling Prepaid* that several of its bank clients are eyeing prepaid cards as a way to "offload" their unprofitable checking account customers.

"They have an awful lot of single-service customers," Flores said. "They are low-balance, somewhat high activity. It's very unprofitable to maintain these accounts. So one of the ideas we're talking about is providing a reloadable prepaid card and still fulfilling their needs."

One scenario is for banks to notify such customers that, because they are raising fees on checking accounts, they are now offering the prepaid cards as an alternative. "They say, 'Well, you don't qualify for this product, but here's another product that will serve you just as well,' Flores said. "It's FDIC insured, you have all the protection to dispute transactions, and treat it just like a regular debit card."

### A better job at disclosure

One area that begs for improvement among prepaid card issuers is in fee disclosures, according to the report. Bretton Woods agreed with a Consumers Union study that found fee disclosures by prepaid card issuers run the gamut from "intuitive to confusing."

As a model for offering consumers clear and concise disclosures, Bretton Woods highlighted GPR card issuer nFinanSe Inc., which displays on its website homepage the basic costs of its cards, with a detailed fee schedule only one click away. But nFinanSe is apparently the exception to the rule.

Flores said it takes two to three clicks to navigate to fee disclosures at many prepaid card companies' websites. "And so both of them [prepaid companies and banks] need to do better in terms of readily identifying their pricing," he said.

Another way companies can become more consumer friendly is by adding a calculator feature to websites so consumers can calculate and compare fee costs per card, Flores added.

The report can be obtained by contacting the Network Branded Prepaid Card Association at [nbpca@nbpca.org](mailto:nbpca@nbpca.org). 📍



# Company Profile

insideVirtual

## Inside insideVirtual

### insideVirtual LLC

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Phone: 512-234-3036  
Website: [www.insidevirtual.com](http://www.insidevirtual.com)

#### ISO/MLS benefits:

- Is free for users to join
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- Offers engagement with subject matter experts in real time
- Helps users keep abreast of new products and technologies
- Fosters global relationships

**I**t is fortuitous that as the world appears to be shrinking through technological advancements and nearly instant global communication, opportunities for business expansion are actually growing. InsideVirtual LLC is harnessing that phenomenon through an online marketplace called PaymentsMarket.com.

The social media platform is an always-open tradeshow and educational forum that brings together all things payments under one virtual roof. After free sign-up, users are transported to a virtual campus that is futuristic in setting, like something out of a science fiction film.

Visitors are met with virtual people walking the campus (one is even riding a Segway), a flock of virtual birds flying across a skyscape and a clickable billboard that directs you in one of five directions. By mouse-clicking on the Industry Solutions Hall, for instance, you arrive on the convention floor, where you can choose from six payment-related categories.

"Each of the halls are broken down into large buckets for the way people would be looking for information, as if they were visiting at a conference or a convention center," said Jeremy Drzal (pronounced "Dral"), founder and Chief Engagement Officer at insideVirtual. "And then from there, there are wings – for instance, the industry solutions wing incorporates fraud and risk, marketing and CRM solutions, SaaS, security and compliance, hardware and software, and payment services."

By clicking on the Security/Compliance banner, for example, you enter a hall of exhibitor booths dedicated to that area of payments. By clicking on a booth in the Security/Compliance hall, you "enter" an association's or a service provider's booth to obtain information on the enterprise and ask questions. It is like an actual tradeshow, without the legwork.

"When a person visits a booth, they are able to immediately begin to have a discussion," Drzal said. "Each booth is equipped with a particular partner's representative, whether they be subject matter experts, sales, marketing, recruiting, HR, etc. And we incorporate video, PowerPoint, PDF, Word documents – everything."

The marketplace is also broken down by vertical market, such as health care, general retail, government, airlines and travel segments.

### Virtual and engaging

Once at booths, tradeshow participants can engage with booth reps via social media sites Twitter, Facebook and LinkedIn, as well as over a real-time Skype connection. Conversations can also be carried out through real-time booth chats or private chats.

PaymentsMarket partners assign team members within their organizations as booth reps. When at work, the reps keep browser windows open on their computers for when participants enter the virtual booths and ask questions.

## Company Profile

Via the communication channels just mentioned, reps and participants interact. "And it's always based on an invite," Drzal said. "So either the visitor invites you to chat or you invite the visitor to chat. It's not invasive. It's all focused on the user experience."

Given that the tradeshow is open 24/7 worldwide, booth reps can't man posts all day and night. Therefore, when reps receive questions while offline, the questions show up for them in their email in-boxes.

"You don't have to be online," Drzal said. "But, if you are, it creates a better user experience because you can engage them. What it does do is it gives people from anywhere in the world 24-hour access to service providers based on industry solutions and market segments. ... And then service providers are able to engage in more meaningful conversations with those visitors."

The booths are customizable, allowing partners to upload such things as company logos, slogans, messaging, marketing material and videos. "Most customers are fully configured in less than an hour," Drzal said.

### Collaborative, not invasive

Founding members of PaymentsMarket include Vindicia Inc., Retail Decisions Inc., Smart Card Alliance, Opticard

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Payment Services Inc. and First Atlantic Commerce. InsideVirtual views its relationships with its partners as collaborative. Drzal is especially keen on partnering with industry associations. "We offer a special package for trade associations that includes a booth and discounts to their members that want to join," he said.

One goal of insideVirtual is to help associations develop virtual events that take place year-round to grow their presences and membership bases. Drzal doesn't want PaymentsMarket to infringe on associations' own physical tradeshow events, or take the place of any organization's website for that matter.

"We just want to help them extend their reach and build a broader level of awareness to markets they may not otherwise reach," he said.

Drzal recognizes that people learn in different ways. Some like to read magazines, browse websites, download video presentations, or interact via social media. "What we want to do is give people options across the board of how they would like to interact and learn," he said.

InsideVirtual also provides subject matter experts in differing fields of payments industry knowledge. In the virtual tradeshow is an Ask the Expert booth. The booth is manned by Laurie LeBeouf, Chief Executive Officer of Take Charge Business Consulting LLC; Certified Fraud Expert Daniel W. Draz; and Susan Matt, founder and CEO of ThoughtKey Inc., all of whom have weekly scheduled hours when they are available to answer questions.

### Cool and constructive

Drzal said over 50 trade organizations are focused on various aspects of the payments industry, more than 1,250 payment companies exist and they categorize themselves in "over 100 different ways. And so it's very complex when you have a small merchant or a small business that's trying to understand ongoing solutions, credit card processing or PCI [the Payment Card Industry Data Security Standard]."

Theodore Svoronos, co-founder of Merchant University, a partner of PaymentsMarket, sees how PaymentsMarket addresses that complexity. He offered the scenario of a new ISO who decides to attend an association's tradeshow to learn about the industry and find partners. But where do you start? The ISO can do prep work at PaymentsMarket virtually free of charge, Svoronos said.

With a presence on the virtual tradeshow, an association would allow the ISO to do advance scouting and education gathering online.

The ISO can thus hit the ground running at the physical show, spend time more efficiently and cost effectively, and perhaps even consummate business relationships established online, Svoronos said.

Svoronos is also enthusiastic about PaymentsMarket's graphics. He likened the look of the virtual tradeshow to a version of the popular role-playing video game The Sims. "It is cool," he said. "It's the kind of thing where you want to go back and see who's advertising, who's exhibiting, who's been in your booth."

### Method at the CORE

The principles on which insideVirtual was built can be boiled down to an acronym: CORE, which stands for Collaborative, Optimized, Responsive and Elastic. For Drzal, the CORE methodology is all about relevance.

"The content has to be relevant," he said. "The technology has to be, too, and an application has to be utilized the best way it can be. It has to be intuitive for the user experience. And so when we developed PaymentsMarket, we looked at how people want to learn and search for solutions.

"And then we wanted to make it responsive so that customers or service providers are putting together products and market strategy and educational promotions that respond to what the customers are looking for.

"So we look at analytics. We look at feedback. We look at networking groups and forums. We want to feed that back into our customer base so they can develop better products and better messaging for the users."

Drzal explained the elasticity of insideVirtual with another term: flexible consistency.

"What that means is that to be able to address the changes, the trends of the market, you have to be able to take the data, take that feedback, process it, and then modify your approach and be able to respond back to what the market is looking for," he said.

### Synergy among sites


InsideVirtual grew out of Drzal's other media ventures, including online news outlets AllPayNews, Payments101 and allCUnews.

When LinkedIn started its interactive groups for industry professionals in various fields of expertise, Drzal started the Payment and Fraud Professionals Group, which now boasts over 9,500 professionals worldwide and is bringing in between 15 to 20 professionals daily, according to Drzal.

"We had a lot of requests for people throughout the world and in the industry that were looking for ways to expand their network and their reach, get more access to service providers, trade associations, etc., in a centralized location across silos and not just focusing on smart card or merchant risk or e-commerce or processing," he said.

"They wanted to cross boundaries because they were all fighting the same problems around security and innovation and technology," he added. "They wanted to be able to break those silos down and I saw that as an opportunity to be able to bridge and open up a collaboration between service providers, educational institutions, trade organizations and the ultimate users. And that laid the foundation for PaymentsMarket to become the first managed market for insideVirtual."

With the addition of PaymentsMarket to Drzal's other ventures, now consolidated under insideVirtual's Payment Strategy Group, Drzal has seen an increase in online traffic. An average of 300,000 monthly page views in late 2010 across the Payment Strategy Group mushroomed to over 580,000 in January 2011.

Drzal expects that number to continue to grow, as PaymentsMarket extends its reach globally, and virtually. 



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## Senators, coalition say whoa! to Durbin Amendment

**A** bipartisan group of U.S. senators introduced legislation March 15, 2011, calling for a two-year delay in the implementation of the Federal Reserve's rule on debit interchange so the implications of the rule can be studied further.

The bill, called the Debit Interchange Fee Study Act, is being sponsored by Sens. Jon Tester, D-Mont.; Bob Corker, R-Tenn.; Jon Kyl, R-Ariz.; Ben Nelson, D-Neb.; Tom Carper, D-Del.; Pat Roberts., R-Kan.; Chris Coons., D-Del.; Mike Lee, R-Utah; and Pat Toomey, R-Pa.

In December 2010, the Fed proposed a set of rules implementing the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act that offered two options for capping interchange. Each option has a cap of 12 cents per transaction, reflecting a 70 percent reduction in the average 44-cent debit card interchange assessment in 2010, according to the Fed's calculations.

"The stakes are simply too high to move forward with this rule without a closer look at the impact on consumers, credit unions, community banks, and the small businesses and jobs they sustain," said Tester, a member of the Senate Banking Committee, in a statement. "That is why we need to make sure we stop and study these proposed rules before implementing anything."

