



# The Green Sheet

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

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Publishing Excellence Since 1983

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## Public Apology

**F**or myself and on behalf of The Green Sheet (TGS) staff, I wish to wholeheartedly and without reservation apologize to Michael Daily, Chris West, Laura West, Robert Hendrix, Bobby Barnes and any other investor/owner of "The Watchdog Site" and new business referred to as The MSA—The Merchant Services Advocate, for any harm or hardship TGS may have caused them in their effort to create this new business, whether by accident or by omission.

While many GS readers may be aware of the plans to create this new business, which has been talked about a great deal (166 online posts since May 13, 2003) by Michael Daily on The Green Sheet MLS Forum (user name: CardPro), other readers may not be.

The essence of the business problem is based on an online public post by Mr. Daily on July 7, 2003, in which Mr. Daily suggested that it would be a good idea to have a Web site where MLSs could post any lawsuit that they or others might be involved in, as it pertained to the Payments industry.

Mr. Daily's post on July 7, 2003 read:

*"I would like to get some feed back from MLSs and ISOs alike about setting up a new section of Green Sheet, or setting up a separate Web site that would be devoted to 'actual' legal filings against processors, ISOs and agents in this business.*

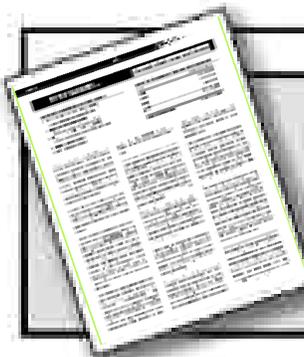
*"There has been in the past so much that has been said on the Green Sheet about companies and individuals. Most of it from those that wanted nothing more than to cause trouble for someone or some company. The purpose of Legal News would be to post the actual filings of law suits, government agency filings and filings against individuals so that we all could see what was going on, who is suing whom, and for what.*

*"I think that this would be valuable information for everyone in this business and would simply be the facts, as outlined in court documents or agency documents and not just the personal opinions.*

*"I would like to know what you think. I believe it is time to start policing our own industry and this would be a start in the right direction. The more information you have, the more informed decisions you will make."*  
(END)

As many of you know, TGS did indeed set up a new section of our Web site entitled Payment Processing Litigation (PPL), moving

 See APOLOGY on Page 51



### Notable Quote:

**Americans do not always accept change enthusiastically. We also believe that we are entitled to that great institution known as 'float,' which many regard to be an inherent right earned at birth.**

See Story on Page 72

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Paul Green

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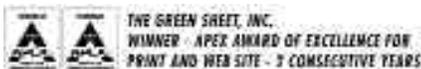
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### Article Shines Positive Light on BPS

First, I wish to offer my congratulations to you, Paul, and the entire staff on 20 years of The Green Sheet. The Green Sheet does a tremendous job delivering information to the Merchant Level Salesperson community, and I wish you continued success in the next 20 years.

I want to thank you for [running] the very well written article covering the Business Payment Systems (BPS) Conference and the NYC Blackout on August 14, 2003. The story accurately depicted the overwhelming feelings experienced by all in attendance. It is unfortunate that The Green Sheet was not in attendance this year, but I hope that The Green Sheet will attend the future BPS Conference in New York City in the upcoming years.

My thanks also to Dan Ross for writing the article and for his heartfelt words of praise and appreciation for BPS and the team that makes us successful.

Over the past 2 years Business Payment Systems has tripled in size, and last year it was ranked #1 with the most agents in the country. Our growth continues at phenomenal rates as BPS continues its focus on the agent. We aren't a processor or a bank. We truly are just one very large Merchant Level Salesperson that cares about the Merchant Level Salesperson.

I also wish to mention that throughout this growth, our ONLY marketing campaign has been in The Green Sheet. This campaign has been very successful, which speaks volumes for the quality and reputation of The Green Sheet. I appreciate everything that you do for the Merchant Level Salesperson community, and as the largest MLS, we feel the positive effects of your dedication and hard work on a daily basis.

I look forward to a long-lasting relationship between Business Payment Systems and The Green Sheet as we obviously share a common vision in the MLS community.

Sam Chanin  
Business Payment Systems



### Missing Processors

Why don't you have any information on large processing companies such as Fifth Third, Paymentech or First National Merchants Solutions? I would like to know your opinions on these big players.

Thanks,  
Greg Walan

Greg:

The Green Sheet Online includes a site-specific search engine called "Fast Finder." This tool enables our readers to search the entire GS Web site, or search specific areas of the Web site by company name or any other keyword for news and information.

A search using "Paymentech" found 607 total matches in 3 seconds within 169 pages. A search using "Fifth Third Bank" found 97 total matches in 4 seconds within 43 pages.

Additionally, we publish an annual report on the billion dollar bankcard acquirers. These issues are available online in the GSQ Archive: [www.greensheet.com/gsq/Secured-/gsqissues.html](http://www.greensheet.com/gsq/Secured-/gsqissues.html)

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## ▶ ▶ ▶ INDUSTRY UPDATE

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### NEWS

#### E-PASS Sues Visa for Patent Infringement

**E-PASS Technologies, Inc.** filed a patent infringement action against **Visa International** and **Visa USA** in Federal Court in Oakland, Calif. The complaint states that Hardy Hennige, inventor of the E-PASS patents, met with Visa personnel at Visa headquarters in Feb. 2000 to discuss his patented ideas for a portable e-commerce device. After the meeting, Hennige said he never heard from Visa again. About a year later at the 2001 Consumer Electronics Show, Hennige claims that a Visa and PALM representative demonstrated one of the several E-PASS patented inventions he had previously presented to Visa. Visa's answer to the complaint was not available at press time.

#### Consumers May Spend Less this Season, Survey Says

Americans plan to spend less this holiday season than last year, according to a new survey by **Consolidated Credit Counseling Services, Inc.** According to the poll of nearly 1,000 U.S. consumers:

- 58% said they would spend less than they did last year
- 50% said the cutbacks are due to current economic conditions
- 25% said they did not use credit to buy gifts last year
- 6% said they charged between \$750 and \$1,000 last year for gifts
- 5.5% said they charged more than \$1,000 on credit last year for gifts

- 22% said they typically charge between \$300 and \$500 during the holidays

For more information on holiday spending forecasts visit [www.ConsolidatedCredit.org](http://www.ConsolidatedCredit.org).

#### Citigroup Completes Purchase of Sears Credit Cards

**Citigroup** announced it completed its purchase of **Sears, Roebuck and Co.**'s credit card portfolio, paying about \$3.2 billion for it. About \$2.9 billion of this amount is from a 10% premium for the \$28.6 billion in receivables that Sears held on its private label and bankcard portfolios. Included in the purchase price was the assumption of \$10.4 billion in securitized debt and other liabilities. Citi also paid Sears about \$300 million for business facilities, employees and other assets related to credit card business.

Citi said that there would be no immediate changes to the Sears card programs or operations. The two companies have also entered into a multi-year marketing and servicing agreement across a range of each company's businesses, products and services.

### ANNOUNCEMENTS

#### EXS Moves to Atlanta

**Electronic Exchange Systems (EXS)** opened an additional office located in Atlanta, which will serve as EXS' sales and marketing headquarters. The company said it closed its Florida office and opened the Atlanta office to



- ▶ The **Mall of Memphis** will close its doors for good at 6 p.m. Christmas Eve 2003. The 1,200,000-square-foot mall that opened 22 years ago is shutting down because of increased competition from other malls and an increase in crime in the area.
- ▶ The **National Retail Federation** said it expects a 5.7% increase in holiday sales from last year, which would be the largest gain since 1999.
- ▶ **Stage Stores Inc.** completed its acquisition of privately held retail chain **Peebles Inc.** for about \$167 million, plus the assumption of about \$54.9 million in debt. Stage Stores now operates 514 stores under the Stage, Bealls, Palais Royal and Peebles names.
- ▶ **McDonald's Corp.** said global system-wide sales for McDonald's increased 17.8% in October 2003 compared with the same period last year.

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offer employees, customers and partners a more convenient and centralized location. The Atlanta office will initially employ eight people; the company hopes to increase its staff to 15 by summer 2004. EXS also has an office located in Newport Beach, Calif.

### Vital Certifies Hypercom T7Plus

**Vital Processing Services** has awarded a Class-A certification to its retail and restaurant application for credit, debit and POS check service acceptance on **Hypercom Corp.**'s T7Plus card payment terminal.

### AmEx Awarded Patent for Transparent Cards

The U.S. Patent Office awarded **American Express Co.** U.S. Patent No. 6,581,839 for its clear card technology. American Express said this is the first time a card issuer has successfully developed transparent and translucent card products to be used with infrared-beaming machines, such as ATMs.

The technology is used for American Express' Blue, Blue Cash and several other card products. The company introduced the first transparent card product in the U.S. in 2002 with Blue.

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## PARTNERSHIPS

### ABN AMRO Renews with Michigan Restaurants

**ABN AMRO Merchant Services, LLC (AAMS)**, a joint venture of LaSalle Bank Corp. and National Processing Company, LLC, renewed a processing agreement with the **Michigan Restaurant Association**. Under the terms of the agreement, AAMS will continue providing credit card authorization and settlement services for Michigan Restaurant Association members.

### Access ATM and PCS Join Forces

**Access ATM, Inc.**, a national ATM service provider, and **Petroleum Card Services, Inc. (PCS)**, a pay-at-the-pump credit card processing service provider, have partnered as distributor alliances. Petroleum Card Services will market ATM and pay-at-the-pump processing services to its distributors and merchants; it will also enable Access ATM to offer its distributors pay-at-the-pump processing services. The alliance creates additional sales and residual income streams by offering multiple services to the same target markets.

### Biometric Check Cashing in 176 More Stores

**BI-LO** will use **BioPay's** Paycheck Secure, a biometric check cashing identification system, in 176 of its super-market locations throughout the southeast to help prevent the cashing of fraudulent checks. BI-LO operates 300 supermarkets in the Carolinas, Georgia and Tennessee and employs 27,000 people. BI-LO had tested BioPay's solution in 26 stores beginning in June.

### Cardtronics Chooses POSLink

**POSLink**, local services subsidiary of **Transaction Network Services (TNS)**, will provide **Cardtronics** with low-cost, reliable local services to help it consolidate dial-line access and reduce network communications costs. Cardtronics currently owns and/or manages more than 12,500 ATMs. TNS offers local telephone services to merchants and ATM owners through POSLink.

### Fifth Third to Offer SLIM CD

**Fifth Third Bank Processing Solutions** agreed to distribute **SLIM CD Inc.**'s merchant credit card processing software (SLIM CD). The software supports both credit and online debit transactions for merchants processing on the Fifth Third Bank Processing Solutions platform.

### Givex Announces Technology Partners

**Givex Corp.** announced three new partners at the end of October 2003. **SIVA Corp.** will integrate Givex's gift

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card and loyalty services into the iSIVA point-of-sale and back office products. **Tiosk** announced plans to integrate Givex's gift card and loyalty services into its Tiosk Card Issuing Kiosk Systems.

And **Fresh Enterprises Inc.**, owner and operator of **Baja Fresh Mexican Grill**, selected Givex as its gift card technology provider. About 260 Baja Fresh locations will sell gift cards using the Givex-enabled MICROS 3700 POS system and Ingenico's eN-Touch 3000 POS terminals.

### NCFS Helping with Liberty Fitness' Payments

**Liberty Fitness Centers** selected **National Cash Flow Systems, Inc.** (NCFS) to help it implement an integrated payment platform for each of its franchisee U.S. locations. NCFS provides electronic payment solutions such as recurring payments, electronic Internet or telephone payments, electronic conversion of accounts receivable payments and stored value card transactions. Liberty Fitness is a women's fitness and weight loss franchise with more than 60 U.S. locations.

### Paymetric, TransFirst Offering Cardinal Centinel

In separate partnership agreements, **Paymetric, Inc.** and Dallas-based **TransFirst** agreed to offer **Cardinal Commerce Corp.**'s payment authentication software, Cardinal Centinel, to its online merchant customers.

Cardinal Centinel was designed for acquiring banks, merchant service providers and their merchants. The software reduces the number of online fraudulent transactions and guarantees payment to online merchants using it, while protecting the accounts of cardholders. The software includes Verified by Visa, MasterCard SecureCode and JCB's J/Smart payment authentication in one solution.

## ACQUISITIONS

### eFunds Acquires Oasis Technology

**eFunds Corp.** signed a definitive agreement to acquire the assets of **Oasis Technology, LTD.**, a private payment software company, for approximately \$28 million to be paid in cash. Oasis has 150 customers in 75 countries. eFunds intends to maintain and enhance CONNEX, its EFT software application, and integrate key components of Oasis' open platform solution.

### Gilson & Associates Bought by VECTORsgi

**VECTORsgi** (formerly Sterling Commerce's Banking Systems Division) acquired Atlanta-based **Gilson & Associates**. **VECTORsgi**, founded in 1976, provides financial transaction processing, image exchange, item

processing, dispute resolution and e-commerce solutions to financial institutions. **Gilson & Associates** is an item processing technology company that provides consulting and software solutions to the banking industry. Under the acquisition, all members of **Gilson & Associates** have accepted positions with **VECTORsgi** and will maintain their offices in Atlanta. The terms of the deal were not disclosed.