The Dodd-Frank Act requires final rules related to the interchange fee provisions to be issued by April 21, and that the rules become effective on July 21.

### No implementation, please

In a related development, a coalition of bank and credit union trade associations filed a friend-of-the-court brief supporting TCF National Bank's lawsuit seeking an injunction preventing enforcement of the Durbin Amendment. TCF filed the suit on Oct. 12, 2010. It is pending in the United States District Court for the District of South Dakota. Among the associations joining the brief are The Clearing House Association, the American Bankers Association, the Consumer Bankers Association, the Credit Union National Association, the Mid-Size Bank Coalition of America, The Financial Services Roundtable, Independent Community Bankers of America and the National Association of Federal Credit Unions.

A statement from the coalition about the brief claimed the Fed's rules, if implemented, would cost banks and credit unions approximately \$12 billion per year, result in

increased bank fees and costs for consumers, and deprive a significant number of consumers of access to debit as a form of payment.

According to Eric Richard, Executive Vice President and General Counsel for the Credit Union National Association, the unanimity of the various trade associations in filing the brief was unusual and sent a strong message. "This helps show the judge that basically the entire financial services industry is united with their concern about this law," he said. ☐

## House hears how Dodd-Frank may affect small businesses

**I**n a March 2, 2011, House Financial Services hearing entitled *The Effect of Dodd-Frank on Small Financial Institutions and Small Businesses*, witnesses testified regarding the potential impact of recent financial reform legislation on small businesses



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and financial institutions with less than \$10 billion in assets. Said institutions are exempt under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which includes the Durbin Amendment regulating debit interchange.

"When the House and Senate passed the Dodd-Frank Act, supporters continually purported that small financial institutions, like many I represent, were exempt," said Rep. Shelley Capito, R-W.Va., in a statement. "As the provisions of Dodd-Frank are going through the rule-making process, I am starting to hear concerns from small institutions about the unintended consequences that could adversely affect them." Capito is the Financial Institutions and Consumer Credit Subcommittee Chairman.

Another purpose for the hearing was to examine whether regulations implementing the law will impede job creation and economic activity. As it stands, the Dodd-Frank Act requires regulators to write over 240 rules and execute more than 60 studies that impact financial and nonfinancial institutions across the United States.

### Credit unions speak out

During the hearing, witnesses representing small financial institutions, community banks, credit unions, the U.S. Chamber of Commerce and the National Association of Home Builders testified.

Among those testifying was O. William "Bill" Cheney, President and Chief Executive Officer of the Credit Union National Association. "Further study on this issue of the impact of debit interchange on small issuers and consumers is essential," he said.

"Ultimately, the board should be directed to issue a rule that includes meaningful enforcement authority for a two-tier system to protect small issuers and to set standards for assessing interchange rates that take into consideration all of the operational costs associated with offering debit cards to consumers."

After the hearing, John Magill, Senior Vice President, Legislative Affairs for CUNA, said, "We appreciate the fact that they thought of an exemption for small community banks and credit unions, but we just don't think that it will work. A debit card transaction costs credit unions anywhere from 35 to 44 cents, depending on the size and how many debit cards that are offered. If the new rules only allow 12 cents, all you can consider are the transactional costs, not fraud or all the other costs."

Magill mentioned that Sen. Rand Paul, R-Ky., advocated repealing the Durbin Amendment. "Repeal is not going to fly," Magill said. "We don't think that's realistic. We're delighted to have that bill out there as a marker at least." However, he added that Sens. Jon Tester, D-Mont., and Bob Corker, R-Tenn., backed by a bipartisan group of

Senate colleagues, were planning to introduce legislation that could delay Durbin Amendment interchange fee regulation by as much as two years. (The bill was introduced on March 15. See the preceding news story, "Senators, coalition say whoa! to Durbin Amendment.")

According to Magill, a majority of the 7,300 federally insured credit unions CUNA represents will not be able to operate for pennies on the card like some of the larger banks. "Time is of the essence, and we are hopeful that Congress will follow through quickly, because if not, it's a train wreck waiting to happen for credit unions and other small institutions if it's not fixed," he said. ☐

## Square gaining momentum despite security concerns

**T**witter Inc. creator Jack Dorsey released in a statement on Twitter that his mobile payment startup, Square Inc., had reached a milestone. On March 2, 2011, Dorsey tweeted that Square



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## News

is processing more than \$1 million in transactions daily and that the company is signing as many as 100,000 new merchants each month. Dorsey serves as Chief Executive Officer of San Francisco-based Square, which he co-founded in 2009.

Square's platform for credit and debit card acceptance uses a mini square-shaped credit card reader that plugs into the headphone jack of a smart phone or electronic tablet, which it offers free to users of Apple Inc. iOS and Google Inc. Android devices.

To operate the service, users download an application and pay a flat fee of 2.75 percent for swiped transactions, and 3.5 percent plus 15 cents for keyed-in transactions, which Square deducts when transactions occur.

Brandes Elitch, Director of Partner Acquisitions for CrossCheck Inc., said that when the card is swiped through the Square device, it reads the data and converts it to an audio signal, which the phone's microphone picks up and transmits to processors.

"They send it through the processor, and then it's routed to Square's software application on the iPhone," he said. "The encrypted data is then transmitted using either Wi-Fi for the iPod Touch or 3G Internet to back-end servers,

and then they communicate with the payment network to complete the transaction."

### Square doesn't suit all merchants

"While it's clear that that's the correct approach right now, it's certainly not a viable long-term approach, because there is enormous fraud in the payment system," Elitch said. "The mag stripe is a vulnerable technology, which is why people are talking about migrating to what is called chip and PIN. It's not entirely secure technology either; it can be hacked as well."

However, chip and PIN adoption in the United States is not expected in the immediate future. "I've actually had discussions with Visa, and they have been consistently clear that it will take them five years to convert to chip and PIN, so that isn't going to happen anytime soon," Elitch said.

Elitch believes that in the interim, Square's model will continue to serve certain types of merchants, particularly smaller merchants who operate in the person-to-person (P2P) sphere. "I don't see it as a solution for top 200 retailers or POS for that matter," he said.

Elitch also expects newer technologies to make inroads in both processing and security, including radio frequency

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identification, hardware security tokens and biometric authentication, among others.

Elitch also indicated that larger payment processors, such as Chase Paymentech Solutions LLC, which processed 18 billion transactions in 2009, may be better equipped to handle merchant support issues. "Maybe only 1 percent of those are going to come back with chargebacks, but 1 percent of 18 billion is a big number, and that requires a lot of people on the phone to deal with," he said. In the Internet world, customer service is frequently lacking, he added.

### Square defends its security

Concerned about potential security risks associated with use of the Square device, VeriFone Inc. Chief Executive Officer Douglas Bergeron issued an open letter on March 9, warning the industry and consumers of "a serious security flaw that Square has overlooked that places consumers in dire risk." He cited flaws in Square's hardware, which he said is "poorly constructed and lacks all ability to encrypt consumers' data," and this creates a window for skimmers.

In his letter, Bergeron stated that a skilled programmer can write an application that skims personal information from the device and that VeriFone "wrote an application in less than an hour that did exactly that."

According to Paul Rasori, VeriFone Senior Vice President, Global Marketing, "Square disregards the core issue of encryption and acknowledges their devices have no layer of security to protect mag-stripe data on consumer credit cards," he said. "They are deflecting responsibility and are solely relying on card issuers to protect consumers."

In response to VeriFone's accusations, Square's Dorsey issued a letter to dispel allegations that the device is not secure.

"This not a fair or accurate claim, and it overlooks all of the protections already built into your credit card," Dorsey stated. "Any technology – an encrypted card reader, phone camera, or plain old pen and paper – can be used to 'skim' or copy numbers from a credit card.

"Our partner, JP Morgan Chase, continually reviews, verifies and stands behind every aspect of our service, including our Square reader. And we are constantly improving the payment experience to enhance security. For instance, you can request an instant text message or email receipt delivered from our secure squareup.com server after every transaction."

Despite the debate between Square and VeriFone over security issues, both companies appear to be faring well. VeriFone just posted a 27 percent year-over-year increase in net revenues for the first quarter of 2011.

"It's a big world out there, so for some types of P2P trans-

actions, where you don't need Windows Mobile, and the person already has an iPhone, [and you have] a small merchant who doesn't want to pay for hardware, it could be a viable device," Elitch said. ■

## Is 2011 a transitional year for financial services?

Pivotal political and financial issues – from the regulatory environment to the state of the economy – may make 2011 a transitional year for the financial services industry. That was the theme of a March 1, 2011, TowerGroup webinar, which also touched on technology initiatives in bank cards.

The webinar featured presenters Brian Riley, Senior Research Director, Bank Cards, and Dennis Moroney, Research Director, Bank Cards, at TowerGroup. Among the factors cited by Moroney and Riley as driving the



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need for the industry to adapt and innovate are diminished profitability, the development of regionalized payment networks, credit and fraud vulnerability, changing customer expectations, and business acquisition challenges.

### Legislative influences

The webinar outlined initiatives required on the part of banks and payment vendors to meet the challenges, from business process re-engineering to launching of new card products.

Regulatory and legislative measures influencing the industry's direction include the 2009 Credit Card Accountability, Responsibility and Disclosure (CARD) Act and 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

"The CARD Act has done what it was intended to do, and that was to impact a lot of the revenue streams that banks have come to rely on," Moroney said.

The Durbin Amendment to the Dodd-Frank Act requires the Federal Reserve Board to enact regulations that limit the amount of interchange fees banks can charge retailers on debit card transactions.

Due to limits proposed in December 2010 by the Fed many "of the institutions are now moving away from promoting debit cards and are also charging fees to make up that lost revenue," Moroney said.

### Shifting rewards and risks

Banks are also beginning to redefine what constitutes a profitable customer, Riley noted.

He added that customers who typically made minimum payments due on credit card balances were the "perfect bread and butter of the business. ... Today, you have to look at whether this [type of customer] is more risky: Why are they willing to pay me 16 percent, or in many cases 29 percent, as they revolve on these small balances?"

To recoup losses, some major banks are experimenting with requiring a \$1,200 minimum balance to qualify for a free checking account. "So the people who really end up at risk are low-income people that will be funding a lot of these transactions, which seems counterintuitive to the legislation," Riley said.

Additional challenges outlined by Moroney and Riley included the emergence of closed-loop debit networks using new POS technologies and the advent of person-to-person and mobile payment platforms. "All of these changes create vulnerabilities for financial risk and opportunities for financial reward," Moroney said. ■



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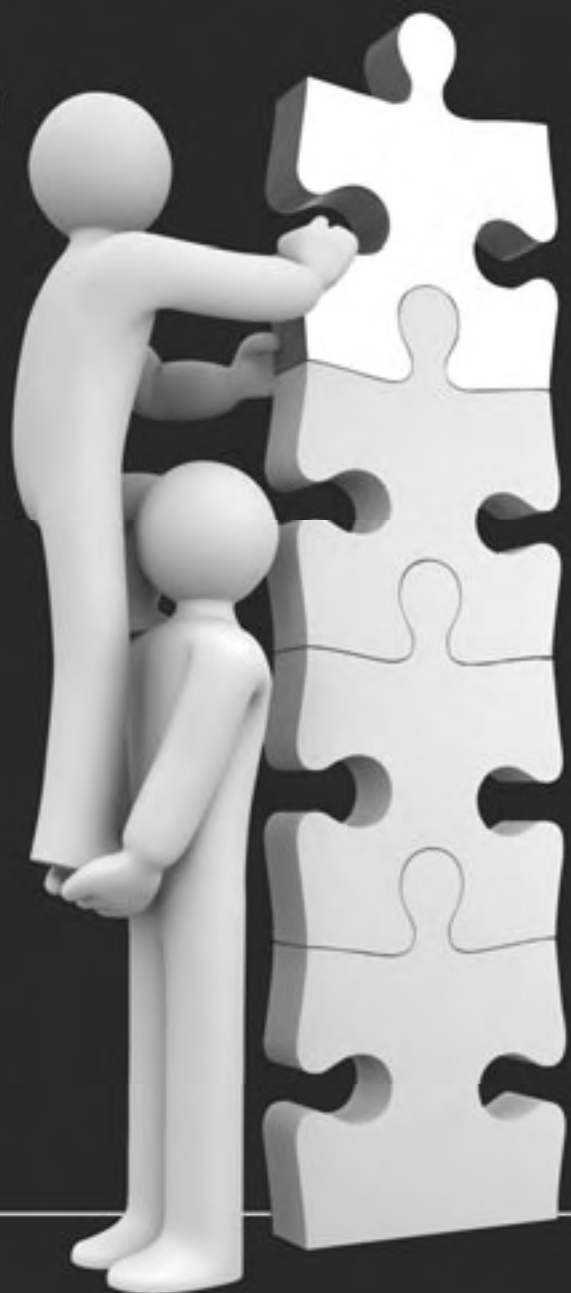


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RECOVERY from page 1

**Economic activity in the manufacturing sector expanded in February 2011 for the 19th consecutive month, according to the Institute for Supply Management's manufacturing index.**

ists invested \$21.8 billion in early stage, high-potential companies in 2010, a 19 percent increase over 2009's investment total, according to the *MoneyTree Report* by PricewaterhouseCoopers LLP and the National Venture Capital Association, based on data from Thomson Reuters.

Expenditures in research and development (R&D) – another indicator of anticipated profits – remained relatively flat over the past two years, but are expected to increase during 2011.

In a survey conducted in 2010 by the Industrial Research Institute of 119 companies across all industry sectors, 53 percent of respondents said they expect an increase in their R&D budgets; only 12 percent expected a decrease.

More evidence of increased business spending comes from information released on the 2010 GDP by the BEA. The BEA's report indicates that businesses spent 15.1 percent more for equipment and software in 2010 than they spent in 2009. (Conversely, purchases for equipment and software in 2009 were down 15.3 percent from 2008.)

The chief executive officers of America's leading companies plan additional increases in employment, sales and capital expenditures during the first six months of 2011, according to the results of the Business Roundtable's fourth quarter 2010 *CEO Economic Outlook Survey*. (The BRT is an association of chief executive officers of U.S. companies with nearly \$6 trillion in annual revenues and more than 13 million employees, combined.)

Fifty-nine percent of CEOs surveyed during the fourth quarter of last year expected to increase their capital spending, compared to 49 percent from the third quarter of 2010. Forty-five percent anticipated increasing their hiring in the fourth quarter, up from just 31 percent the previous quarter.

Unemployment fell to its lowest rate in almost two years in February 2011, to 8.9 percent, with the addition of 192,000 jobs, according to the U.S Department of Labor.

Many businesses are finding their revenues are starting to go up modestly. *The New York Times* reported that BEA data showed American businesses earned profits at an annual rate of \$1.659 trillion in the third quarter of 2010. That is the highest figure recorded since the government began keeping track over 60 years ago, at least in nominal (not adjusted for inflation) terms, the article stated.

Among the big retailers that have recently experienced sales increases are Macy's Inc. and Home Depot U.S.A. Inc. At Macy's, sales for the fiscal fourth quarter ended Jan. 29, 2011 rose 5.4 percent to \$8.3 billion, compared with the same quarter one year earlier. Same-store sales were up 4.3 percent, and sales at the corporation's Macy's and Bloomingdale's websites rose 29.1 percent.

Sales for Home Depot, for the fiscal fourth quarter ended Jan. 30, 2011, rose 3.8 percent year-over-year to \$15.1 billion. Same-store sales were up 4.8 percent.

Economic activity in the manufacturing sector expanded in February 2011 for the 19th consecutive month, according to the Institute for Supply Management's manufacturing index.

Of the 18 manufacturing industries represented in the index, 14 reported growth in February.



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## CoverStory

### Payments industry remains strong

The U.S. Economic Indicators Q4 2010 Report, created by The Strawhecker Group for the Electronic Transactions Association, cited several factors that speak to the strength of the sector.

TSG's proprietary Payments Index (which shows the performance of a \$100 investment in 31 of the largest payment-related businesses) provided a compound return of 7.3 percent from the first quarter of 2007 to the fourth quarter of 2010, according to the report. This is in contrast to a decline in the S&P 500 of 3 percent over the same period.

Junior Associate Bob Loewens of TSG believes the payments sphere continues to show growth because of continuing movement away from cash and check payments and toward electronic payments. "Card volumes seem to be relatively unaffected by what is going on with the economy due to the overall shift to electronic payments," he said.

Stock indexes also started off 2011 admirably. In a newsletter published by Legg Mason Capital Management, Senior Vice President, Portfolio Manager David E. Nelson commented: "After three down Januaries in a row in 2008, 2009 and 2010, the S&P 500 was up +2.37 percent in January 2011, posting its best opening month gain since 2006, and flashing an encouraging signal to followers of the January Barometer."

The expectation that stock index performance during January sets the tone for the rest of the year apparently carries weight with financial advisers. In a survey of 1,399 advisers conducted by Charles Schwab Corp., 56 percent classified themselves as bullish, while 10 percent saw themselves as bearish about stock market performance over the next six months. Seventy-seven percent of advisers surveyed are expecting the S&P 500 stock index to rise in the next six months, compared with 63 percent in July 2010.

"While there is still uncertainty in the markets and in various parts of the world, independent investment advisers clearly think we are turning the corner economically," said Bernie Clark, Executive Vice President and head of Schwab Advisor Services, in a statement about the survey

### Top performers

Among the companies identified as the top performers in TSG's payment index, based on year-over-year percentage of return, were VeriFone Inc., Hypercom Corp., Cardtronics Inc. and ACI Worldwide Inc. VeriFone and Hypercom posted strong results in part because of VeriFone's upcoming acquisition of Hypercom, its former competitor.

Cardtronics' sales growth and margin expansions placed it among the top performers in 2010: the company's core revenue grew by 12 percent; its posted earnings per share (EPS) increased 47 percent year-over-year.

ACI also experienced a banner year in 2010, with an EPS increase of 40 percent from 2009 and \$525 million in deals closed, the largest amount in the company's history.

### Growing coffers

TSG's report also included data on acquiring revenue realized by three companies – Total System Services Inc., Global Payments Inc.

and Heartland Payment Systems Inc. – that revealed a year-over-year increase of 17 percent for the third quarter of 2010.

Loewens said he's seen the number of inquiries by venture capital and private equity firms interested in investing in payments-related companies increase, another sign the sector shows promise of continuing profitability.

"That's something we've increasingly worked with investment firms on: helping them evaluate their target companies, complete the due diligence and assist them in their valuation process," Loewens said. "It's been very interesting and exciting to see over the last few years the increase in that type of activity here."

He added that payments is an attractive sector for investors because the business model provides residual income. "Revenue [in payments] will continue to grow, at a fairly steady pace, which makes it more reliable and predictable, and that is very attractive to investors," he said.

results. (This positive outlook has been tempered somewhat by the economic and human toll being exacted by the massive earthquake and tsunami that clobbered Japan on March 11, as well as concern over rising oil prices. But neither has caused a reversal in economic progress to date.)

Meanwhile, the increase in stock portfolio values helped drive up Americans' net worth by \$2.1 trillion, or 3.8 percent, to \$56.8 trillion in the last three months of 2010, from the previous quarter, according to the U.S. Federal Reserve Board's *Flow of Funds Accounts* report.

### Consumer confidence and spending

Mirroring the enthusiasm that businesses and investors are demonstrating is growing consumer confidence. Consumer confidence increased in February to its highest level in three years, according to an index maintained by The Conference Board. The index improved to 70.4 in February, from 64.8 in January. *The Conference Board Consumer Confidence Index* reflects consumers' perceptions concerning business and employment conditions and personal income.

This confidence carried over into consumer purchas-

ing behavior in the retail sector. In February 2011, the U.S. Census Bureau stated that advance estimates of U.S. retail and food services sales for that month, (adjusted for seasonal variation and holiday and trading-day differences, but not for price changes) were \$381.6 billion, an increase of 1 percent from the previous month, and 8.9 percent above February 2010.

Also in February, the National Retail Federation released its 2011 economic forecast, projecting retail industry sales (excluding automobiles, gas stations and restaurants) will increase 4 percent from 2010. The optimistic outlook was fueled in part by seven consecutive months of retail sales growth and better-than-expected holiday sales, according to the NRF.

Consumers aren't holding back on larger purchases, either. According to *Consumer Reports*, car sales for The Chrysler Group increased 17 percent in 2010, for General Motors Corp. 21 percent (for its four core brands), and for Ford Motor Co. 19 percent. The manufacturers posting the largest gains were Hyundai Motor America (24 percent) and Subaru of America Inc. (22 percent).

On the luxury spending side, jewelry sales also went up an impressive 7.7 percent from 2009 to 2010, reaching a

record \$63.4 billion, according to the U.S. Department of Commerce.

### A drive to succeed

The Conference Board's Goldstein said empirical and anecdotal evidence suggests the economy is improving. "Whether you [examine] this in a very rigorous fashion or whether you just simply talk to Joe-the-plumber-type people, the impression is that the economy is a little better ... that the economy is starting to pick up a little momentum," he said.

Where can we expect to see areas of growth as the economy picks up speed? Goldstein believes growth in the next decade is going to be less tied to real estate and more to areas like information processing, business services and Internet services, plus the standards: leisure and retail trade. The last two, in particular, are markets where payment professionals shine.