## APPOINTMENTS

### Global Payments Hires SVP for Planning

**Global Payments Inc.** hired **Jeffery B. Baker** as Senior Vice President of Strategic Planning. Baker most recently served as Principal and Senior Research Analyst, U. S. Bancorp Piper Jaffray Corp. He also has been a Vice President and Senior Research Analyst with W. R. Hambrecht and Company; a Director with SunTrust Equitable Securities, Inc.; and Assistant Vice President with Principal Financial Securities, Inc.

### TransFirst Names Director of Agent Bank Sales

Dallas-based **TransFirst** named **Donna J. Burns** to the position of Executive Director of Agent Bank Sales for the company's southeast region. Burns has more than two decades of experience in the sales and service industries. She previously worked at First Tennessee Bank, located in Memphis, Tenn. where she managed regional support center and regional sales managers and representatives. Prior to First Tennessee, Burns held management positions with Northwest Safeline and Halls Publishing Co.

### Visa Appoints Commercial Solutions SVP

**Visa International** named **Aliza Knox** to head its global commercial solutions division as Senior Vice President, Visa Commercial Solutions. Knox has more than two decades of experience in financial services. Knox joined Visa in 2002 to manage the alignment of product development and business strategies.

### Smart Card Alliance Elects 2004 Board

The **Smart Card Alliance** (SCA) elected new members to its **Board of Directors** for 2004. **Kevin Gillick** was elected Chairman. Gillick serves as head of corporate marketing for the Datacard Group. He has served on the SCA's Board of Directors since 1999. The other officers of the executive committee of the 18-member board are:

- Vice Chairman, Bryan Ichikawa, Unisys
- Treasurer, Bob Wilberger, Northrop Grumman
- Secretary, Linda Brown, Infineon Technologies
- Assistant Treasurer, Keith Saunders, MasterCard Int'l.
- Assistant Secretary, Alex Giakoumis, Atmel Corporation
- Technology Vice Chair, Gilles Lisimaque, Gemplus

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## MasterCard Appoints CFO

MasterCard International promoted **Chris A. McWilton** to the position of Chief Financial Officer. McWilton will report to MasterCard's President and CEO, Robert Selander, and will serve as a member of the Executive Management Group. McWilton joined MasterCard in January 2003 as Corporate Controller; he has been acting as interim CFO.

Prior to joining MasterCard, McWilton was a partner at KPMG LLP, where he headed the Information, Communications and Entertainment practice of the New York office.

## Heartland Adds New Board Member

Heartland Payment Systems, Inc. appointed **Jonathan Palmer** to its Board of Directors. Palmer has more than 37 years of experience in the financial services industry in senior operating and strategic roles.

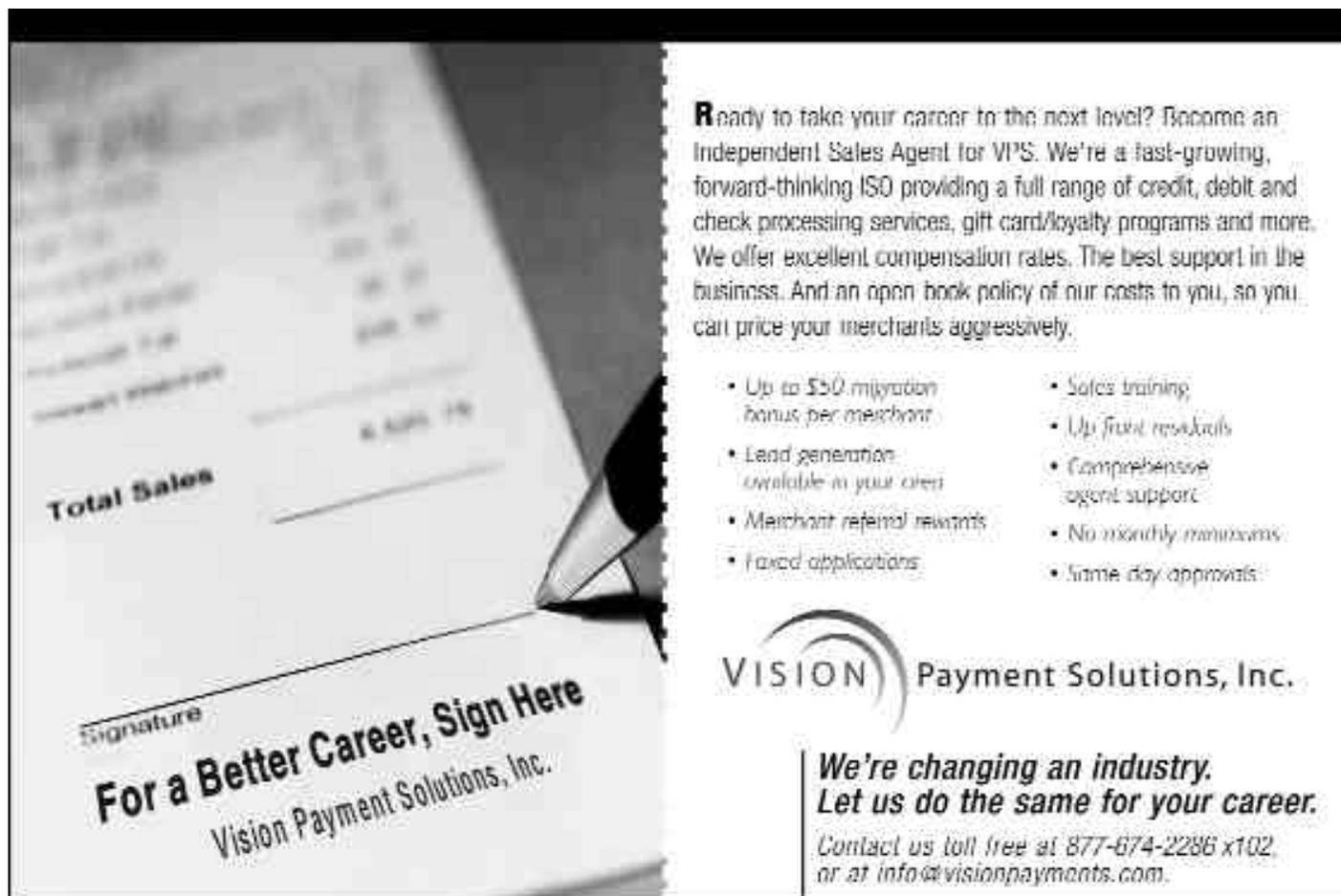
He has worked at Vital Processing Services, Wellspring Resources, Barnett Banks, Shearson Lehman Brothers and Fidelity Bank. Palmer most recently served as President and CEO of Vital.

## Pay By Touch Appoints Exec Team and Board

**Pay By Touch** (formerly known as Solidus Networks, Inc.), provider of biometric authentication at the point-of-sale, recently announced its new executive management team and members of its Board of Directors:

- John Rogers, President, Founder and Chairman of the Board of Directors
- Craig Ramsey, CEO and member of the Board of Directors
- Brian Miller, EVP Strategic Alliances and member of the Board of Directors
- Nhan Nguyen, Chief Technology Officer/Chief Information Officer
- Eric Bachman, Chief Operating Officer
- David Siminoff, CFO
- Caroline McNally, Chief Marketing Officer
- Steve Zelinger, General Counsel
- Jon S. Siegal, VP Sales, Americas

**Eula Adams**, former Senior Executive VP for First Data Corp., and **Robert Shaw**, Chairman and CEO of ArcSight, will also serve as members of Pay By Touch's Board of Directors. 



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## Insider's Report on Payments

# Putting the Squeeze on ACH Fraud

By Patti Murphy

**P**ayments fraud is a bit like a water balloon. Exert pressure on one area, and the water (the fraud problem) moves somewhere else. But fraud (or at least the threat of fraud) never seems to go away and just about everyone is vulnerable to it.

A recent case in point: Waco, Texas-based Electronic Financial Group (EFG). EFG was one of a handful of companies riding the wave of increased ACH activity brought on by e-checks. E-checks are checks that get truncated (e.g. at the point of sale) and processed as electronic payments through the ACH system.

E-checks provided a nice boost to EFG's business—little known before 1998. The company reported triple-digit growth rates in its transaction totals for 1999 and 2000.

Unfortunately for EFG, fraudulent telemarketers initiated some, if not many, of those transactions. Or at least that's what the government claims. Today, the company and its principals stand accused of helping four telemarketing firms that they knew ("or consciously avoided knowing") were crooks, according to the federal government's consumer protection lawyers.

A court-ordered injunction, initiated at the request of the Federal Trade Commission (FTC) in August 2003, comes down hard on EFG, stipulating among other things that EFG no longer process e-checks for telephone and Internet sales.

Jerry Federico, an EFG principal, declined to discuss the action, except to say that EFG denies the allegations and is working with the FTC to resolve things.

That the FTC went after EFG is significant on several counts. It's one of the first payment processing companies taken on by the federal watchdog agency. More significantly, though, the FTC might never have had a case against EFG were it not for industry self-regulation.

Michael Herd, a spokesman for NACHA (the ACH rules group), says NACHA and its member banks "spent a great deal of time" collecting data and other supporting information for the FTC's case.

Unscrupulous telemarketers are always looking for new ways to collect money from unsuspecting victims. So it

stands to reason that the ACH system attracted their gaze with roll outs of e-check applications. Soon after the introduction of two e-check applications specifically targeting payments initiated via the Internet or telephone, Herd says NACHA began noticing an increase in ACH return items.

Now ACH returns (such as returned checks) can be triggered by various events, including non-sufficient funds (NSF) or claims that the payment was unauthorized. While a transaction can be considered unauthorized for any number of reasons, NACHA uses the number of claims of unauthorized transactions as a "proxy" for the incidence of fraud using the ACH, says Herd. When those numbers began to climb, in mid-2002, NACHA sprung into action.

With the help of Wells Fargo Bank, which maintains a sophisticated ACH data archive, NACHA was able to discern that a disproportionate share of returns were for Internet or telephone sales, and eventually traced the transactions back to the sources. Not surprisingly, they were telemarketers.

At about the same time, the FTC noticed an increase in consumer complaints about telemarketing fraud where payments were processed through the ACH. The two organizations pooled information and were able to identify EFG and several telemarketing cons, a number of which the FTC says it had sued in the past for similar scams.

One of the cons involved a bogus lottery; three others involved advanced-fee credit cards.

The advanced-fee credit cards that were being sold were really stored-value (debit) cards; marketing them as credit cards is deceptive and illegal, says Jim Davis, an FTC attorney. Consumers were also deceived by claims telemarketers made that implied use of the cards would help consumers repair bad credit ratings.

The FTC took EFG to task for aiding and abetting the cons, in violation of NACHA rules. NACHA has strict rules about the ACH's telemarketing applications, including a prohibition against using the ACH to process payments from outbound telemarketing calls unless there's an existing relationship with the customer. In its complaint, the FTC specifically cites EFG's breach of these ACH rules.



**ACH rules ... put a lot of emphasis on consumer protection. Check laws have their basis in commerce, and for the most part establish a greater burden of proof in dispute situations.**

"One reason the FTC action in the EFG case is significant is that it shows that the NACHA rules are enforceable in court against non-banks, and that the FTC will pursue enforcement of NACHA rules when it determines there has been harm to consumers," Herd says.

Now, I've been known to take pokes at the ACH, but this is one time that it proves its mettle. The work done by NACHA and its member banks to ferret out these fraudsters should be an example to others in the payment arena.

But let's not fool ourselves into thinking this is the last we'll hear from fraudulent telemarketers. They'll just find another way to collect payments from their scams. NACHA reports that since it began cracking down on telemarketers' improper use of e-checks, banks have seen a dramatic drop in claims of unauthorized e-check transactions.

For the third quarter, the unauthorized return rate for ACH payments was 0.025% (or, 25 for each 100,000 ACH payments). That's down 60% since Q3 2002, when the unauthorized return rate peaked at 1.27%, according to NACHA.

"With new monitoring, alert and rule enforcement mechanisms that NACHA has put permanently in place, the risk of unauthorized ACH telephone payments is greatly reduced," boasts NACHA CEO Elliott McEntee.

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New NACHA rules that took hold in June provide NACHA with the right to obtain transaction records from any originating bank when one of its telemarketing customers has an e-check return rate exceeding 2.5%. The result: fraudulent telemarketers are turning to demand drafts—check-like documents that can be initiated by verbal agreement and drawn against a customer's checking account.

So, telemarketing fraud hasn't gone away; the fraudsters have simply shifted to another payment mechanism. But the check mechanism may not work to their advantage for long. The Check 21 Act, signed into law in late October 2003, has these folks squarely within its sights.

The Check 21 Act encourages nationwide check truncation by removing legal impediments, such as the need to present cancelled

checks for proof of payment. Check 21 eliminates that impediment by creating a new "Substitute Check" with the same legal status as a paper check written from the buyer's checkbook.