As stated in *Good Selling: Thirteen Weeks to Personal Success* by Paul H. Green, founder of The Green Sheet Inc., "Resolve that you will double the amount of enthusiasm you have been putting into your work and into your life. If you carry out that resolve, you will probably double your income, and double your happiness." ■



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## Forum

### Forum continued from page 5

Congress in 2006, it was certain nothing would be done to keep the train on the tracks. Could the Republicans have done more earlier? Yes.

Were they directly to blame? No. At least I have yet to hear a convincing argument documenting why they should be held accountable.

Finally, Fannie and Freddie ran out of all their capital, and that's when the Treasury seized them in 2007, and has been making payments to bondholders ever since with printed dollars instead of recalling the bonds and writing off the loans. These types of bonds represent much of the \$1.4 trillion in bonds the Fed bought from the Treasury in 2008.

**4.** The government naturally likes to blame Wall Street, but in truth until the Clinton Administration's policies created a glut of Alt-A and subprime loans in response to their strong-arm enforcement of the Community Reinvestment Act, before the 1990s, there was no secondary market for Alt-A and subprime loans.


Once the banks, then Fannie Mae and Freddie Mac, had their fill of these loans and couldn't take any more because of their capital ratio requirements, Clinton first, in 1999, repealed – along with the Republicans – the portion of the

Glass-Steagall Act, which prohibited banks from trading stocks and bonds, while concurrently asking Wall Street if they would create a secondary market for these Alt-A and subprime loans in which they would collateralize them and sell them off as bonds.

In Wall Street, the government found a partner only too willing to make some money off of this. Wall Street went on to go hog-wild with jumbo loan collateralizations and creation of derivatives to hedge the interest rate risk. Our former Treasury Secretary, Hank Paulson, created the first collateralized debt obligation, or CDO, the first mortgage-backed derivative I'm aware of, which came out in the 1990s.

I've been saying since 2007 that the whole concern about derivatives is a huge red-herring; if they aren't paid off, you essentially aren't paid off on an insurance policy. The real loss comes from owning the bond, not being able to collect on insurance you had for it. So blaming Wall Street for the financial crisis is like blaming a horse that gets out of a barn – never would have happened if the door had been kept closed.

**5.** The Fed's accommodative monetary policy exacerbated the problem with cheap money, driving up the value of homes and thereby increasing their fall. However, if debt-to-income ratios had never been increased and loan-



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to-values had not been allowed to go beyond 80 percent as a result of government carrot-and-stick policies, we'd never have gotten to where we are.

Lastly, I would say the whole TARP bailout and the AIG bailout are a ruse. Hank Paulson used those funds to pay out dollar for dollar on total garbage that was now worthless to Goldman Sachs, the largest banks and some selected hedge funds whose clientele would read like a who's who in Washington and Wall Street. In effect, Paulson made sure he, the Bushes and other key Republicans and Democrats holding this trash in their hedge funds were made whole with taxpayer dollars. Now Bernanke's going to pay us taxpayers back in newly printed and devalued dollars over time.

So there, my friend, is my view of the housing bubble and the consequent, subsequent "financial crisis."

Scott Bolster  
National 1st Credit Union

### The second view

Ironically, while the rest of the world is increasing its middle class (some estimates have 1.3 billion formerly poor people moving up to middle class status in the next few years), the American middle class is actually retreating, as concentration of wealth has been exacerbated by the bank-led global recession.

This is largely due to 30 to 40 percent drops in housing prices, which constitute most middle class assets (and wealth), and were the source of 'piggy-bank' equity loans – and subsequent debt – wildly promoted by banks that should have known better. In effect, banks trying to be like Goldman Sachs have achieved more wealth-creation-for-the-few than the Republicans under Bush 43 were able to achieve politically.

Consumer aversion to future debt sprees threatens to return retail banking to its historic, near utility-like role in the economy (which it would have retained had not the politicians – from both parties – and banks scuttled the Glass-Steagall Act in 1999).

Fundamentally, this means that bank revenues – the 'table' from which ISOs and all other payment industry participants have eaten heartily for decades – were artificially inflated for a decade or more. Thus, the chorus of cries from bankers that they have to raise fees to recover any largesse of revenue removed by the Durbin Amendment makes the incorrect assumption that society should value and reward the business of 16,600 banks and credit unions at existing levels.

In fact, in a competitive marketplace, the industry's \$300 billion in annual payments revenue (a McKinsey & Co. number) is probably artificially inflated by up to \$100 billion or more. For debit cards alone, Durbin takes out \$14 billion a year in interchange, and the overdraft legislation requiring consumer opt-in for NSF fee coverage will take out

another \$7 billion (the FDIC reports that 41 percent of the overdrafts at the 4,000 or so banks that they regulate come from debit cards). That's a cool \$21 billion off the top right away (assuming the Fed's proposed rule-makings stand).

Credit cards are still in Congress' gun-sights, along with other capricious, market-power fees and rates enjoyed by mostly a handful of big banks. So ISOs need to realize that the gravy days of payments are coming to an end, and they – as well as everyone else in payments – need to figure out how to create and drive real value in an increasingly digital transactional economy (read mobile), and get fairly (not lavishly) compensated for that.

If they don't, it won't take Apple, Google, AT&T and others long to figure out how to take away business that labors under an artificial pricing umbrella.

Steve Mott  
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# Education

# StreetSmarts<sup>SM</sup>

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## Finding opportunity in an altered business environment

**By Ken Musante**

*Eureka Payments LLC*

*Editor's note: This is Ken Musante's final article as author of Street Smarts. He has expertly engaged GS Online's MLS Forum and distilled the wisdom shared therein without fail over the past year. The Green Sheet is pleased Ken will continue as one of our esteemed contributing writers. Starting with our April 11, 2011, issue, Bill Pirtle will take on the Street Smarts mantle. As the author of Navigating Through the Risks of Credit Card Processing, Bill shares our utmost dedication to the education and success of payment professionals. Please join us in thanking Ken for his service and welcoming Bill to the Street Smarts fold.*

**F**irst, I want to thank *The Green Sheet* for encouraging me to accept the Street Smarts assignment. The folks there knew I could develop, with the help of the GS Online MLS Forum community, sufficient topics to keep the articles interesting.

I also very much appreciate fellow community members. I hope that regardless of whether you agreed with me, you believed I represented all viewpoints and correctly captured the ideas in the quotes posted.

*The Green Sheet* was generous enough to do an Industry Leader story on me for publication in issue 05:08:02 on Aug. 22, 2005. Since this is my last Street Smarts article, I want to update you on how my career has subsequently unfolded.

### **A startling takeover**

Our country and industry have been through tumult since 2008. My situation has changed radically since then and inspired many of the topics in this column. As you may

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recall, the parent company of my employer, Humboldt Merchant Services (owned by the First National Bank of Nevada), was shuttered by the Federal Deposit Insurance Corp. in July 2008.

Because Humboldt was a stand-alone company and not purchased by the successor bank, we were owned by and worked for the FDIC for more than three months. This was extremely difficult and humbling. It was early in the financial crisis, and although over 300 bank failures have occurred since then, we felt like we were the only ones suffering this consequence.

Many decisions were dictated to us by FDIC policy while we provided due diligence material to potential buyers. The other managers and I instructed and calmed staff, attended to myriad questions from buyers, and navigated the FDIC's rules and management style.

I was elated and gratified when Humboldt was purchased by Moneris Solutions Inc. in November. Moneris purchased nearly the entire organization, which provided jobs for all staff members and continued support for all sales contractors.

Over the next 18 months, I worked to maintain sales levels, drive new business and integrate Humboldt Merchant Services into Moneris. I came to understand and appreci-





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## StreetSmarts

ate how a successful larger organization makes decisions and competes within our industry. Moneris was fair to all former Humboldt employees, and I have maintained friendships with a number of the people I met at that time.

I also learned, however, that my skills are better suited for a smaller organization. Consequently, I left Moneris in March 2010 to join a startup organization.

### A new venture

Scott Bartlett and Steve Kimberling had started an ISO, Eureka Payments LLC, early in 2010. With an alteration of the business plan, I decided to take the leap and join a cash-starved startup. The three of us were the entire company. It was a liberating, yet trying experience.

Though I founded Humboldt Merchant Services in 1993, it was a part of a larger organization, Humboldt Bank. We had the parent company's support for facilities, procurement, budgeting and, more importantly, funding.

With Eureka, the three of us were responsible for every aspect of the business. The first step was reworking the business plan so it would attract investors to provide us funding for our operational and marketing expenses until our residuals could sustain us.



We developed strategic marketing plans to pursue three niches:

1. Mobile merchants
2. Hard-to-place card-not-present merchants
3. Merchants situated in and around Humboldt County, Calif.

### Necessary agreements

Next we undertook the legal work to develop our employee, operating and subscription agreements.

The employment agreement provides for each of us to earn a specific salary for a set period in return for  $x$  percent ownership in the company. We structured the contract to protect each of us from being ousted inappropriately, while simultaneously protecting the company by making our ownership contingent upon active participation at a certain performance level for a specified time.

The operating agreement details the relationships and rights of both outside investors and managing owners. This is a most complex document. It sets forth tax treatment of both losses and earnings, outlines the duties of the managing owners and restricts actions that could harm outside investors. Changes in corporate structure require a super-majority to protect all parties.

Finally, the subscription agreement is signed by the outside investors in exchange for shares in the company. In addition to explaining what they obtain for their investment, it also, in detail, explains risk factors we know of or hypothecate. The document accompanied our financial forecast, which we assembled along with our business plan.

### Ideal investors

Because of our advance preparation, obtaining the needed investment was surprisingly easy. We had targets and only approached individuals who would not consider the investment to be significant. We also wanted fewer than five individuals so we would be able to meet with our investors easily.

Finally, we wanted individuals who could assist our business by helping with our strategy or by providing us leads. Fortunately, two long-time associates came through and have been the perfect outside investors. They understand the industry yet do not care to manage our business; they trust us with their investment.

While obtaining investors, we also launched our marketing efforts. To do this, I had to learn the business from an entirely different perspective. While I had sold to merchants directly earlier in my career, it had been over a decade since I had programmed terminals.

***My time interacting on the MLS Forum has been invaluable. Although I was successful in past jobs, I would have been even more so with the information I now possess.***

Ken Musante

Completing an application, selling services, preparing comparative analyses and conducting sales calls were easy. Learning to program terminals and demonstrate gateways was more difficult.

### **New challenges**

Relearning the various terminal functions and then installing them was, at times, intimidating. But the more often I did it, the easier it became. My partners and I divided other duties such as information technology, procurement, product evaluation, finance, contract review and administration.