Substitute Checks can be provided with monthly statements, or upon request, when the original checks are truncated.

Truncated checks are digitally imaged and processed electronically as checks. E-checks, are checks that are converted to electronic payments. This is an important distinction to understand.

ACH rules, for example, put a lot of emphasis on consumer protection. Check laws have their basis in commerce, and for the most part establish a greater burden of proof in dispute situations.

Banks really like truncation because it expedites the clearing process, which means banks can spot fraudulent transactions quicker and reverse those transactions, sparing banks and merchants billions of dollars in annual check fraud losses. Add truncation to the banking industry's existing arsenal of check fraud weapons (such as positive pay), and fraudulent telemarketers could be scared off.

I can't help but wonder, though, what these guys will come up with once they're scared off of e-checks and demand drafts. Or should I say, which direction the fraud problem will move within the confines of the payments water balloon. ■

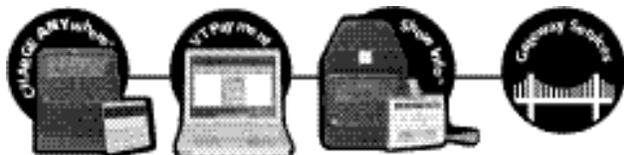
*Patti Murphy is Contributing Editor of The Green Sheet and President of Takoma Group. She can be reached at [patti@greensheet.com](mailto:patti@greensheet.com)*

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## Visa, MasterCard Continue the Battle

**E**vents continue to unfold for Visa USA and MasterCard International following settlements and anti-trust charges against the two big card associations.

In early November 2003, Visa posted a \$1.4 billion operating loss for its Fiscal Year 2003, which ended September 30. The deficit resulted from the \$2 billion in penalties Visa agreed to pay as part of its April out-of-court settlement of the lawsuit with retailers.

Visa has asked its largest member banks, including Bank One Corp., Wells Fargo & Co. and Bank of America Corp., to pay their membership fees early to make up for the shortfall. While Visa had agreed to pay its part of the damages to Wal-Mart and other merchants over 10 years, generally accepted accounting practices (GAAP) require the company to post the loss in the current fiscal year.

Visa and MasterCard were co-defendants in the retailers' suit as well as in an anti-trust suit that alleged the two associations pressured banks to issue only their branded cards.

Following the settlement in the retailers' suit and fearing defection of smaller banks to other associations, Visa initiated an "exit fee" program in October to prevent its members from ending their Visa agreements and moving to rival card brands MasterCard, American Express or Discover.

On November 11, though, Visa issued a memo to its members stating the exit fees would be imposed only if they switched to the MasterCard brand. Visa contends that by agreeing to allow banks to issue AmEx and Discover cards, it will be satisfying concerns the Department of Justice's Anti-trust Division has about their business practices. MasterCard has been trying to lure debit card customers away from Visa and says Visa's "exit fees" are anti-competitive.

Also in November, MasterCard announced it eliminated 120 jobs, or 3% of its global workforce, in a cost-cutting move. Most of the jobs were located at its Purchase, N.Y. headquarters and St. Louis technology operation. MasterCard said the job cuts are unrelated to the settlement in the retailers' suit, in which it agreed to pay \$1 billion in damages. ■

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## Senate Legislation Pre-empts State Financial Privacy Laws

**R**ecent legislation passed in the U.S. Senate on Nov. 5, 2003 arms consumers with more weapons to fight identity theft, but threatens California's new financial-privacy law (SB1), which prevents businesses from sharing consumers' financial information.

SB1 was signed into law in California on Aug. 27, 2003, and was scheduled to take effect July 1, 2004. The law intends to help consumers combat identity theft by preventing banks, insurance companies, brokerages and large financial institutions that control many of these lines of business under one roof from sharing customers' personal financial information between themselves and their affiliates, unless they have customer permission.

The legislation in the Senate serves as an amendment to the 1970 Fair Credit Reporting Act (FCRA), which created a national credit-reporting standard. Eight-year-old provisions in the FCRA, due to expire Jan. 1, 2004, prohibit states from passing their own consumer protection laws. The amendment was modeled after the California measure and was sponsored by California Sens. Diane Feinstein and Barbara Boxer (both Democrats).

The Senate voted to provide consumers with more information on understanding their credit scores, reasons for the denial or approval of credit, a free copy of their credit report annually and a one-call-for-all fraud reporting; but voted against states making their own rules on how businesses use, share

and report data on their customers. This is bad news for the California law and for other states looking to pass similar measures.

Banking industry officials oppose states passing their own legislation on this issue. They argue that it would complicate the consumer lending business and make it harder for consumers to obtain loans, the New York Times reported.

Consumer advocates believe more needs to be done to protect consumers' privacy rights, especially at a time when corporate conglomerates can control health and life insurance companies, mortgage and automobile lenders and brokerage houses, among others.

The House passed a similar version of legislation in September by a 392-30 vote. ■



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## Nonbanks in the Payments System

**Research Report:** "Nonbanks in the Payments System"  
**Authors:** Terri Bradford, Matt Davies and  
 Stuart E. Weiner, Federal Reserve Bank of Kansas City  
**Date:** March 6, 2003 (first draft Dec. 13, 2002)  
**Length:** 89 pages  
**Relevance Rating:** High  
**Web Address:** [www.kc.frb.org/FRFS/NonbankPaper.pdf](http://www.kc.frb.org/FRFS/NonbankPaper.pdf)

The Federal Reserve Bank has long been a serious observer of the intrusion of third parties into the payments territory—especially nonbanks. This updated research report summarizes perceived risks associated with emerging methods of payment created by the growing participation of nonbanks in our country's payment network.

Early in my career, I was responsible for R&D at Visa. In one of my assignments there, I prepared supporting evidence for Visa's position (typically against the Federal Reserve) in lobbying Congress for guidelines within the original Electronic Funds Transfer Act.

Through this experience, I gained appreciation for the Federal Reserve's power to virtually "darken the skies" with planeloads of PhD's in order to overwhelm the legislative process with evidence supporting the central bank's position.

For this reason, I have always found it important to understand the Federal Reserve's areas of concern. This report does a very good job of setting forth these concerns relative to the role of nonbanks in our payments system.

### Executive Summary

This research report systematically describes the various retail payment transaction types, the leading nonbank participants, where they enter the transaction settlement process and the various risk factors they represent to the funds transfer activity occurring in our country.

While this report deserves your download and review, the remainder of this document will serve to summarize

three major activities through which each payment transaction moves, the components of risk a federal regulator is concerned about and the extent to which nonbanks participate in 28 retail payment types.

### Nonbank Payment Activities

The report lists and defines three different activities (authorization, processing and instrument provision) and the major nonbanks that dominate these activities today:

#### Authorization

- Check Authorization Vendors — eFunds, TeleCheck
- Fraud System Vendors — Thomson Financial, Bridger Systems
- Online Transaction Security — Baltimore Technologies
- Certificate Authorities — VeriSign, iTrust, Identrug
- Authorization ISOs — Heartland Payment Systems, Cardservice International

#### Processing

- Hardware Providers — Diebold, Hypercom, NCR, Oberthur
- Software Providers — Fiserv, S1 Corp.
- Core Data Processors — Fiserv, Alltel, Jack Henry & Assoc.
- Check Outsourcers — Fiserv, Electronic Data Systems (EDS), Metavante
- In-House Remittance Processors — GE Capital, American Express, State Farm
- Remittance/Lockbox Processors — Regulus, Remitco
- Check Clearing Houses — WesPay, The Clearing House/SVPCo
- Check Archive Services — ViewPointe
- Payroll Service Providers — Automatic Data Processing (ADP), Ceridian, Paychex
- ACH Outsourcers — Fiserv, EDS, Metavante, CheckFree
- ACH Operators — Electronic Payments Network (EPN), Visa
- Card Issuer Processors — First Data, TSYS
- Card Merchant Processors — First Data, Concord EFS
- Credit Card Networks — Visa, MasterCard, American Express



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- EBT Service Providers — eFunds, Lockheed Martin
- EDI VANs — Sterling Commerce, Harbringer Corp.
- EIPP Service Providers — Bottomline Technologies
- Internet Banking Platform Providers — Digital Insight, Metavante
- EBPP Service Providers — CheckFree, Metavante, Princeton eCom
- P2P Internet Payment Providers — PayPal, Western Union
- Retail Wire Services — Western Union, Travelers Express/MoneyGram
- Check Cashing Services — ACE Cash Express, Pay-O-Matic

### Instrument Provision

- General Purpose Credit Card Issuers — American Express, Discover, Diners Club
- Private Label Credit Card Issuers — Sears, Chevron, GE Capital
- Debit Card Issuers — ExxonMobil
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## Payment System Risks and Definitions

Below I have summarized and defined the different categories of risk with which the Federal Reserve is most concerned. Many of these risks are interrelated and problematic in their degree and severity.

The Federal Reserve Bank is responsible for monitoring and minimizing the amount of risk and its potential for disrupting commerce in the United States through its regulation of the banks; the banks own the right to effect funds transfer settlement between the buyer and seller—no matter which payment option is in use for any single transaction.

### Systemic Risk

Failure by one party in a payment system will lead to failure of other parties in the system; this will have a domino effect that may be transmitted to other parts of the economy. The primary sources of this risk category lie in large dollar transfer networks such as the Fedwire and CHIPS. Globally, the Bank for International Settlements monitors this category of risk.

### System-Wide Risk

In the event of a shock or disaster, situations in which the amounts transferred through a payment system are too small to have repercussions throughout other parts of the financial network but could be very disruptive to an individual payment category.

For example, the 9/11 terrorist attacks resulted in airports closing, which threatened check clearing nationally.

### Settlement Risk

Final settlement fails to occur, leading to financial loss for other members of the payment stream. If settlement failures are widespread, systemic or system-wide losses can arise.

### Unwinding Risk

The unwinding of financial obligations can occur if there is a settlement failure in a net settlement system. This risk applies to netting systems in which only the net financial difference after all offsetting transactions has been deducted.

### Credit Risk

A party to a transaction is unable to meet its financial obligations either when due or at any time in the future.

### Liquidity Risk

A party will have insufficient funds to meet its obligations when due, although it may be able to do so at some time in the future.

### Operational Risk

The risk that hardware or software problems, human error or fraud will cause a malfunction that leads to financial exposure and possible loss. The complexity and rapid expansion of new payment methods have brought increasing numbers of nonbank participants into the payments infrastructure of the United States. Consequently, operational risk has become a growing concern to the Federal Reserve.

By taking a closer look at this risk category, we can identify two sub-categories:

#### Bilateral Risk

What banks (and nonbanks) take on when they decide to outsource functions to a third party. The dependence on this entity translates into a point of vulnerability for an expanding numbers of payment entities.

#### Legal Risk

Represents another variation of operational risk caused by poor contract language; or uncertainties that provide the basis for delayed settlement between trading partners. The number of entities and their blurred roles lead to a condition in which liability uncertainty arises.

### Major Retail Transaction Types

The report more closely examines the different levels of operational risk exposure that exist in various retail payments. The authors classify 28 different payment types into five broad categories: Check, ACH, Credit Card, Debit Card and Retail Wire Services.

By using color-coding in diagrams, the authors isolate functions typically carried out by nonbanks. If you are not familiar with the sequence of steps leading up to settlement for any of the following payment transaction types, I recommend you download the source document.

#### Nonbank Roles in Traditional Payment Types

- Check
  - » POS (with or without Truncation)
  - » Lockbox (Bank or Nonbank as Processor)
- ACH
- Credit Card/Off-line Debit Card
  - » Card Present (Visa/MC or First Data Networks)
  - » Card Not Present
- Online Debit Card (PIN-based)
- Retail Wire Services (Western Union)

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<b>EBT</b> .....	<b>Electronic Benefits Transfer</b>
<b>EDI</b> .....	<b>Electronic Data Interchange</b>
<b>VANs</b> .....	<b>Value-added Networks</b>
<b>EIPP</b> .....	<b>Electronic Invoice Presentment and Payment</b>
<b>EBPP</b> .....	<b>Electronic Bill Presentment and Payment</b>
<b>P2P</b> .....	<b>Person to Person</b>

### Nonbank Roles in Emerging Payment Type

- Check Conversion
  - » POS (ACH or EFT)
  - » Visa (In Network or Out of Network)
  - » Lockbox (Bank or Nonbank as Processor)
- EBPP
  - » Biller Direct
  - » Consolidator
  - » Lockbox
- EIPP
  - » Consolidator
- P2P
  - » PayPal (Sending or Receiving)
  - » Western Union MoneyZap
- Stored Value
  - » Single Purpose (Sale or Redemption)
  - » Multipurpose
    - ACH Infrastructure – EBT
    - Credit Card Infrastructure (Visa Buxx/Payroll Card)

In the year since this white paper was first published (December 13, 2002), a series of new payment types could be added to the above list including smart cards, Wi-Fi and micro payments (low value electronic financial transactions)—to name a few. This document does an excellent job of demonstrating that nonbanks are pervasive in and integral to our evolving payment networks and that regulatory and government supervision represents a major challenge to policymakers going forward.

### Excerpts from this Research Report

- "The goal is to strike a balance between safety and efficiency and to have controls in place that limit risk at both overall (system) and individual (firm and consumer) levels" (p. 12).
- "As technology continues to advance and as banks increasingly outsource payments activities to third parties, the risk of software, hardware and other operational failures increases" (p. 15).
- "Much additional research needs to be done. How

serious is nonbank and bank exposure to operational risk? How should such risks be managed and regulated?" (p. 75). ■

### Web Sites for More Information

#### [www.treas.gov/usss/index.shtml](http://www.treas.gov/usss/index.shtml)

*The U.S. Secret Service, a division of the Treasury Department, is the agency responsible for investigating violations of laws relating to counterfeit currency and credit card fraud*

#### [www.ftc.gov/bcp/menu-credit.htm](http://www.ftc.gov/bcp/menu-credit.htm)

*Federal Trade Commission consumer protection site for credit and payment services*

#### [www.occ.treas.gov](http://www.occ.treas.gov)

*Office of the Comptroller of the Currency, Administrator of National Banks*

#### [www.techtv.com/cybercrime/aboutus/story/0,23008,3363041,00.html](http://www.techtv.com/cybercrime/aboutus/story/0,23008,3363041,00.html)

*CyberCrime Glossary*

#### [www.cardcops.com](http://www.cardcops.com)

*CardCops – A registry of compromised credit card accounts*

#### [www.gocsi.com](http://www.gocsi.com)

*Computer Security Institute*

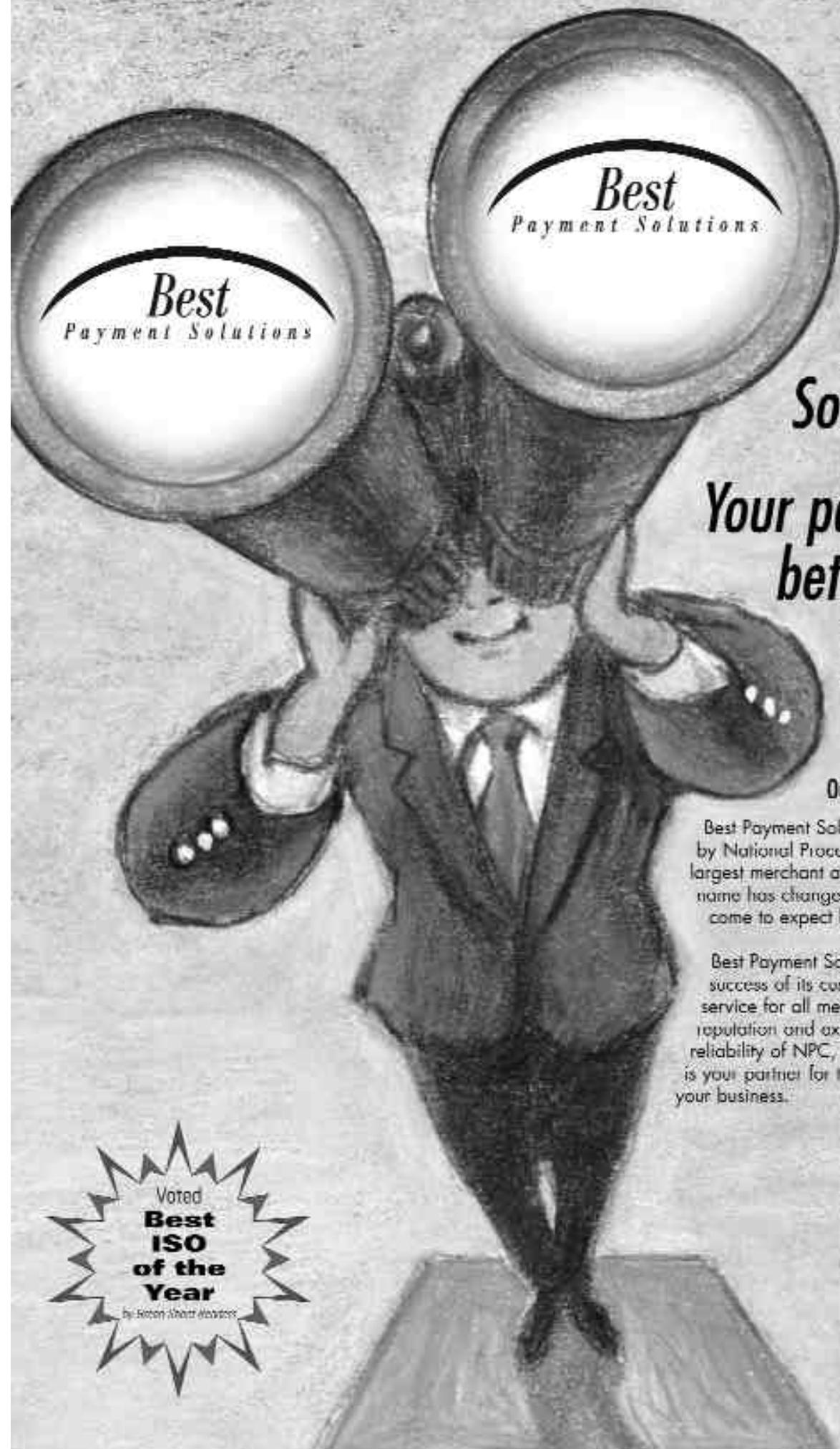
#### [www.iafci.org/home.html](http://www.iafci.org/home.html)

*International Association of Financial Crimes Investigators*

#### [www.treas.gov/topics/law-enforcement/index.html](http://www.treas.gov/topics/law-enforcement/index.html)

*U.S. Department of Treasury Law Enforcement*

*Eric Thomson is Executive Vice President of Profit Source Advisors. He can be reached at [eric.thomson@profitsource.us](mailto:eric.thomson@profitsource.us).*



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# COMPANY PROFILE ◀◀◀



## COCARD

### CoCard Marketing Group, LLC, DBA COCARD

#### MLS Contact:

Malcolm Carnahan  
Executive Vice President  
866-230-6300

#### Company Address:

101 Breckinridge Court  
Hendersonville, Tenn. 37075  
Phone: 866-230-6300  
615-264-7165  
Fax: 615-826-5775  
Web site: [www.cocard.net](http://www.cocard.net)

#### MLS Benefits:

- COCARD's investor/owner model allows members and affiliates to share in profits when the company is sold
- Members and affiliates form one larger organization to get a competitive edge on volume discounts and rates
- Full range of products and services to offer merchants including processing, equipment, value-added services and marketing programs

## Cooperating for Strength and Profitability in Numbers

**W**orking as an independent sales agent has pros and cons. Without sacrificing a lot of the freedom associated with working for yourself, wouldn't it be great to tap into a source for greater profit and residual potential and to be an integral part of a larger organization?

If that's what you're thinking, COCARD Marketing Group, LLC has an interesting proposition for you, and it's one that could make your dream job a reality. COCARD is a uniquely structured ISO, founded on the cooperative model with equity earned on a pro-rata basis. The company was formed because of the experiences its founders had throughout their careers when ISOs they represented were sold and promises of residual buyouts were broken. They were tired of making other people rich.

The concept of cooperative businesses, or co-ops, is nothing new. Natural foods stores, antique shops, nursery schools, medical groups, condominium and apartment buildings and outdoor gear outlets are just a few examples in which people buy in to be partners, members and part owners. Being part of a co-op usually requires a membership fee or initial investment.

As members of a co-op, individuals receive certain benefits: perhaps you have to be a member to shop at a particular store, get discounted prices on merchandise or camp at

designated campgrounds. As shareholders, they also have a stake in the financial success of the venture.

COCARD's customers don't buy bulk foods or organic produce at this co-op. There are no jars of herbs and spices lining the aisles and worn floors.

Instead, COCARD is the first organization in the merchant account processing industry (with a business plan that has a patent pending) offering opportunities for maximizing revenue—and for true ownership of residuals and of the company itself.

For independent agents, this concept opens a whole new realm of possibilities for the way they work and earn money. Unlike standard co-ops, members/owners earn profits on their initial investments based on a pro-rata percentage basis and benefit from the merchant accounts they all bring in each month.

COCARD is a registered ISO/MSP with National Processing Co. (NPC), owned by a group of small to medium sales offices around the country. The intention is to bring the agents together to leverage their talents and abilities to achieve maximum return on investment. As part of a larger group, they can then take advantage of better deals on processing costs and equipment prices than they would be able to get on their own.

"We're not a typical ISO office," said Rob Washington, Vice President and



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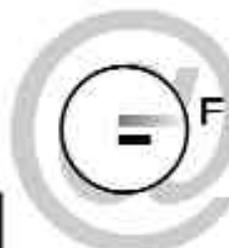
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**"We're not a typical ISO office. Fundamentally, we're structured differently. ... Each office is an owner; there are no 'sub-ISOs.' A nominal investment gives the little guys the opportunity to have ownership. We're also able to negotiate the best deals on behalf of our members for increased buying power with processors and lease companies."**

— Rob Washington  
Vice President, COCARD

one of the company's original founders. "Fundamentally, we're structured differently. Each office is an owner; there are no sub-ISO's. A nominal investment gives the little guys the opportunity to have ownership. We're also able to negotiate the best deals on behalf of our members for increased buying power with processors and leasing companies."

Rick Pylant is President and one of COCARD's founding members. He had nearly 20 years of experience in banking operations and merchant processing when he decided he had his fill of larger companies reaping the rewards based upon his efforts and those of other producing agents, when their portfolios were sold for large multiples.

"I finally decided to start my own ISO," Pylant said. "I found the premise of COCARD, which was to take small offices and band them together, to be very intriguing. Lots of small offices would then own the larger ISO."

"The smaller offices get terrible pricing. Now, as co-owners processing through COCARD, we effectively have become our own wholesalers. We can now leverage the total production of our organization into lower costs across the board to the benefit of each of our members."

Almost four years ago, in early 2000, a small group of industry veterans, including Pylant and Washington, decided to get serious. Between them, they had a combined experience of 45 years; now, their goal was to create something totally different from the standard processor-sales agent relationship.

"The agents that do even as much as 50 to 150 deals a month are the ones doing all of the work, but they're not even a blip on the radar screen," said Washington. "They're just not big enough." By joining forces and portfolios they can achieve revenue levels that up to now have been reserved for only the "big players." The blip becomes a noticeable object that must be reckoned with.

The founders brought together a small group of initial members who invested their funds along with them; that seed money covered the start-up costs, including legal fees and the cost of securing the initial ISO contract with

NPC. "The lawyers put our brains on paper and came up with an iron clad, bulletproof plan for investment," Washington said.

COCARD is a Securities and Exchange Commission (SEC) regulated investment so its financial statements are subject to audits. Washington and Pylant said that when their portfolios are acquired, the co-op's owners have the potential to earn a return of multiples that are significantly greater than they would ever be able to earn on their own.

COCARD is actively recruiting new owner/sales offices, as well as affiliates and sales representatives who can contribute to the company's significant rate of growth. Their goal is to make COCARD too good of a deal for an acquir-

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er to pass up somewhere down the road.

"The smaller offices add to the overall volume of the entire company," Pylant said. "We're doing a lot of volume; it looks like we're one of the biggest ISO's out there."

"It sounds kind of funny to start a company with the intention of selling it, but that is precisely the point of investing in the COCARD model," Washington said. "The acquisition mode is alive and well. Acquisitions have been increasing the past six months—look at iPayment, Verus and even Intuit's recent purchase of IMS.

"We've structured our entire platform to be particularly appealing to potential acquirers. COCARD will be a very attractive target for acquisition," he said. "Additionally, since we are both the owners and the sales offices, we can provide solid commitments to the purchaser for continued and increased production in the post-sale environment. This is something that has been lacking in most of the prior acquisitions that have occurred."

COCARD's offices are individually owned by its members, so there is no overhead to support. The virtual nature of the company means that by buying COCARD, the acquirer will purchase pure profit—not furniture, fixtures, equipment or other infrastructure that they would subsequently dismantle.

"By working with COCARD, agents' incomes increase right off the bat without waiting for the investment returns," Washington said. "The average agent doing 19 deals a month has little negotiating room and has to take the deals that are offered by the processors. We have been able to pre-negotiate contracts with processors and vendors that increase the agent's profitability on every aspect of their business.

"There are multiple income sources possible with every deal through COCARD, beyond mids, nons, buy rates, AmEx, Discover or residuals that people just don't know to ask about. Just by joining our team they can increase their residual income significantly."

COCARD has a range of services and products for its members and affiliates to offer to their merchants including processing, equipment, value-added products and services such as gift and loyalty cards and marketing programs for print and the Internet.

COCARD recently added its thirty-eighth owner-operated distribution channel. At the end of the third quarter of 2003, they had more than 9,000 merchant relationships in place with a combined annual processing volume in excess of \$750 million. At COCARD's present rate of growth, they expect to surpass the \$1 billion mark in annual sales volume soon.