One obstacle we encountered was finding the right processing partners. Because of our market niches, we needed processing partners who were willing to accept accounts that do not meet traditional acceptance criteria, but who would also afford us the security of a sound processing bank and a fair contract.

We reviewed dozens of contracts and became an ISO for two well-capitalized banks. Doing so allows us to market and build our own brand. Given the spate of shuttered banks, we sought financial stability over higher residual payouts.

My business partners and I have complementary skills and have divided our responsibilities to maximize our efforts. I pursue leads from industry professionals who need assistance placing their business.

I am thankful I have been able to leverage my contacts and experience to develop a niche to help fuel this company. Since our company's founding, our country has lost 7.5 million jobs. We are thankful to have moved offices to accommodate an additional staff member. A fifth joined us in March; a sixth will come aboard in April.


### **Continued involvement**

I remain encouraged by our industry but am fearful of the Durbin Amendment's impact. Should it be implemented as proposed, despite what may be a very short-term lift in earnings, this will be terrible for our industry. Issuing banks will discourage card usage, and margins for check card transactions will fall below what we are seeing on PIN debit.

Although we will lose the competition from industry innovators, on the debit side, we will see a corresponding and radical decrease in our margins. Banks will push volume to credit products and discourage debit usage. We

shall see how this plays out, but this could radically alter our future strategy and growth.

My time interacting on the MLS Forum has been invaluable. Although I was successful in past jobs, I would have been even more so with the information I now possess. I look forward to being a participant in the forum and to reading Street Smarts articles written by Bill Pirtle. Bill is an industry author and resident expert. I have come to know him through the forum and know he will do a great job of carrying forward the Street Smarts tradition.

I'll close my last article with the now-familiar slogan that arose when I joined Eureka Payments. We all had too many things to do and difficulty prioritizing. It remains as apt now as it was then: when in doubt, sell something. 

*Ken Musante is President of Eureka Payments LLC. Contact him by phone at 707-476-0573 or by email at kenm@eurekaypayments.com. For more information, visit [www.eurekaypayments.com](http://www.eurekaypayments.com).*

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## Are you missing the mobile payment train?

**Nicholas P. Cucci**

*Network Merchants Inc.*

**T**he ability to accept credit card payments while on the go is essential today, and merchants are losing sales if they aren't taking advantage of mobile payment opportunities. Given recent technological advances, it doesn't cost thousands of dollars to integrate mobile solutions. By implementing them, merchants can save thousands instead.

Roger Entner, Senior Vice President of Telecom Practice at The Nielsen Co., estimates that by the end of 2011 smart phones will overtake standard wireless phones in the United States. With so many people obtaining smart phones, half the battle of mobile payment integration is already complete.

Many merchants now believe they no longer need to lease or purchase terminals, sign long-term contracts and pay a monthly fee for the privilege of processing electronic payments. And they are finding solutions through nontraditional payment providers. Using free software downloaded via the Internet, merchants can accept credit cards anywhere in the world as long as their phones have data connections.

Payment professionals need not cede this expanding arena to alternative mobile payment providers that lack meaningful, personal relationships with merchants. ISOs can offer free software and hardware that allow smart phones to accept card payments – and at highly competitive rates. It's time for all ISOs to investigate how to add mobile payment acceptance to their product offerings. Adding them to the mix of proven payment options and value-added services will provide better service to merchants.

### The question of security

Some may doubt the security of mobile processing. The key is for smart phones serving as card terminals to employ encrypted swipe solutions. Data encryption employs algorithmic schemes that transform plain text into cipher text, which is unreadable to unauthorized parties. Also, to be PCI compliant, merchants must never store card information on mobile phones. When mobile payment hardware employs encryption, data flowing from the swipe device to the phone is already encrypted, and the encrypted information is sent from the phone to the secure payment gateway for processing.

The merchant then receives a confirmation that the card number is good and the charge has been processed

through an encrypted connection. Consumers' worries are also allayed by mobile processing because their credit cards never leave their sight, and no credit card imprints or receipts remain on merchants' premises.

### Pluses of mobile solutions

Here are five reasons mobile solutions are strong:

- 1. Increased merchant sales:** All types of industries are switching to mobile processing. Customers don't always carry cash, and offering another, on-the-spot payment option increases sales, especially when the method is more convenient than cash.
- 2. Portability:** Merchants can accept credit cards anywhere they do business and from any location on the sales floor. There is no reason to transport hardware or spend thousands of dollars on additional terminals to add mobile payment functionality.
- 3. Secure transactions:** Data is transmitted securely. Mobile processing can even cut back on fraud. For example, merchants can lose checks or cash when on the road, and checks can bounce. Also, check processing typically requires that multiple individuals handle sensitive consumer information. Not so with mobile payments.
- 4. Fast processing:** It is extremely fast to set up a mobile account. Funds are also transferred quickly to the merchant's bank – instantly or within a few days.
- 5. Low cost:** Some mobile credit card processing services do not have contracts, termination fees or monthly minimums. Some payment apps may be free to download but have a monthly fee of \$5 because the swipe device used is hardware encrypted. However, mobile processing is significantly less costly than traditional payment solutions overall.

It makes sense for payment professionals to become well-acquainted with mobile payment options and to learn how to help merchants integrate them with other payment products and services. This will foster greater merchant satisfaction and lead to stickier relationships in the end. ■

*Nicholas Cucci is the Director of Marketing for Network Merchants Inc., a graduate of Benedictine University and a licensed Certified Fraud Examiner. Cucci is also a member of the Advisory Board & Anti-Fraud Technology Committee for the Association of Certified Fraud Examiners. NMI builds e-commerce payment gateways for companies that want to process transactions online in real time anywhere in the world. Contact him at [ncucci@nmi.com](mailto:ncucci@nmi.com).*

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Legal ease

## IRS filing fees: Revenue and contractual shakeup

**By Adam Atlas**

*Attorney at Law*

**R**emember when Payment Card Industry (PCI) Data Security Standard (DSS) fees first came on the payments scene? Get ready for another round of general confusion over a new fee for merchants in our industry: the IRS reporting fee. Every time a new fee is levied on merchants, each level of the sales stream reflects on each party's respective rights pertaining to the new fee.

The purpose of this article is to help ISOs and merchant level salespeople (MLSs) avoid frustration over fees ISOs and processors may charge merchants for preparing the forms that now must be filed pursuant to IRS Regulation 139255-08, which was developed in accordance with the Housing and Economic Recovery Act of 2008.

### Should fees be charged?

It's hard to ascertain how much it will cost acquirers to calculate the annual gross processing amount for each merchant and file the appropriate information with the IRS.

That said, the cost of delivering a service is not always directly related to the price charged for the service. Consider PCI compliance, for example. In many cases, PCI-compliance service for merchants consists of merely providing them a one-time questionnaire for which an ISO or processor charges a monthly fee for the term of the merchant agreement.

Keeping that in mind, I will not hazard an opinion as to whether it is right or wise to charge merchants for filling out and filing the IRS forms. Instead, acquirers, ISOs and

MLSs should decide for themselves if it makes business sense to do so.

### What should be charged?

As far as I know, the acquirer and merchant filing requirement is an annual obligation. That said, expenses related to plenty of annual requirements are commonly broken down into monthly fees. I think ISOs should expect acquirers to want to charge monthly fees related to the new IRS forms. It may, however, be challenging to reconcile merchants to the notion of paying a monthly fee for an annual tax form.

That said, anything more than a fee of a few dollars per month would probably be difficult to sell to merchants. Also, the price should not be greater than similar fees charged for other services that provide more perceived value to merchants.

For example, a merchant's monthly processing statement fee, which really is a monthly deliverable to the merchant, obviously takes more effort to compile than an annual statement of gross processing. Therefore, the monthly fee, if any, for the IRS form should not be more than that charged for the merchant's monthly statement.

### How should the fee be shared?

The answer to this question lies in the string of contractual relationships from the acquirer down to the individual agent. The problem is that many of those contracts do not contemplate, specifically, how new fees are to be divided between the various interested parties. Indeed, some agreements specifically exclude ISOs or MLSs from any share in new fees.

For example, if you are an MLS, and your contract says

## New IRS reporting requirements

As of Jan. 1, 2011, providers of credit and debit card settlement services must keep track of gross transaction totals, by individual merchant, for annual reports to the IRS. The first of these reports – detailing monthly and annual gross total credit and debit card payments by merchant during 2011 – are due to the IRS early in 2012.

Merchants must be identified by business name and address as well as tax identification number (TIN); those that fail to provide valid TINs will be subject to backup withholding.

Since acquirers already require TINs when opening merchant accounts, many payment professionals feel the new reporting requirement shouldn't be difficult to implement.



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## Education

that you will earn, say, 50 percent of all fees listed on a certain Schedule A to your agreement, in all likelihood, the Schedule A does not list an IRS fee. Consequently, you may not have a legal claim to a share of any part of the IRS fee – or any other new fee for that matter.

I recommend a close reading of the schedules to your agreements well in advance of the levying of IRS fees, if any, so that all parties have a realistic expectation of their respective entitlements. In the event that a contract does not mention this point and the parties are unable to agree on how to split the new fee, I recommend sharing the fee in a manner consistent with the way in which other fees to merchants are shared under the agreement.

For example, if an MLS is earning 50 percent of all net revenue to an ISO on the MLS's merchants, it stands to reason that the MLS could be entitled to 50 percent of the ISO's net receipts from the IRS fee.

### What about the long term?

While I cannot predict the future, I am inclined to believe that the popularity of charging an IRS reporting fee is likely to decline over time. At first, the temptation will be to charge a few dollars a month. Then, through ordinary competition, some ISOs might elect to absorb the fee.

In the very long run, some merchants might question why they are being asked to pay for a tax filing that is imposed on processors by law. Rather than speculate, it's probably best to simply recommend that all participants in our industry discuss with their business partners whether IRS fees will be charged, and if so, how they will be sold to merchants and how they will be shared.

### What can ease frustration?

The IRS fee is an important opportunity for ISOs and MLSs to discuss their respective rights to an IRS reporting fee, as well as to other fees that may arise in the future.

Instead of reliving the surprises, disappointments and conflicts that some ISOs and agents experienced over PCI fees, there is a chance now to plan for the new IRS fees and avoid the fallout that inevitably follows unwelcome surprises.

Healthy communication now among all parties concerned will help smooth the implementation of additional merchant fees should they be deemed necessary. ■

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# Value: Not always in the cards

By Dale S. Laszig

Castles Technology Co. Ltd.

**S**mart sales professionals know it's better to sell value than price. But in practice, selling value in credit card processing is not simple. Value may mean different things to different people.

For example, merchant level salespeople (MLSs) may think of value as all the ways services and products go above and beyond conventional modes of credit card processing. Merchants may think of value in more simple terms like getting a good deal at a fair price.