COCARD recently launched a recruitment program for individuals who don't wish to invest in its model. Affiliate sales people will have the same processing opportunities and purchasing power offered to members, but they will have no equity in the company. They'll still end up getting a better deal when COCARD is purchased, Pylant said.

COCARD's management style also reflects the premise that as co-owners, the sales offices have equal status. Pylant said a board of non-salaried managers are elected to analyze and execute strategic decisions. Malcolm Carnahan, COCARD's Executive Vice President and Treasurer, is the only paid full-time employee on staff. He and an administrative assistant work out of an office in Hendersonville, Tenn.

In the spirit of cooperation, by identifying two things the payment industry has way too much of—ego and greed—and one thing it could use a lot more of—integrity—COCARD's founding partners solidified their resolve to run their company differently.

"In this business, everyone wants to be the boss," Pylant said. "We had to check our egos at the door to make COCARD a reality." ■

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## Quantifying Payment Processing

**C**rafting a business plan on the acquiring side of the payment processing industry is more art than science. In any business, it's important to know who your customers are, where they are located and how many of them you hope to reach. You need to be able to understand the big picture. But in this industry, your marketing plan, ad campaign and cost-of-sale must all be calculated on personal knowledge, intuition and SWAG.

Trying to pull real numbers together for a comprehensive business plan, if you happen to be targeting acquirers, is a lesson in frustration. Nobody seems to want anyone else knowing anything about their business.

The Green Sheet has been asked to size this market many, many times over the past 20 years; we get several phone calls every week from people inquiring about all aspects of the industry:

- **What is U.S. bankcard acquiring volume?**
- **Who are the major players?**
- **Is growth still possible?**
- **How many ISOs/MLSs are there in the United States?**
- **Which terminals are the merchants buying?**
- **What are the average merchant attrition figures?**
- **What is the profit potential in this market?**

It's not just The Green Sheet that's having difficulty gathering this information. Several other publications and organizations also attempt to answer these questions, but unfortunately, no single clearinghouse for these statistics exists. Unlike other industries (such as the manufacturing, pharmaceutical or investment markets), in financial services there is a prominence of privately held corporations.

This means that information contained in the Securities and Exchange Commission filings required of public companies (which tell only a fraction of the story anyway) doesn't exist here.

When larger public companies refuse to share information with us, we can often search out data through other channels. But most of the time, we are not able to get the information we need on a granular level in order to pro-

## GS ADVISORY BOARD

vide an accurate picture of what's going on in all segments.

We ask, and they don't tell.

Another important factor: the acquiring side of bankcard processing comprises only a rounding-error on the bankcard associations' bottom line. Even Visa USA and MasterCard International spend little time analyzing the market.

### Survey Attempt

Robert Carr, Founder, CEO and Chairman of Heartland Payment Systems and a highly respected member of The Green Sheet Advisory Board, developed a method for us to use in quantifying the acquiring market.

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His thought was to get industry leaders to participate because they would be more willing to share information. Following his suggestion, we submitted this query to the more than 60 members of The Green Sheet Advisory Board.

We asked our team of industry experts to comment on the following:

- **Would you be willing to share same-store sales results each quarter?**
- **What other market-size measurements would you be willing to share to increase the knowledge and transparency of the industry?**

**For instance, would you share:**

- **Which equipment/service(s) are selling most often?**
- **What is your selling price for equipment (by model)?**
- **Do you primarily lease or sell equipment?**
- **How are you pricing individual services?**

- **What is your average profit per merchant?**
- **What is your average monthly/quarterly merchant attrition?**
- **What are your target SIC code(s)?**

### Survey Response

We received a 10% response to the survey—for a general survey that would be a fabulous response. However, the GS Advisory Board consists of a group of industry experts who have agreed to answer our queries in order to strengthen the industry. Six out of sixty is a dismal response.

To further complicate our attempt to size the market, only two of the six responded in the affirmative and were willing to share their sales data; one of the respondents was the survey's author.

Here are some of the comments we received:

"It is important that this information never be distributed to your current mailing list or any other entity."

"Why would I want to give this information to my competitors?"

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"Why does Bob Carr want this information?"

### Why Did it Fail?

Setting licensing and certification requirements in our industry would make counting MLSs easier, but most likely would not provide a completely accurate picture. There are many layers and levels comprising this industry, and the landscape is often in a state of flux with agents changing offices, portfolios being purchased and companies being absorbed by others.

In 1998, our premier issue of GSQ was the industry's first benchmark report on transaction terminals—some players refused to cooperate, others threatened to litigate. After all was said and done, however, that particular GSQ issue was held in high esteem.

The following year's report, in 1999, as well as subsequent reports every year since, have also garnered the industry's respect and participation.

Each year we also conduct a review of acquirers with more than \$1 billion in annual processing volume. Compiling that research is a lot like pulling hens' teeth.

For the past four years our market forecasts have been based on painstakingly gathered market data.

There has been an interesting phenomenon repeated with each of our research reports. Without fail, the events go something like this:

1. GS sends a survey out to the targeted industry players
2. A few immediately return the requested data
3. After much cajoling, we collect some additional data
4. Some companies refuse to participate
5. We publish our report
6. Some of those who refused to participate complain for having been left out
7. The following year, more companies participate in the follow-up survey

The Green Sheet is a dedicated supporter of the capitalist free market. We truly believe this industry can continue to grow and provide many people with successful careers. Why do we want the market data? We want to continue to support your success with solid information and actionable advice.

If you would like to address the survey questions above, we would like to hear from you. Please send your comments to [paul@greensheet.com](mailto:paul@greensheet.com).

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## Two More Clearing Houses Merge

**T**he Clearing House (formerly the New York Clearing House) and the Chicago Clearing House Association have merged into "The Clearing House." The merger includes check exchanges and ACH (automated clearing house) associations. There are no immediate plans to change operations, and the merger is expected to be completed between now and January 1, 2004.

The Clearing House said the combined check clearing and settlement organization will be among the largest clearing houses in the U.S., with \$10.3 billion in daily volume; it will provide settlement services for 245 financial institutions in the Northeast and Midwest.

The affiliated ACH associations joining forces are the Midwest ACH,

with 380 financial institution members in Illinois and Indiana, and the Electronic Payments Network with 1,225 members. Together, they'll represent 15% of the regional ACH association membership in the U.S. and will be the second largest of the 19 regional ACH associations.

"There is no question that the banking industry needs to achieve greater efficiencies, evolve from a regional to a national structure, and move from paper to electronic transactions," Robert Fitzgerald, President of the Chicago Clearing House Association said in a statement. "This merger combines our functions and brings together the best expertise, business practices, and efficiency to our members and other customers."

Jeff Neubert, President and CEO of

The Clearing House, will continue to serve as President of the combined organizations, which has headquarters in New York and operations in Chicago.

Members of the Chicago Clearing House are: Bank One, Bank of America, Cole Taylor Bank, Harris Trust and Savings Bank, LaSalle Bank N.A., The Northern Trust Company and U.S. Bank. The Clearing House is owned by the U.S. commercial banking affiliates of: ABN AMRO, Bank of America, The Bank of New York, Bank One, Citigroup, Deutsche Bank, Fleet National Bank, HSBC, JP Morgan Chase Bank, Wachovia and Wells Fargo.

In October, The Clearing House and Western Payments Alliance announced plans to merge their East and West coast-based functions in anticipation of passage of the Check 21 Act. ■



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### APOLOGY from Page 1

previously published information about lawsuits to this section. In addition, TGS was approached by attorney Adam Atlas, who had previously contributed industry articles to TGS, to act on behalf of TGS to vet any lawsuit posted to the site, and to answer any complaints TGS might receive about these cases by those involved in the litigation.

Mr. Daily and his business partners assert that TGS has acted inappropriately in establishing the legal section, the GS PPL, on its Web site, whereby: placing their new business, The MSA, at a business disadvantage; not acknowledging that the idea for this section was Mr. Daily's; and, acting unethically in its dealings with them.

I have reviewed all the materials representing any contact with Bankcard Watchdog and can only

conclude that the investors in The MSA Web site assumed communications between them and TGS were proprietary and conducted for the purpose of furthering their own business venture. Whereas from the perspective of those TGS employees involved in any and all contact with Mr. Daily, no information that was shared was proprietary, and in fact Mr. Daily expected that TGS would act independently as he suggested in his initial Forum posting, or in concert with his investors, or both. The choice as to how TGS might or might not be involved with The MSA Web site was yet for me to determine.

It is my desire out of fairness to all concerned that this public apology is clear and that all facets of this event are made public. Although TGS explicitly denies any wrong doing or intended harm in our conversations, emails, or in the use of our public "Forum" site in dealing with Mr.

Daily or his associates, I cannot deny that the existence of the PPL section of TGS site may make it more difficult for Mr. Daily to achieve his goals in creating a financially viable business with The MSA Web site.

This said, TGS will immediately take down the PPL site and move the lawsuit information, which previously existed elsewhere on our site, back to its alternate locations; and discontinue the PPL section as conceived for a one-year period. This will give Mr. Daily ample opportunity to commercialize his idea without the competition of free GS content. ☐

#### Footnote:

*I am told that Michael Daily, Chris West, Laura West, Robert Hendrix, Bobby Barnes and Adam Atlas made up the founders of BankcardWatchdog.com; however, Michael Daily is the sole owner of The MSA - The Merchant Services Advocate.*

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Prices based upon availability



## The Truth Behind Advertising

*To advertise or not to advertise? That is the question.*

**A**t the recent Electronic Transactions Association (ETA) conference, I overheard a conversation between two employees of a credit card processing company. One guy said to the other, "We should start our own ISO. All it takes to be successful is an ad in The Green Sheet, and you're on your way."

Chills ran up my spine. I have heard this before and have even laughed about it with some of my business colleagues.

One of my associates once said, "Everyone thinks what we do is so easy, and they want to go out there and do it. I tell them, 'Watch Michael Jordan sink three pointers all night, and then go out there and chuck a ball up and see what happens.' Jordan just makes it look easy and so do many ISOs."

Let me set the record straight. It takes a lot more to be a successful ISO/MSP than just running an ad in The Green Sheet. It takes a *really* good ad in The Green Sheet.

Seriously, though, what constitutes a good ad? What works? What doesn't?

To find out how the 'feet on the street' answered these questions, I posted the following on the MLS forum:

"MLSs are seeing more and more ads in The Green Sheet proclaiming the latest and greatest ISOs and acquirers. What do you think of these ads?"

"Are catchy phrases and eye-popping graphics grabbing your business?"

"What is it about these advertisements that's making you pick up a phone and call?"

"What exactly are you looking for in these ads?"

The response to these questions was **overwhelming. Here are just a few:**

"I think that they vary in effectiveness from 'intriguing' to 'somewhat mundane' depending on the individual ad in question. I think that catchy phrases and graphics which resonate with the sentiments of the person reading that ad may grab their attention – but not necessarily their business.

"If the ad gets them to pick up the phone and call, it is a successful ad. It is then a matter of whether the ISO can follow up successfully to convince MLSs that they have the right mix of solutions for their needs...and then deliver as promised thereafter.

"I prefer ads that include some specific details on the programs that they discuss. This way, I can make a quick determination and 'screen out' ads that wouldn't be a good match for our needs. When I look at an ad, I want to get a sense of what that company is really focused on. And I want to get a sense of the credibility of the company.

"A very professional looking, catchy ad with some salient details can certainly help with initiating a new prospective relationship, there is no question about it."  
—Chris West, CDGcommerce

"After some calls with several MLSs today, the feedback seems all the same. No pretty pictures: guys with beards and acrobats in suits turn off and [are] chauvinistic.

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UNDERWRITING  
TECHNICAL SUPPORT  
CUSTOMER SERVICE  
PROGRAMMING  
MID / TID NUMBERS**

**RESIDUALS PAID ON :  
100% OVER 1.43%  
100% OVER 2.29%  
STATEMENT FEE INCOME  
MINIMUM FEE INCOME  
BUNDLED RATES  
DEBIT INCOME  
TRANSACTION FEE INCOME  
EQUIPMENT WARRANTY INCOME  
CHECK GUARANTEE PLANS  
CHECK CONVERSION INCOME**

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**AGENTS  
& ISOs**



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E-COMMERCE SOLUTIONS  
'NO' TURNDOWN LEASING  
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Equipment lists rather than pictures. Decent published rates on all levels: shared revenue seems popular without too much inflation of true rates.

"Good and accurate representation of up- and- running- smoothly application to the download process. Ownership/guaranteed, buyout/guaranteed; residual payment is most important of all.

"Overall, just short of the actual contract, factual and informative classified types can help 'cut to the chase.' All spoken with are tired of lengthy first contact calls, followed by contracts to review that seem to have almost nothing to do with the ad itself. All want a good home on the first shot, and don't want to waste time. Most look to the MLSs' review in this forum for the best ad from MLS to MLS. This is from casual conversations today, just some opinions.

—Q

"I prefer straightforward ads with rates disclosed. While I understand and accept the fact that an agent with more experience should get better pricing, when I see an ad that does not disclose pricing, I would be hesitant to call. If I know that other agents are receiving better rates, I wonder if the company even wants my business.

"I also realize that some agents are able to get better deals than the advertised rates, but that doesn't bother me because if an agent is able to work that out on an individual basis, I say more power to him/her. I like bonuses on existing merchant accounts because it allows a new agent to make much needed 'upfront' money.

"All said and done, I would not even make a call without researching the company within the [GS] forum and asking seasoned agents their opinion of the said company and its representatives. While I am not attracted by the flashy ISO ads, I love GO Software's retro look, Integrated Leasing's wackiness (although I don't think humor is good in an ISO ad) and any time there is a hand holding up \$100 bills, I can't help but to stop and stare at it."

—Kathy Harper, Business Payment Systems

"My opinion on these ads, they are all pretty much weak. Does the ad draw me to believe that I would be an absolute fool to do business with anyone but them, regardless of price? They need to push the reps' hot buttons. What do they really want? Timely, well-paid residuals, great customer service and education. Help them, train them and PAY them."

—Rick@cellchargeca.com

AMERICANS SPENT OVER \$35 BILLION ON GIFT CARDS LAST YEAR...

## WHAT ARE YOU WAITING FOR?

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- Truly integrated Electronic Check Conversion and Gift Card program
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- Quick turnaround - 24 Hours in for both Gift and Check
- Private Label Program Available
- Complete turnkey solutions available
- Generic or customized gift cards
- Certified with RDM / Ingenico imaging solutions
- Soon to certify VISA POS check service with proprietary enhancements

To learn more, call Steve Fazell  
toll free at **866-300-3376** or visit our website  
at [www.SecurePaymentSystems.com](http://www.SecurePaymentSystems.com)





"The ads in The Green Sheet ... It seems there are a lot of agents who are signed up with many companies, and they send business to whoever has the best 'deal' or 'bonus' or 'free something.' I have sent almost 99% of my business to the same place for the last 3+ yrs. I selected them for some very good reasons:

1. They do not get involved with my leases or equipment, so I know there is no one else in my pocket.
2. Residuals are paid on time every month (and I checked with past agents).
3. No pressure for minimum amount of app[lication]s so I can work when I want to and not worry that I did not turn in four deals this month.
4. They care more about the quality of the merchant and volume than the number of apps that I turn in.

"I get offers to switch to a new processor that is faster than the people I use now. And I will not switch. We are happy, and we know that the residuals are safe.

"The first person who taught me this biz, told me this is a pennies business; you line them all up and make the

dollars, the hundreds and the thousands and one day the millions...it is not hard to do...One thing is there is only one motivating factor...RESIDUALS...not Equipment Sales. Residuals is what drives the car...equipment is the gas money."

—cc guy, South Florida

"I personally feel that an ad is only as effective as the company that's posting the ad. You see the same group of people advertising month after month, and while a clever ad may cause a MLS to pick up the phone, it in no way ensures a relationship. Often it appears that in our industry we don't require much 'truth in advertising.'

"Examples would include .0279 factors. Sure, 1 out of a 100, but the ad said '.0279' not 'as low as' or 'occasionally.' Guaranteed buyout on your portfolio. Try exercising that one! Guaranteed payment of residuals. I have not been paid by several well-known companies that continue to advertise in The Green Sheet.

"Guaranteed approval. I have been on a 'guaranteed approval' deal for years and have had several declined. I'm not upset, I understand, but it just appears that we could do better as an industry if the ads were truthful. The word 'guarantee' should have some meaning and backbone to it. Just my humble opinion!"



## The Institute for Payment Professionals

**MLS TRAINING - COMING TO A CITY NEAR YOU!**



The Institute for Payment Professionals offers consistent training programs devoted to educating this industry from the street level up. Scheduled in a different major city every 4-6 weeks.

A training seminar, not tied to product or service, neutral to all, offering "behind the scenes" understanding and knowledge - a reliable resource for anyone in the payment processing realm.

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at this level?**

At First American Payment Systems, we've spent more than 13 years developing and growing our business. Hundreds of First American sales representatives have found First American's agent program to be a secure path towards long-term income.

**Quit taking baby steps**—Call today and let us put our knowledge, experience and skills to work for you.

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(1-866-464-3277)

email: [stever@first-american.net](mailto:stever@first-american.net)

—SalesAMS

"It would certainly be an education to examine the 'typed in ads' on the Green Sheet Online. I am amazed at some of the statements, falsehoods and total misrepresentations that are made on the MLS Agent Recruiting on the Green Sheet. Apparently, the agent, ISO or sub-ISO does not know that they can be legally held liable for providing false advertising online.

"Some of these ads are so far off the wall, that they should be investigated and then reported on so that the unsuspecting MLS does not find him or herself in a very bad situation, a very bad contract and some very shady people. Thanks Ed. Keep up the great work."

—Mike Daily

"Ads that say much and deliver little are the ones that get to me. We're in a commodity business. Bankcard processing is a commodity. The price of processing is not going to vary by much. Everyone who has been in the business for [more] than a day knows about dues and assessment and interchange. The rates are the rates.

"I liken it to gasoline. You can drive all over town, and the price of regular gasoline is not going to vary by a significant amount.

"As a consumer of gasoline, if I had a choice to go to a self-service station where I had to get out of the car and pump the gas myself, or go to a full-service station where an attendant pumped the gas, checked under the hood, washed the windshield and checked the tires, and the price was relatively the same, which station do you think I would choose? Which one would you choose? People buy value and not price. Service is what sells—always has and always will.

"The MLS has to sell value and service. Prior to hitting the streets, the MLS has to decide which company (GREEN SHEET AD) will provide the level of service and support that will make me a more effective salesperson? Who supports, me, the salesman? Who gives me the tools, the training and the support to assist me in closing more sales?

"Another question is: Has the leader of the company (GREEN SHEET AD) been out on the streets, and how many deals did he close? Can he walk the walk and talk the talk or is he another perfumed prince who couldn't lead a pack of hungry dogs to a steak dinner? After wading through the ad game, and going through the ringer, there are only two or three companies that are laying it on the line for their reps. Want to guess which ones they are?"

—wareagle

In addition to those responses, my post also triggered an interesting online discussion about one ad in particular that proclaimed a \$.075 transaction fee, including interchange.

"Here's a sampling: 7.5 cents including interchange, help me here, what is the downside, where is the downside? No negative intended here, just looks like steps taken on a new path and is interesting."

—Q

"I was also curious about the \$.075 including interchange. I do not know exactly what that means."

—ubc

"It is impossible to offer a less than 0.075 cents including interchange. We all know interchange is 10 cents + the cost for the network. So basically it is a loss-leader type of deal.

"High mid quals and non quals, high batch fees. This is not something new. You see it in The Green Sheet [ads] all the time. People lose money in one place to make it back in the other."

—empire

And finally this one...

"We offer a great program with all costs below inter-

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- **No surprises (no kidding)**

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**Another advertising-related trend that's being seen throughout the industry is the use of special Web sites detailing sales partner programs. Ads do not answer all the common questions and issues. However, you can put a good little Web site together for this purpose.**

change rates! Check it out: ISO receives 95% over on all profit centers except the batch-header fee. Discount Rate. Interchange pass-through Per-Item Fee \$0.05 (5 cents) including Interchange! All this with FREE EQUIPMENT!

"We give away a free NURIT 3020 or Talento to your new merchants. Free Paper. We mail out free overnight paper to your merchants. Statement Fee: \$0.00. Yearly Fee: \$0.00. Monthly Minimum: \$0.00. Batch Header Fee: \$399. Pretty simple plan. I'm looking for new agents for this ultra competitive plan. More appropriate for April 1, but oh well, it's Halloween."

—empire

As you can see, MLSs do have a sense of humor...and a sense of truth in advertising, as does The Green Sheet. I think The Green Sheet does a fabulous job showcasing all the different opportunities there are for MLSs.

I actually enjoy flipping through its pages and looking at all the new ads. It helps me keep up with all the different programs being offered in the marketplace.

Recently I saw several companies advertising that they now offer healthcare to MLSs. I learned about this by reading those ads. I felt this was a great idea and thought the ads were very appealing. So now, we offer healthcare as a direct result from something I saw in a competitor's ad.

How many ads now offer signing bonuses? It seems like the bonuses keep getting bigger because one ad is trying to beat out the last ad. In the next Green Sheet issue, I wouldn't be surprised to see someone advertising a \$3,001 bonus just to offer more than the ten other \$3,000 signing-bonus ads.

**So what works? Here's my opinion:**

• **Details.**

MLSs do not want to waste their time calling companies and reading huge packets of information just to find out the details of a program. The advertiser should put enough information in the ad to save everyone time and money.

• **Keep it clean.**

I truly believe a clean looking, professionally designed ad works. Confusing ads that include too much information on the page are not likely to work.

• **Honesty.**

Deceptive advertising will only scare MLSs away. MLSs want more companies to be honest in their ads. Deceptive ads are only trying to trick MLSs into picking up a phone. When an ad and actual program don't match, the advertiser may get a lot of MLSs calling, but it will not get many doing business with them.

At the end of the day, MLSs want to do business with honest companies that deliver on their commitments—commitments that in many cases start with what the ad promises.

Another advertising-related trend that's being seen throughout the industry is the use of special Web sites detailing sales partner programs. Ads do not answer all the common questions and issues. However, you can put a good little Web site together for this purpose.

You can also post all the documents your sales partners

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need to get started online such as partner registration/agreement documents, leasing program registration documents, terminal equipment program documents and other related online applications. This eliminates the need to send out those three-ring binders that no one has the time to get through anyway.

I have seen several of these sites pop up over the past year. My only objection is that they're not all available to the public. Why the secrecy? Lay it out there for everyone to see. What are you hiding from? Do you think MLSs are not smart? Look at their MLS Forum postings that show their reactions to a below-cost per item fee including interchange.

The company doing this is now perceived as over-charging merchants in some other place. I have no idea if this is the case or not. The problem is that neither do these smart MLSs. They can't tell from The Green Sheet ad, and they want to make sure their merchants do not get "jacked."

We just did something similar when we introduced a buy rate that's clearly below interchange—1.46% (100% above). The first reaction wasn't "WOW! That's great." It was "How are you doing that? It's below interchange. What's the catch? Where are you going to make up for

this?"

In our case, we explained that lowering the check card fees gave us the ability to lower this rate. This was a reasonable explanation, and as a result, it answered these legitimate concerns.

In fact, every little detail of the Total Merchant Services residual program can be found on our Web site. You want to know the details. Go to [www.upfrontandresiduals.com](http://www.upfrontandresiduals.com)—no password required! We lay it all out. We are not hiding anything. There's no secrecy. Our ad says something, and our Web site backs it up.

**So, for effective advertising,  
remember the following:**

**1. List the details.**

An ad should inform, not imply.

**2. Be honest and truthful.**

Deception has no place in any aspect of our business.

**3. Keep it clean and concise.**

In advertising, less is usually best.

**4. Know what type of result you want.**

**THE TRAIN WILL LEAVE WITHOUT YOU  
IF YOU DON'T CLIMB ABOARD.**

**TIMES  
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#### 6. Advertisers should (Keep It Simple, Stupid).

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Another area that troubles me (and it will be the focus of my next column) is MLS loyalty. Is there such a thing? Why is it that MLSs will pick up the phone and try out all these new, shiny looking programs just because they're offered in a new, creative-looking ad? Is there no loyalty in this business?

MLSs ask a lot from their ISO partners, and many ISOs are delivering and performing well for these MLSs and their merchants. So why do you send your business to four different places? Why do you keep trying new programs if you are happy with your primary provider?

We will delve further into this hot topic in the next issue. Look for my posting on the MLS Forum discussing MLS

loyalty.

As always, I'd love to hear from you. Please send feedback on this topic (and any others) to [streetsmarts@totalmerchantservices.com](mailto:streetsmarts@totalmerchantservices.com). Be sure to include your name and company if you want to be acknowledged. ■

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—Mark Twain

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*Ed Freedman is founder and President/CEO of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Ed is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available.*

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## Understanding Gateways

By David H. Press

*Integrity Bankcard Consultants, Inc.*

**Gateway** - Software or hardware that enables communication between computer networks with different communication protocols.

A gateway serves as an entrance to another network. In the world of computers, this means something slightly different than it does in the world of transaction processing, where merchants use gateways to process and authorize credit card transactions for purchases their customers make online.

Gateways, whether they consist of one server or a whole series of servers, translate the coding each network uses so that purchase information (item number, price, card numbers) can be transmitted and understood.

For merchants selling goods and services through a Web site, gateways serve as connectors to the vast array of customers who want to make purchases. This includes communicating information on the variety of payment methods those customers use as well as the multitude of networks through which they're connecting to the Internet.

Gateways are the part of the transaction process where credit card authorizations are made so that card-not-present payment transactions go through smoothly. They also enable the use of virtual order screens/terminals to process mail/phone order transactions. Sounds simple enough, but in reality, there are challenges merchants face when setting up and using gateways for e-commerce.