The payments industry value chain is filled with novel innovations that enable sales professionals to differentiate themselves from competitors. Many organizations invest millions in training and development to ensure their sales teams can effectively explain a value proposition.

But top producing sales professionals don't rely on canned presentations. They evaluate current operations and requirements

and then propose a solution. This article presents five guidelines for selling value in the price-conscious merchant community.

## 1. Know your audience

Recent technical advances and growing public acceptance of gift cards make it easier than ever to create the right kind of gift card program for almost any merchant. But despite their popularity and ease of implementation, gift cards are not for everyone. Before you show your samples, make sure the solution is the right fit for the business.

Christian Murray, National Director of Business Development for Global eTelecom Inc., said, "Agents and MLSs must evaluate the merchant's business model, demographics and current marketing initiatives in order to properly qualify and build value with merchants.

"Basing a presentation on these facts will greatly improve the merchant's perception of the solutions and build confidence in the solutions being proposed.

"Selling out-of-the-box solutions is an ineffective strategy in today's merchant environment. MLSs who focus on helping merchants launch programs geared to drive sales,

rather than using [them] as tools to get bankcard deals, are more effective and successful in their efforts."

Whenever you get a negative reaction to a value-added solution, try to identify and isolate the problem. Ask exactly what it is about the program or service that's causing resistance. If you can't overcome the objection, move on. The solution may not be right for that particular customer.

## 2. Show, don't tell

Demonstrating a solution can make it more tangible to a prospect. There is no better way to explain a product's ease of operation and all the accompanying bells and whistles than to just turn it on and show it.

Studies have shown that customers who touch and feel merchandise are a step closer to buying it. In an experiment involving a simple coffee mug, results showed that people who touched the mug became more attached to the product within the first 30 seconds of contact and were willing to pay a higher price for it. For more information, visit [www.thaindian.com/newsportal/health/consumers-more-likely-to-buy-products-they-touch\\_100139641.html](http://www.thaindian.com/newsportal/health/consumers-more-likely-to-buy-products-they-touch_100139641.html).

**Studies have shown that customers who touch and feel merchandise are a step closer to buying it.**

Eliminate barriers to the sale and dispel potential doubts by directly engaging prospective customers in the process.

Don't expect them to take your word for it. Let them swipe that card or "wand" that barcode for immediate proof of concept.

## 3. Provide excellent training

Training is a critical component of any new product introduction. This training could be provided by the MLS, the vendor, a relationship manager with expertise in training and development, or a third party specialist.

Depending on the complexity of the implementation, it could be a train-the-trainer process, or it could be staged in rotating shifts to accommodate the schedules of all employees who will interact with the program.

Beyond the obvious objective of helping the client become familiar with new equipment and processes, training presents an opportunity to overcome a natural resistance to change if the trainer is playful and interactive. Bring goody-bags and create a party atmosphere.

You'd be surprised by how much people appreciate company-branded pens or stress toys. Stage a mock graduation when the training is completed. These gestures will go a long way toward achieving a successful transition and ongoing good will.

## Education

### 4. Ask for and use testimonials

You may be lucky enough to have a client who wants to be the first to brave the uncharted territory of a product beta test. This kind of client deserves special recognition and deep discounts on the test products.

The client's willingness to work through unexpected events and provide continual feedback will make your marketing team happy and could eventually lead to an early-adoption case study and testimonial.

Most clients want the assurance of a proven and established product or service. They want to hear from other happy customers and see some evidence

of a healthy installed base. That's why it's so important to promote organic growth in new products and services through systematic testing, aggressive introductory offers and word-of-mouth campaigns in social media.

No one yet has the ability to predict if and when a particular solution will go viral, so it's a good idea to have a back-up plan that includes positive reviews and supportive customers.

### 5. Provide ongoing support and follow-up

As many of us have learned in our encounters with technology, the "use it or lose it" rule applies. After merchants are trained on new value-added solutions, it's important to follow up and make sure that they remain happily involved and actually use the product or service.


Sometimes they will be too embarrassed to ask for retraining and, as a result, the gift cards, identity verification or any number of other useful services will not be used. Don't let that happen. Routine follow-up calls by MLSs, relationship managers or customer support specialists will promote good will and keep customers engaged and productive.

### Applied technology


Less is more when it comes to merchant-facing sales presentations. Questions work better than statements. Take the time to listen; observe comments and body language when merchants discuss their POS systems. Which of your company's specific tools, logic, technology and services can be applied to improve or enhance the credit card processing experience?

Successful MLSs know value is not always in the cards; it's in the way we collaborate with our merchants to solve problems and build better processing systems. ■

*Dale S. Laszig is Senior Vice President of Sales in the United States for Castles Technology Co. Ltd., a manufacturer and global provider of smart card, contactless and POS solutions. She can be reached at 973-930-0331 or dale\_laszig@castech.com.tw.*







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# ISOMetrics

## Gen Y purchasing preferences

**G**en Y, comprising individuals born between 1982 and 2000, is highly sought after by marketers because its members are passionate about media and digital technologies, tend to influence their families' buying decisions, and have a lot of money to spend. Below is data from *The Western Union Payments Q4 Money Mindset Index* report by Javelin Strategy & Research. It compares this demographic's purchasing preferences with older age groups, combined.

### In which of the following areas are you likely to spend additional money in 2011?

	Gen Y	Total
Gifts .....	32%	26%
Dining out and other social entertainment .....	42%	37%
Personal travel .....	36%	47%
Games and other electronic entertainment .....	28%	22%
Home decorating .....	27%	22%
Home renovation (beyond necessary repairs).....	21%	27%
Beauty treatments (pedicures, manicures, massages) .....	18%	15%
Charitable donations .....	12%	18%

### Which household expenses will you increase in your budget?

	Gen Y	Total
Clothing and shoes.....	39%	34%
Domestic help (home cleaning, lawn care) .....	6%	7%
Rent and mortgage .....	36%	27%
Typical home repairs (not major renovations) .....	26%	31%
Home appliances .....	23%	20%
Home furnishings .....	28%	23%
Television (cable, satellite) .....	26%	21%
Internet.....	25%	19%

Phone (landline, mobile).....	19%	19%
Utilities (power, water, sewer, garbage) .....	37%	37%
Household products (detergents, paper goods, linens) .....	39%	39%
Groceries .....	64%	67%

### Do you plan to make a purchase in any of the following areas during 2011?

	Gen Y	Total
Jewelry .....	12%	9%
Horse or pedigreed pet.....	2%	2%
Sports season pass or season tickets .....	5%	4%
Golf or other club membership.....	4%	3%
Museum, theater or other annual membership .....	5%	5%
Gaming or other electronic entertainment system.....	20%	12%
Computer .....	27%	24%
Wheelchair or scooter .....	3%	3%
Recreational vehicle, boat, motorcycle, ATV .....	3%	2%
Furniture or home decor .....	21%	19%
Home renovation.....	8%	16%
Vacation.....	27%	29%
Property .....	5%	3%
House in addition to primary residence .....	3%	2%
House as a primary residence.....	12%	7%
New or used car .....	24%	20%

Source: Javelin Strategy & Research and The Western Union Co.





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# New card fee rules could swell ranks of America's unbanked

By Patti Murphy

*Inside Microfinance*

*Editor's note: This article was published March 1, 2011, by Inside Microfinance at [www.insidemicrofinance.com](http://www.insidemicrofinance.com); reprinted with permission. © 2011 Inside Microfinance. All rights reserved.*

**I**t was bound to happen. In their rush to complete a comprehensive financial reform package last year, Democrats in the U.S. House of Representatives caved in to a poorly conceived plan to help out Main Street and stick it to Wall Street by effectively redistributing costs and revenues associated with debit card payments.

Now, as reality sets in, there's a growing sense that the so-called Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act, does anything but protect consumers – that it might actually push more Americans away from the financial mainstream and swell the ranks of unbanked.

At issue is a long-standing feud over the costs incurred (implicitly and explicitly) in processing credit and debit card payments and the fees banks assess merchants for accepting card payments.

Banks that issue credit and debit cards are paid a fee each time those cards get used at a merchant's checkout. This fee, known as interchange, can vary, but typically works out to between 1.1 percent and 4 percent of the ticket total. Interchange gets assessed by the card companies and is factored into the overall price a merchant's bank charges for card processing (sometimes known as the merchant discount).

Retailers have complained about interchange for years. In 2003, led by the retailing giant Wal-Mart Stores Inc., retailers secured a multibillion-dollar out-of-court settlement with Visa Inc. and MasterCard Worldwide over claims the card companies had been overcharging on interchange.

## Was Congress hoodwinked?

Over the past few years, retailers managed to win over public sentiment and congressional leaders with a massive public relations campaign against what they dubbed "swipe fees." Equating interchange with a tax, retailers argued that interchange relief would result in lower prices to consumers.

However, generally they have been unable to provide any tangible evidence backing those claims. I recall a treasury exec from a major retailing chain being asked to do just that during a 2009 symposium at the Chicago Fed. His response went something like this: it's not something we

can say with any certainty ... it might work out only to be like 99 cents instead of \$1 for a can of soda.

Now some folks are suggesting that Congress was hoodwinked by merchants and that many small merchants were hoodwinked, too, by the big-box stores. And there's a movement afoot in Washington to delay or revise the Durbin Amendment, which instructs the Federal Reserve to regulate interchange assessed on debit card transactions to ensure these fees are "reasonable and proportional" to the costs banks incur issuing debit cards and processing payments made using the cards. (Prepaid debit cards are exempt from the statute.)

A proposal the Fed put out for comment in late 2010 would cap interchange at a maximum of 12-cents per transaction, which by the Fed's own reckoning represents a 70 percent price cut, vis-à-vis 2010, when debit interchange averaged 44 cents a transaction.

## As many as 1 million newly unbanked

In anticipation of a huge drop in revenues (financial institutions collected about \$12 billion in interchange last year, according to several sources), executives at financial institutions are looking for new revenue opportunities. The conclusion most have reached is that they'll need to start re-pricing checking account and debit card services. And that, in turn, is apt to chase low-balance and cost-conscious consumers out of the banking system.

The Credit Union National Association said all of its members will be hit hard by interchange price caps and may be forced to start charging their members for debit cards, checks and other previously free services. Credit unions are cooperatives, owned by member-depositors, and as such are considered consumer-friendly institutions. The Chief Executive Officer at JPMorgan Chase & Co. said he expects upward of 5 percent of checking account customers will leave the bank once it does away with free checking and debit cards.

A group of respected economists, collaborating on an economic analysis of the pending Fed proposal, predicted that as many as 1 million Americans will join the ranks of the unbanked if banks and credit unions try to compensate for lost interchange revenues with new account-holder fees. These are folks who generally maintain small balances; many simply don't have enough income to support new monthly bank charges.