### Cost, Implementation, Integration

In the last few years, the cost of using a gateway has decreased dramatically due to increased competition in the marketplace, but prices still vary widely by provider.

Some gateway providers charge as much as an additional 50 cents or more per transaction for their recurring billing features, while others charge only the normal transaction fee. Some providers charge up to an additional \$400-plus for integration, while others charge nothing. Getting merchant Web sites to work with gateways can be a programming challenge. Most merchants are entrepreneurs—not computer programmers or Web designers—and their technical skills might be limited, which is where gateways come in.

Some gateways integrate sufficiently with merchant sites so that customers never know when they've been routed

from the merchant site to either create shopping lists of items to purchase or to make payments. Other gateways are more cumbersome to navigate, and it's obvious you've gone to another site.

Providers should keep implementation and integration of gateways simple. According to Daniel Brasov of Group ISO, "I wish most gateways would get their stuff together and try to make it simple for the average merchant. In talking with merchants or shopping cart companies, I have heard the easiest gateways to integrate are: [www.authorizenet.com](http://www.authorizenet.com), [www.networkmerchants.com](http://www.networkmerchants.com) [www.slimcd.com](http://www.slimcd.com) and [www.tranzakt.com](http://www.tranzakt.com)."

### Shopping Carts, Customer Service, Security

There are certain features gateways should incorporate.

Shopping carts keep track of items that customers want to think about before they buy, so they incorporate complex coding to make sure that nothing falls out of the cart. Shopping carts usually reside separately from gateways—many gateways insist on not offering shopping carts as part of their service because of current agreements they have in place with shopping cart vendors.

However, merchants are best served when a gateway offers a shopping cart as part of the package. Merchants should evaluate how much revenue they expect to generate from sales on their Web sites and determine if an online store will be cost effective. Before spending hundreds, if not thousands, of dollars on a shopping cart, they should see if income from Web sales will bring in enough to cover expenses and gateway minimums.

Merchants need to track purchase information for a variety of reasons including inventory control and accounting purposes. Depending on the source, the purpose and the destination of the information being uploaded, a gateway should allow for uploads in multiple formats such as XLfile or Notepad and should not limit the number of transactions that can be uploaded. The gateway should also promptly provide a thorough report of any and all unsuccessful transactions with an explanation for each transaction failure.

Over and over again companies with a great product fail to capitalize on their success because of a lack of customer service. Most merchants will continue to use the same gateway (even if they switch their merchant account provider) based on customer service and support. For example, one of our merchant clients said to us, "Even though the company is not price-competitive and the integration is a nightmare, they still get my business because of their excellent customer service."

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Pro-active flexible recurring billing should also be part of a gateway's offerings. A challenge for one of our merchant customers was being able to bill the customers on the day that their checks arrived so the funds would be available. Sometimes that would occur every two weeks, rather than on the 1st and 15th of the month.

The solution was to use recurring billing software set to "bill every two weeks." When pro-active recurring billing is implemented, if the first credit card is declined, a second credit card is automatically billed. If that card is also declined, the software continues trying all of the cards and checking accounts on file for that customer until the billing is authorized and captured.

### Fraud Tactics and Prevention

Online transactions are much less secure than those in which a customer presents a card in person. Payments for Internet transactions are made remotely, with the buyer providing the card number and expiration date. Card numbers are far easier to steal than cards.

A clever thief can create "valid" card numbers by accessing card-number generators on the Internet. Credit card fraud rates are at least 10 times greater on the Internet than they are in the physical world, and that rate is steadily increasing.

Pinging occurs when Internet merchants selling low-ticket items get a big boost in sales, only to learn that the sales were all fraudulent, resulting in chargebacks. This happens when a crook tries to determine if its recently acquired credit card numbers are valid before moving on and purchasing hard goods or selling the list to a fraudulent merchant. Pinging can be quickly terminated when the number of transactions from a certain IP address is limited to one or two successful transactions in a day.

One common way that crooks take advantage of low-tech communication on the Internet is by simply rewriting the pricing information on the order form before the sale goes through. For example, if a merchant Web site sends information to a gateway in plain text, it can easily be altered. This form of fraud is targeted mostly toward larger Internet merchants whose shipping department personnel may not catch the change unless they double-check every order thoroughly before shipping the product. Gateway security encryption and the use of a secure server can prevent this type of fraud.

Fraud scrubbing, especially when integrated before the customer completes the transaction, is the best and most affordable security feature to incorporate, and all gateways should include this feature. Fraud scrubbing will also save the Internet merchant the cost of transaction fees by eliminating the possibility of the Address Verification Service (AVS) or Card Verification Value 2 (CVV2) not matching.

When Internet merchants sell content, domain names or downloadable programs, the maxim "only ship to the billing address" does not apply. In these cases, other security measures, such as Internet Protocol (IP) address matching, need to be implemented. A thorough IP address program verifies that the IP address/state/country matches the address of the customer. This should be implemented before the transaction is processed to prevent the merchant from paying the transaction fees and finding out later that the customer has provided fraudulent information. IP address matching can dramatically reduce chargebacks for these merchants.

Overall, most gateways fit the bill according to Brasov, but he cited one in particular for the range of options it offers to merchants. Features offered on [www.networkmerchants.com](http://www.networkmerchants.com), he said, include fraud protection, pro-active recurring billing, multiple billing options (such as Western Union SwiftPay), uploading transactions and an integrated shopping cart. Coming in a close second is [www.tranzakt.com](http://www.tranzakt.com).

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*David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. Phone him at 630-637-4010, e-mail David at [dhp@integritybankcard.net](mailto:dhp@integritybankcard.net) or visit [www.integritybankcard.net](http://www.integritybankcard.net).*



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## Legal Ease

# Lessons in Liability

By Adam Atlas

Attorney at Law

**A**n ISO in New Hampshire recently asked me to review one of its new ISO agreements in which the processor claimed that the deal was a 0% liability deal for the ISO. However, the wording of the first draft of the processor's proposed agreement said that the ISO was liable for "any loss incurred by processor or member for any reason attributable to a merchant, including without limitation, losses due to Association fines, chargebacks, fraudulent practices of a merchant, merchant ACH rejects, returns, credits or fees and other uncollected amounts due from merchants."

The processor was in effect asking the ISO to sign an agreement that made the ISO liable for 100% of losses. The ISO admitted that it genuinely believed the agreement to be a 0% liability deal, but it did not understand

the terms of its own agreement.

This event has inspired me to write on the subject of liability.

**Keep these five points in mind when considering your liability under an ISO agreement:**

### 1. Talk First, Sign Later

Before a processor drafts (or an ISO reads) an ISO agreement, both parties would greatly benefit by having a frank and open discussion about which party carries exactly what liabilities for which losses.

I advise any reader of this column to take written notes during these types of conversations. In your notes, indicate the date on which the conversation took place and the name of the representative from each company involved in the discussion.



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In the unlikely scenario that you have to interpret ambiguous contract terms signed after negotiations take place, you may find these notes extremely useful (perhaps even as evidence in a trial) for proving the intention of the parties to the agreement.

For example, in the situation described above, if my client signed the 100% liability agreement, the client may have been in a position to argue that, notwithstanding the written agreement, the parties never agreed to that distribution of liability because all of the negotiations contemplated a 0% deal.

Needless to say, you should never sign a deal unless it's the deal you actually want.

### 2. Ask Your Mother to Read the Liability Clause

As one of my professors in law school used to say, if your mother can't understand your drafting, then your drafting is no good.

ISOs often do not realize that the terms of an ISO agreement are negotiable. If the liability clause in your ISO agreement doesn't make perfect sense to you, it will make less sense to a judge who knows very little about the industry. That judge may have to interpret those vague clauses that could potentially cost you your business—or more.

Processors usually have enough resources to retain qualified legal counsel in order to draft clear agreements. You should be aware of this, and you should not hesitate to improve upon the many poorly drafted ISO agreements out there.

### 3. Allocation of Liability

I believe there is currently no industry standard concerning liability. Whether an ISO takes all, none, half or some other portion of the liability for losses, it is a business issue for the processor and ISO to reflect on and negotiate.

Pricing will vary according to the liability assumed. It is recommended that a party carry out an amount of due diligence on merchants that is commensurate with the portion of liability that it takes.

For example, if an ISO carries no liability, then there is less interest on the part of the ISO to do due diligence on merchants. In contrast, a processor assuming full liability owes itself a commonsense business obligation to carry out a thorough due diligence on each new potential merchant. Make sure that the agreement you sign reflects your understanding of the deal you made.

### 4. Payment

Very few ISOs pause to consider how they will pay for

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any liability they incur under an ISO agreement. I propose the following as a useful model: If the loss for which the ISO is liable is less than \$5,000, then the amount should be automatically deducted from residuals owed to the ISO, or from the reserve account maintained in the ISO's name, with documentation of the deduction sent from the processor to the ISO.

If the loss for which the ISO is liable is equal to or greater than \$5,000, then the processor should send an invoice for the amount to the ISO, giving the ISO: (a) a reasonable delay, such as 30 days, within which to pay the amount and (b) a choice as to whether the ISO wishes to have this amount deducted from its residuals or to pay the amount by check.

#### 5. Claims Against Merchants

Never forget that, technically, merchants are liable for most of these

losses. Of course, it's easier for a processor to cover its losses by deducting them from ISO residuals than by suing errant merchants. However, I highly recommend that ISOs obtain the right from processors to sue merchants directly for any and all losses for which the ISO has indemnified the processor.

I have yet to find a processor that has not agreed to this concept in principle. When closing deals with merchants, I would also recommend giving them clear information as to their liability under their merchant agreement. Make it hard for merchants to say they were not aware of this risk they are carrying.

I could dedicate an entire column to each of the five points raised above, but I prefer to use this space in The Green Sheet to bring attention to as many issues as possible in order to enrich contract negotiations for all

of our readers, whether they be processors, ISOs or MLSs.

On a final note, I recommend that you discuss with your accountant the extent of your liability under your ISO agreements.

Liability under an ISO agreement is like liability and risk under any other kind of agreement—it should be planned for and accounted for with due care and attention. ■

*In publishing The Green Sheet, neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought.*

*For further information on this article, please contact Adam Atlas, Attorney at Law by e-mail: atlas@adamatlas.com or by phone: 514-842-0886.*

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►►► EDUCATION [ CONTINUED ]

**Beyond Bankcard**

**Planes, Checks and Digital Images**

**By Steve Eazell**

*Secure Payment Systems*

I thought it was time to give you an update on the current status of the check, so it's important to talk first about Check 21. Many of you may have been wondering what the legislation is and what its implications are for our respective businesses. The Check Truncation Act of the 21st Century, or Check 21, is the congressional bill recently signed into law that will allow banks to transmit check images instead of the actual paper documents.

This seemingly small distinction could have major significance. Every night while most of us sleep, the skies are filled with freight carrier airplanes, flying across the



country delivering packages to regional centers. From these points, trucks pick up the packages and drop them at their assigned destinations.

There are also airplanes up there carrying nothing but paper checks. Every night, regional bank centers send and receive bags full of checks that individuals and organizations have written, mailed, shipped or dropped off at various businesses.

The checks must get from those businesses to the maker's bank destinations (we call them Originating Depository Financial Institutions, or ODFIs) to process for payment.

As you probably recall, all forms of non-military flight were grounded throughout the United States immediately following Sept. 11, 2001. That resulted in millions of checks sitting in planes held up on airport tarmacs and not allowed to take off (or land) for three full days. Since banks could not process those checks, close to a billion dollars in float and lost interest income were lost.

Even though imaging technology has advanced remarkably, it took an act of Congress to get the banks to move forward on this issue. All Check 21 really does is allow the banks to store the original item for another bank and send an image electronically. It is nothing more than prodding banks into the electronic age.

This may not mean much to most of us, although many have argued that this creates more awareness and possible growth in ACH transactions, including point-of-sale

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<b>Allen Berryman</b>	<b>CFO</b>	<b>16 yrs</b>
<b>Russ Goebel</b>	<b>VP of Sales</b>	<b>10 yrs</b>
<b>Lincoln Kokaram</b>	<b>AVP of Sales</b>	<b>14 yrs</b>
<b>Dennis Buxbaum</b>	<b>AVP Leasing</b>	<b>12 yrs</b>

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check conversion (POP). It's important to note that Check 21 does not *require* banks to convert their paper checks into electronic images, but instead encourages and allows them to do so; when you think about how fast banks really move, this in itself is a big step.

**Check 21 does not take effect until next year, and even though some banks have opted to gear up prior to that, it will take some time for us to see much movement. Many banks will choose to not participate in the foreseeable future due to many factors; check imaging equipment can be quite expensive, so cost will be a consideration, for example. The implementation of Check 21 will represent some cost savings for the banks that may or may not trickle down to us.**

Also, the requirements for storing checks are fairly specific and can be cumbersome. Security is naturally one of the biggest sticking points with banks, so you can imagine how strict the procedures are concerning check handling and storage.