The three – David S. Evans of the University of Chicago Law School, Robert E. Litan of the Brookings Institute and Richard Schmalensee of the MIT School of Management – suggest the interchange capping plan the Fed has

**Free checking predates debit cards by decades. In fact, one rationale banks first saw in debit cards was perpetuation of the myth of free checking.**

proposed could wind up costing consumers and small businesses more than \$33 billion over the course of the first 24 months of implementation.

They further predict in their newly released report, *Economic Analysis of the Effects of the Federal Reserve Board's Proposed Debit Card Interchange Fee Regulations on Consumers and Small Businesses*, that the largest retailers will divvy up a windfall of upward of \$20 billion in interchange savings during that same period.

### Ill-conceived price controls

Free checking predates debit cards by decades. In fact, one rationale banks first saw in debit cards was perpetuation of the myth of free checking. And for some banks – especially the large national brands – it was a great move, generating a huge revenue windfall.

But among small community banks and credit unions debit cards became a necessity as budget-conscious and

tech-savvy consumers demanded the immediacy of electronic access to their deposits. I, like any business owner who has ever tried to understand a credit card processing statement, know how frustrating it can be to try to make sense of the pricing formulas the banks and card companies concoct. It's an antiquated system that has outlasted several generations of processing networks and is in need of change.

This isn't something that Congress can or should fix, however. And frankly, the timing of this change couldn't be worse. Debit cards are the most popular method of payment among U.S. consumers, outside of cash. At 35 percent of noncash payments in 2009, debit card usage far exceeded credit card payments (20 percent), and even checks (22 percent).

So, why would Congress, or more importantly the Fed, want to risk dampening consumer spending at this fragile stage of an economic recovery with ill-conceived price controls? ■



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# NewProduct

## The check's not in the mail

### Product: Intrix Electronic Bill/ Invoice Presentment & Payment

Company: *Intrix Technology Inc.*

**R**oughly 80 percent of all business invoices are generated manually, according to Intrix Technology Inc. Building upon 20-years' experience as an integration consultant to merchants with a range of distinct needs, and as a payment gateway provider with strong automated clearing house (ACH) and Level III data capabilities, Intrix hopes to create a new trend with Electronic Bill/Invoice Presentment & Payment, an automated bill payment tool for larger businesses.

"We introduced it at ETA 2010," said Jeff Connors, Chief Executive Officer at Intrix. "I think we did about 10 demos, and everyone wanted to sign up for it. We then went out and did some more customization for various groups. We're not trying to be the biggest gateway. We're much more focused on the specialty markets." Target markets include the legal, dental, medical, insurance, manufacturing, distribution, association and service-based sectors.

According to Connors, two industries that required customization were health care and legal, where disputed payments and unique billing standards had to be addressed. "The legal industry has its own standards for bill presentment," Connors noted. "We made some modifications specific to that industry."

In health care, he said, an allowance was needed for patients to make payments on undisputed amounts, with disputed balances paid separately upon resolution.

### Fewer touch points, faster payments

Mike Passifone, an Account Executive with Intrix, claimed that virtually all of the touch points involved with manual billing can be eliminated through automation. Instead of printing and mailing invoices manually, invoices are sent electronically. He added that, while EBIPP works for most any merchant, it begins to generate revenue for businesses that average at least 1,000 invoices per month.

The plug-and-play, software-as-a-service product allows merchants to upload invoices directly to EBIPP using their existing accounting software. Once uploaded, email notification is sent to billing recipients. "[They] actually get an email that shows them that they have a bill ready to be paid," Passifone said. "They can click on it, view the bill, and create an ACH or credit card payment right then and there."

### Features of Electronic Bill/ Invoice Presentment & Payment include:

- Drives electronic payment volume in B2B and B2C environments
- Submits invoices and accepts payments electronically
- Integrates with existing accounting systems
- Reduces accounts receivable management expenses
- Leverages ISO branding and revenue opportunities

For ISOs, automated billing not only represents an opportunity for portfolio expansion, but "from a merchant viewpoint or from an ISO viewpoint, people can pay their bills through a card or an ACH, which increases volume to the ISO," Connors added.

### Flexible and tailored for branding

In addressing payment security and convenience, Passifone said, "The Intrix bill presentment and gateway work with a tokenization scheme, so they can use a token to actually apply a payment toward that same payment profile. They wouldn't have to come back in and establish or type in a card again.

"That's all set up upfront. They can also set up a payment profile where they can register on the site and have one setup as well." EBIPP is equipped to handle recurring payments, he added.

"Being a technology company that offers a gateway, we've seen customers with lots of problems who are looking to figure out how to avoid the issues of PCI, etc.," Connors said. "When we built the bill pay, we made it flexible, almost menu-like, so that a lot of people will do things differently from one another, and we try to say, check this need, and bingo, they're off to the races."

The system can also be branded. "I can make it look like the ISO's web portal, or I can make it look like the individual merchant's as well," Passifone said. "Even though it's being hosted by us, the actual customer would have no idea that it's an Intrix website."

Businesses using the EBIPP platform can generate discounts, promotional offers and marketing campaigns to increase visibility, Passifone added. ■

### Intrix Technology Inc.

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- ✓ \$300 up-front commission per POS terminal. An average merchant utilizes three terminals, providing a typical commission of \$900 per deal
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UBC1963 1/2009/10

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

Visit [www.greensheet.com/datebook.php](http://www.greensheet.com/datebook.php) for more events and a year-at-a-glance event chart.



## NACHA – The Electronic Payments Association

Payments 2011

**Highlights:** Payments 2011 promises to delve into the latest trends in electronic payments and offer a snapshot peek into next-generation payment drivers and solutions. Over 130 sessions and workshops will be presented in eight tracks that include such topics as the automated clearing house, card solutions, corporate payment solutions, global business, health care opportunities, and mobile banking and payments.

**When:** April 3 – 6, 2011

**Where:** Austin Convention Center, Austin, Texas

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



## Merchant Acquirers Committee

2011 Annual Meeting

**Highlights:** MAC's annual conference regularly draws more than 250 attendees and is said to be the only annual meeting in the



## Payments Source

23rd Annual Card Forum & Expo

**Highlights:** This comprehensive industry event offers payment professionals cutting-edge strategies, best practices, and innovative new products and services. Paul Galant, Chief Executive Officer of Global Enterprise Payments at Citigroup Inc., and other industry leaders will address critical issues affecting card payments.

The expo's five breakout tracks will include: card trends and opportunities, loyalty and the customer experience, emerging payments, regulatory reform and compliance, and security and fraud protection.

**When:** April 27 – 29, 2011

**Where:** Fontainebleau Miami Beach, Miami Beach, Fla.

**Registration:** [www.paymentsource.com/conferences/cfe11/index.html](http://www.paymentsource.com/conferences/cfe11/index.html)



## Smart Card Alliance

2011 Annual Conference

**Highlights:** This annual event allows professionals in the payments and security markets to share best practices, meet vendors in the large exhibit hall, witness live demonstrations, network with industry peers and more. This year, the focus will be on Europay/MasterCard/Visa (EMV) payments and secure identification. May 3 will feature keynote speakers and plenary sessions with experts in EMV payments, government regulation, national cyber-security strategies, and the Canadian payments market. Attendees will learn about the forces driving EMV adoption and mobile payments globally in addition to shaping the national strategy for trusted identities in the workplace and on the Internet.

The remainder of the conference program will be divided into two tracks – Payments, and ID and Security – that will cover the requirements and technology approaches for secure payment and identity applications. On May 2, attendees can choose to



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attend one of the three pre-conference workshops: OTA Email Authentication Academy, Mobile and Contactless Payments or EMV Implementation Roadmap for the U.S.

**When:** May 2 – 5, 2011

**Where:** The Hyatt Regency McCormick Place, Chicago

**Registration:** [www.smartcardalliance.org/pages/activities-next-conference](http://www.smartcardalliance.org/pages/activities-next-conference)



## Women Networking in Electronic Transactions

Super LINC Annual Event

**Highlights:** Women Networking in Electronic Transactions (W.net) will host its annual Super Local Interest Network Circle (LINC) event with the theme "Next Gen Leaders: Navigating the Road to the 'Corner Office'." The event will feature a panel discussion with Angela Brown of MasterCard Worldwide, Beth Paul of TrustCommerce and Nancy Gross of Heartland Payment Systems Inc., as well as an interactive networking session and reception.

W.net's LINC meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities. Upcoming LINC meetings are scheduled in Atlanta; Scottsdale, Ariz.; and Purchase, New York. For more information on these, go to <http://w-net.biz/news>.

**When:** May 9, 2 to 5 p.m.

**Where:** Hilton San Diego Bayfront hotel, San Diego

**Registration:** <http://w-net.biz/pagedisplay.asp?p1=7834>



## Electronic Transactions Association

ETA 2011 Annual Meeting & Expo

**Highlights:** A definitive annual event, this gathering is known as the ultimate networking and educational forum for professionals from every segment of the electronic payments industry.

More than 3,000 attendees, 200 exhibitors and 400 companies are expected to participate in this year's meeting. Strategic sessions will cover a range of topics including alternative payments, sales force development, industry regulation and global opportunities.

Slated pre-conference events include ETA Compliance Day, for all things compliance; Prepaid Day, where attendees will learn from leading experts how to prosper in the prepaid market; and the educational ETA University.

Other highlights include a president's dinner, golf tournament and entrepreneurial guest speakers.

**When:** May 10 – 12, 2011

**Where:** Hilton San Diego Bayfront hotel, San Diego

**Registration:** [www.electran.org/content/category/6/35/118/](http://www.electran.org/content/category/6/35/118/)



## SourceMedia and American Banker

Mobile Banking & Emerging Applications Summit

**Highlights:** The event covers a range of topics, from the basics of mobile banking and payments to emerging applications that will take financial institutions into the next phase of mobile financial services.

It brings together the various constituencies in the mobile financial services value chain, including banks, payment networks and processors, manufacturers, retailers, mobile vendors and service providers, who will be sharing perspectives and experiences.

Workshops will cover the mobile marketing channel, mobile devices as a payment tool, security and fraud management, content and application development, mobile commerce, and other topics.

**When:** June 5 - 7, 2011

**Where:** Hilton New Orleans Riverside, New Orleans, La.

**Registration:** [www.americanbanker.com/conferences/mobile11](http://www.americanbanker.com/conferences/mobile11)

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Do You Remember?

# 10 years ago in The Green Sheet



## Expansion for First Data, Fifth Third, U.S. Bank

First Data Corp. acquired majority equity interest in TASQ Technology Inc., while Fifth Third Bank's Midwest Payment Systems acquired 49 percent outstanding stock in integrated payment and e-commerce processor Universal Companies. Meanwhile, U.S. Bancorp merged with Firststar Corp. to become the eighth largest U.S. financial services holding company.

## WAP produces faster transactions

World Products Inc. and Atomic Software Inc. launched the Liberty cell phone system, reportedly the first U.S.-based Wireless Application Protocol (WAP) credit card processing application. Using the Internet-capable, WAP cell phone system enabled merchants to process transactions at a much faster speed.

## PreCash adds value to wireless accounts

PreNet Corp. introduced the PreCash Express Terminal, a POS system for processing the company's PreCash electronic payment card transactions. To add value, cell phone customers could use PreCash to make cash, check or credit card deposits directly to their wireless accounts.

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# Inspiration

WaterCoolerWisdom:

**We know what we are, but know not  
what we may be.**  
- Shakespeare

## Change minds, change behaviors



**H**uman beings are naturally resistant to change. But, as ISOs and merchant level salespeople (MLSs), it is your job to motivate merchants to change: change their thinking, change their habits.

How can you make change less intimidating for your merchant prospects? How can you encourage them to leave the safe familiarity of their old ways of doing things and sign with your service or use your equipment?

### First, demystify

For many people, resistance to change stems from a fear of the unknown. When thinking about updating their transaction processing capabilities, merchants might wonder:

- What, exactly, will happen if I switch to a new POS system?
- What new services will I be able to offer as a result?
- Will my customers see a positive difference if I upgrade?
- What benefits will I see?
- Is anyone in my area using the system I'm interested in?
- What kind of training will I have to invest in?
- How much will my checkout procedures change?
- Will I have to buy new supplies?

Many merchants have questions like these on their minds. It is your job to answer them – even if your prospects never verbalize them. Be thorough; use specifics; cite details; ask questions. Make sure nothing goes unanswered.

### Second, clarify

Remember, because your service or equipment is new to

your prospects, its virtues can be hard for them to grasp initially – no matter how detailed your presentation is. And the more full-featured the product, the more intimidating the thought of being left alone with it is.

Your product or service can open merchants' eyes and build their hopes for improved business, but to build the type of confidence that motivates people to change, you must make it absolutely clear what your product or service is or does. For example, clarify the following for a new terminal:

- Exactly what the terminal does
- Exactly how it will be set up
- Exactly when it will be up and ready
- Exactly how the merchant's interface will be affected
- Exactly what benefits the merchant will see (quieter printer, wireless capability, and so forth)
- Which keystrokes do what
- What kind of upgrades are available or needed
- What kind of security is available
- What kind of paper is used
- What customizable features are available

And don't forget to have your prospect do some clarifying, too. Ask at different points in the sales process exactly what the merchant needs and wants. More things are likely to come to light when you ask a second or third time. You can't meet a customer's needs if you aren't certain what they are.

### Third, compare

Once you've taken the unknowns out of the buying decision, compare your prospect's current situation to the improved environment that would result if he or she signed with you. When given the complete picture, your prospect will see that your offerings are superior – and that will motivate your potential customer to make changes that will enhance your bottom line.

Good Selling!<sup>SM</sup>

**Paul H. Green, President and CEO**



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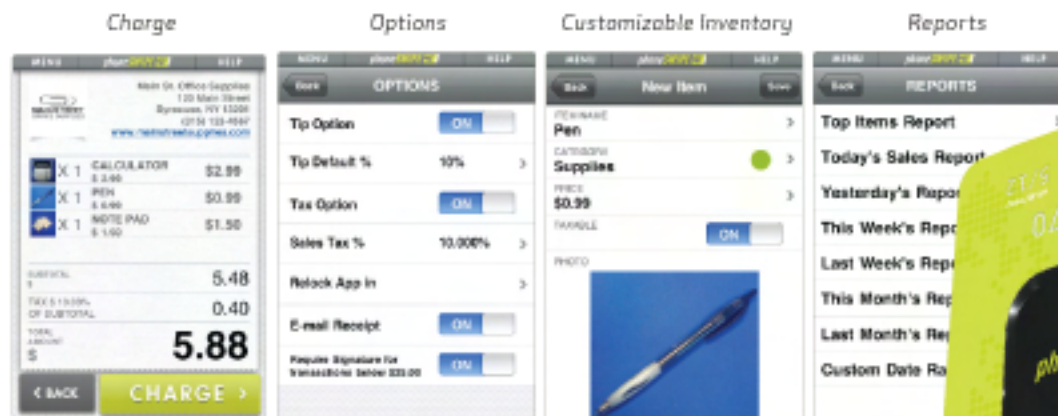
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\*Call for details. See reverse side for complete CCS program benefits.



**CCS Provides Merchants**

# **WORKING CAPITAL**

**To Build Their Business**

In today's economy, many merchants need working capital to build their business - whether it be for renovations, expansion, inventory, marketing, taxes or more. CCS' Merchant Cash Advance Program provides your clients with access to the cash they need to grow and succeed - with no limitations or restrictions on how the money is used.

**UP TO \$150,000 IN AS LITTLE AS SEVEN DAYS**

**NO PERSONAL GUARANTEE**

**NO COLLATERAL**

**MERCHANTS CHOOSE HOW TO USE THE MONEY**

Join the Industry Leader and Take Advantage of the ISO Program Designed to Provide **SHORT TERM INCENTIVES** and Build **LONG TERM WEALTH**

#### **CHARGE CARD SYSTEMS' PROGRAM BENEFITS:**

- **Up to 70% Residual**
- **Activation & Conversion Bonus** up to \$750
- **Low Transaction Fee** on all Retail, MOTO & Internet Processing; Dial-up & IP
- **12-Hour Funding** on All Card Types
- **Canadian Merchant Processing**
- **HioPos Point of Sale System**
- **Access to Multiple Platforms** including First Data Omaha, Nashville, North, Buypass; PNS, Vital & Global
- **High Risk Merchant Processing Options**
- **Mobile Processing & QuickBooks Integration**
- **Niche Marketing Divisions**
- **Agent Portal to Manage your Business**

**PARTNER WITH US AND WATCH YOUR BUSINESS GROW.  
CALL NOW!**



**CHARGE CARD SYSTEMS, INC.**

For more information on CCS, contact Adam Moss at 888.505.2273 ext. 207  
or visit [chargecardsystems.com/gsadvisoryboard](http://chargecardsystems.com/gsadvisoryboard)

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**FINAL FOUR** (4 approved applications) \$400

**ELITE EIGHT** (8 approved applications) \$1000

**SWEET SIXTEEN** (16 approved applications) \$2000

**RISING ABOVE THE FIELD** (32 approved applications) \$5000

**BEATING THE FIELD** (64 approved applications) \$10,000

**CALL ROBERT HEINRICH TODAY**

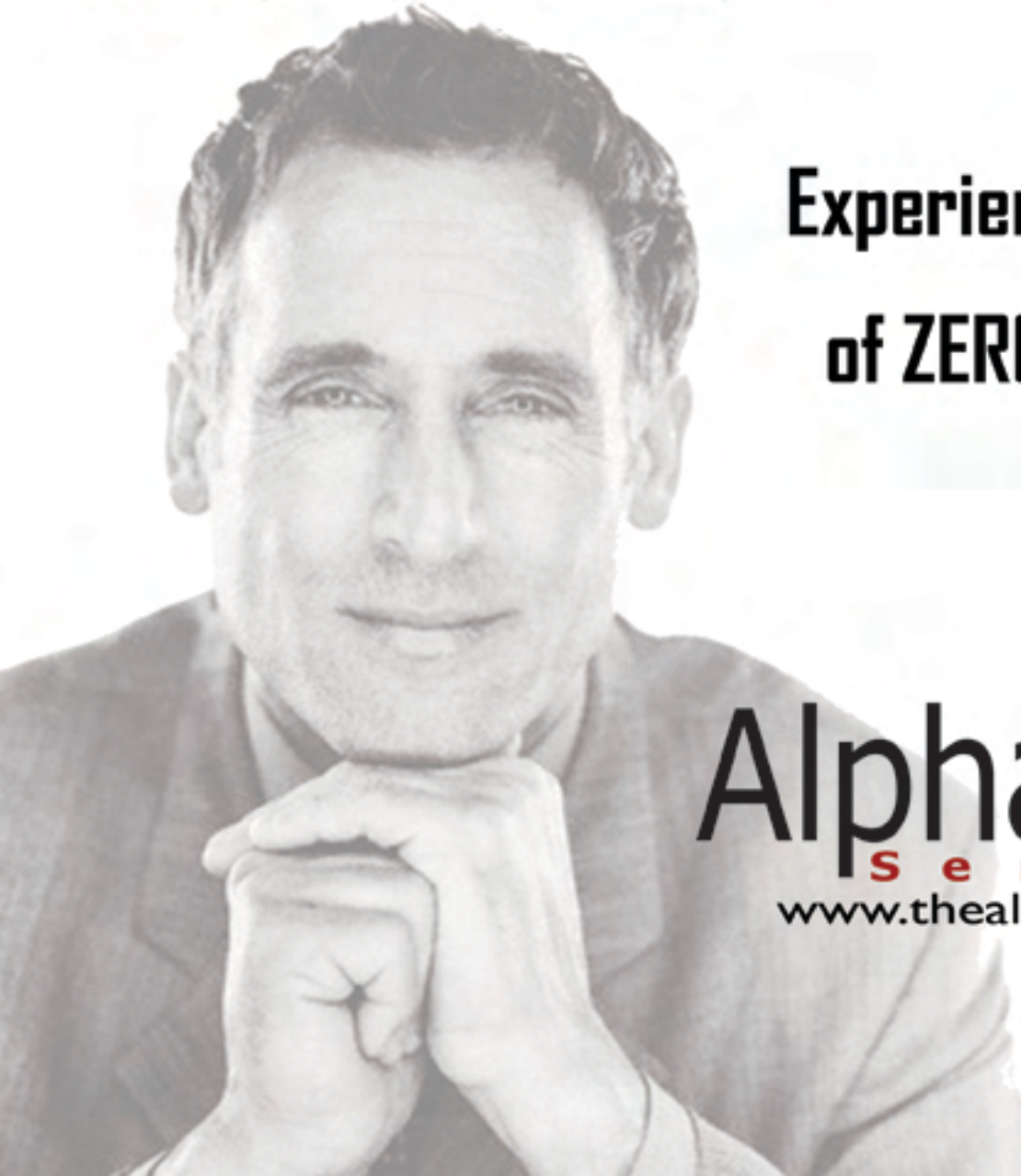
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- Programs Designed to Help MLS & ISO's of All Sizes
- Smart Phone & iPhone Processing
- Back Office Agent Portal
- Professional Merchant Proposals
- QuickBooks Integration
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**Experience the power  
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