Check 21 does not take effect until next year, and even though some banks have opted to gear up prior to that, it will take some time for us to see much movement. Many banks will choose to not participate in the foreseeable future due to many factors; check imaging equipment can be quite expensive, so cost will be a consideration, for example. The implementation of Check 21 will represent some cost savings for the banks that may or may not trickle down to us.

Check 21 could present opportunities for MLSs as well. Since banks are now looking at automation, increased opportunities for revenue sources will become available for value-added services in the ACH arena.

As we look at the various electronic check processes, including check conversion,

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## BY THE NUMBERS ...

## Electronic Check Types and Figures - 2nd Quarter 2003

### Five currently available electronic check products:

1. **Accounts Receivable Entry (ARC)**  
Checks received via lockbox or mail
2. **Point of Purchase (POP)**  
Check conversion at the point of sale
3. **Represented Check Entry (RCK)**  
Checks represented electronically after NSF
4. **Web** – Internet checks
5. **Tel** – Telephone checks

### Figures for all categories of electronic check transactions:

Type	# of Transactions
<b>ARC</b> .....	23,433,000
<b>POP</b> .....	36,206,000
<b>RCK</b> .....	5,400,000
<b>Web</b> .....	122,757,000
<b>Tel</b> .....	26,454,000
<b>Total Transactions</b>	<b>214,271,000</b>

Source: [www.nacha.org](http://www.nacha.org)

it is important to note that Internet-based transactions are the fastest growing category, followed by the larger volume transactions group with Electronic Check Conversion (POP). Internet transactions may include recurring payments and, of course, Electronic Bill Presentment Processing (EBPP) carried out primarily on the Internet.

In total, these transactions represent \$52.67 billion in value, which is only 1.02% of the total ACH volume, which is only 4% of the total current transaction volume in the United States.

There are two additional check initiatives worth mentioning here. The first one is SafeCHECK, offered through SVPCo, the consortium of eleven large banks; SafeCHECK is designed to help process checks electronically and reduce risk for the retailer by giving them real-time access to the consumer's DDA account. After several years in development, SVPCo rolled out SafeCHECK with a 45% participation rate.

This meant a large percentage of all the personal checking accounts in this country was going to be accessed electronically by SafeCHECK in checking balances and capturing funds. However, Visa acquired SafeCHECK several months ago, and severed most user agreements; Visa intends to inte-

grate the SafeCHECK backbone within its POS Check Service initiative.

Visa's POS Check Service uses the Visa network (representing roughly 3.5 million retailers) and is similar to SafeCHECK's product in that it gives retailers access to the consumer DDA account. Visa has officially rolled out POS Check, but at the moment has a relatively small merchant participation rate, a handful of merchant acquirers and only a few third-party processors taking part in the project.

I believe this model is far less palatable, because aggressive pricing and participation are issues that still need to be resolved. But transactions are accruing; Secure Payment Systems has opted to become part of the project and we plan on rolling it out early next year.

Being able to process all payments electronically is still a long way off, in my humble opinion. While we embrace technology in many other areas, we need to consider issues that may impede the growth of electronic processing.

Americans do not always accept change enthusiastically. We also believe that we are entitled to that great institution known as 'float,' which many regard to be an inherent right earned at birth. We seem to be very attached to the concept, and

will probably not be letting go of it anytime soon. Even a check card has virtually the same level of float attached to it.

Can I prove this? Last year, 49 billion checks were processed, according to the Federal Reserve Bank, with 10 to 12 billion checks processed at the point-of-sale. Approximately 12 billion credit card transactions in total were also processed. Roughly 69% of all payments made in 2002 were processed as credit or check—that adds up to float, float, float!

The paper check is still a force to be reckoned with, despite the growth of electronic check processing. Some forecasters predict that check conversion will grow at a rate of 100 to 200% per quarter. Now that Wal-Mart has decided to begin processing checks electronically at all of its locations, many believe that growth rate will be even higher in the near future. It is my contention that banks will have to get on board or be left behind, given that the tracks only run in one direction. 

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

## Interchange Untangled – Part 4

*This is the fourth article in a series written in response to numerous reader requests for definitions of the various interchange levels. We are working with several industry experts to explain the interchange "buckets," and how transactions are assigned to the processing levels. For the most current rates, please refer to the table distributed with our August 25, 2003 issue of The Green Sheet.*

### Visa Custom Payment Service (CPS) Retail 2 Transactions for Select Emerging Markets

This type of transaction is restricted to specific market sectors that Visa targets to increase card usage. These include government agencies; schools; utilities; insurance companies; and cable and other pay television Merchant Category Codes (MCCs) [4899, 4900, 5960, 6300, 8211, 8220, 8299, 9211, 9222 and 9399].

The transaction must be key-entered and electronically authorized. It must also be sent for processing within 24 hours of the authorization. These transactions are not required to use Address Verification Service (AVS) to be authorized.

### Visa CPS/Automated Fuel Dispenser Transactions

This category was created specifically for petroleum merchants using pay-at-the-pump terminals. The MCC must be 5542 and be registered and certified with Visa. Only one electronic authorization per transaction is allowed, and the complete unaltered contents of the magnetic stripe have to be transmitted. The transaction must be sent for processing within 24 hours of the authorization.

A \$1 status check, usually referred to as the "pre-auth," is sent as part of the transaction authorization. The settlement amount must be less than or equal to \$75 to qualify for this rate. The merchant's name and location must be provided in the authorization record.

### MasterCard Service Industries Incentive Program (SIIP) Transactions

This type of transaction is restricted to specific market sectors that MasterCard is targeting to increase card usage. It applies only to MasterCard-branded consumer cards and is restricted to key-entered transactions for telecommunication equipment and services; cable and other pay television services; utilities; and insurance MCCs (4812, 4814, 4899, 4900, 5960 and 6300). An electronic authorization is required, and the transaction must

be settled within one day of the authorization. The transaction must also include a special indicator in authorization and settlement records. The merchant is required to sign a marketing agreement with MasterCard.

### MasterCard Warehouse Club Transactions

Transactions in this category must meet all Merit III requirements. The merchant must be registered with and qualified by MasterCard as a warehouse club merchant with a MCC 5300.

### MasterCard Public Sector Transactions

This transaction type is restricted to specific market sectors: court fees; payment of fines; bail bonds; taxes and government services not classified elsewhere (9211, 9222, 9223, 9311 and 9399). The transaction type only applies to consumer cards; an electronic authorization is required, and it must be settled within two days of the authorization. ■



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## Transition to New \$20 Bill Not So Peachy

**T**he new peach-colored \$20 bills released on Oct. 9, 2003 have been making their way into the U.S. payment system, but the transition has not been as smooth as expected. Many consumers are discovering the bills don't work at many automated payment machines—such as those found in self-service checkout counters at grocery stores—and counterfeit bills have shown up at several retail establishments.

After the U.S. Treasury Department's Bureau of Engraving and Printing's redesign of the \$20 bills in 1998, consumers had many problems using the notes in vending

machines. Before releasing the bill this time around, the Bureau worked closely with the vending machine and gambling industries, transit authorities—even the U.S. Postal Service—to ensure the bills could be used without problems, the Associated Press reported.

Self-checkout machines are a relatively new technology, and they were overlooked in preparation for the notes' release. Various vending and money changing machine manufacturers are offering software and hardware upgrades (for free or up to \$40 per machine) available through the Internet.

The Treasury Dept. frequently redesigns the \$20 bill, since it is the most counterfeited of all U.S. notes. The latest version uses color-shifting ink in peach, green and blue tones and embedded plastic security threads; it also displays a watermark

image, a new shield and the words, "Twenty USA"; and tiny yellow numeral 20's are printed on the back of the bill around the image of the White House.

Only a few weeks after the new bills were released, counterfeited bills began showing up. In an area south of Boston, the U.S. Secret Service and local police are investigating the appearance of fake new \$20 bills at several retailers including a Radio Shack. In Bridgewater, Mass., they've shown up at the lunchroom of a high school and at a McDonald's.

In Missouri, a federal grand jury charged Margretta Saffold of St. Louis of passing phony new \$20 bills on Oct. 16, 2003—just a week after the real bills began circulating. It was the government's first indictment related to counterfeiting the new money. ■



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## NEW PRODUCTS ◀◀◀

### A Mobile POS Station

**Product: Ingenico 8500 Wireless Terminal**

*Company: Ingenico*

**I**n July 2003, Ingenico released a new wireless POS terminal—a multi-function, all-in-one secure terminal designed specifically for mobile merchants. The Ingenico 8500 (I8500) terminal offers merchants plenty of options and flexibility at the point-of-sale.

Ingenico said the I8500 enables mobile merchants to accept debit, credit, smart cards and EBT; and the terminal supports signature capture, biometric fingerprint recognition, bar code scanning and text messaging.

The I8500 also supports multiple applications—such as for route and delivery accounting, menu orders for hospitality services, "line busting" at retail establishments (when additional clerks come forward to help shorten lines and reduce stress on fixed point-of-sale stations) or gaming services for lotteries, among others.

The device integrates bar code reading (1D or 2D), various wireless communication options including GSM/GPRS, 802.11 Wi-Fi and Bluetooth. It features a self-contained thermal printer and a color touch-screen that supports signature capture.

The I8500 was built on Ingenico's UNICAPT 32 secure platform, which includes an approved EMV level 4-2 kernel. It meets different levels of global security standards such as Visa PED, ZKA T Systems and Interac; and it's Triple DES compliant.

Ingenico designed the mobile terminal to withstand the harshest environments. The company said the product will survive multiple drops onto concrete (from nearly five feet up or less) and it's sealed against dust and moisture.

The Ingenico 8500 is available in the United States and Canada.

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## New Revenue Opportunities in Currency Conversion

### Product: POS Currency Conversion Services

Company: Planet Payment.....

**P**lanet Payment, a subsidiary of Planet Group Inc., offers a solution that enables merchants and ISOs/MLSs to earn additional revenue while providing a valuable service to foreign customers at the point of sale.

Planet Payment's POS Currency Conversion Services (also known as dynamic currency conversion) immediately convert the purchase total from the merchant's local currency to the customer's local currency—no waiting for monthly credit card statements.

Credit card associations and providers have typically handled the currency conversion between merchants and cardholders. They also added fees (an exchange rate plus 1 – 4%) on top of that service.

Merchants and their processing partners using the Planet Payment solution can now benefit from the currency conversion fees. Receipts can also be printed at your POS in the local currency of the cardholder. Cardholders benefit because they know the final cost of the transaction in their own currency right at the POS.

Planet Payment offers two services within its suite of currency conversion solutions. FX Transact allows the merchant to participate in set-

ting the exchange rate for the currency conversion service. FX Assured converts each transaction at a currency conversion rate that is guaranteed to be less than the rate at which the credit card provider would convert that same transaction.

Humboldt Merchant Services, LP and Plug & Pay Technologies, Inc. are both offering Planet Payment's POS Currency Conversion technology with their solutions. ■

### Planet Payment, a Planet Group Inc. subsidiary

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## ▶▶▶ BOOK REVIEW

### A Hit Man Discovers His Heart of Gold

**W**hen you've got a problem that just won't go away, you call in the Hit Man. He's cold-eyed and calculating; he doesn't mess around, takes care of matters and gets the job done.

Philip W. Hurst, Ph.D. has written an entertaining "business novel" with a serious message. He constructs his story with examples of human behavior woven in with lessons on different aspects of business theory. The characters face challenges in both areas, and in order to save their livelihoods, they must create solutions for some big organizational problems.

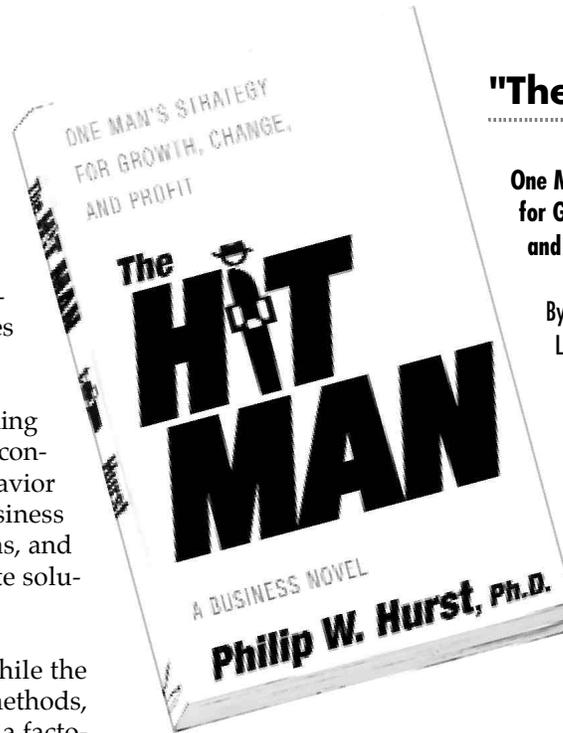
This book might be more aptly titled, though. While the story does involve a senior manager with tough methods, brought in to improve performance and profits at a factory that makes 55-gallon drums, it's really about teamwork and using positive reinforcement to improve the bottom line.

The Hit Man arrives on the scene and starts to implement some unwelcome procedures. What happens in the story gives insight into both human nature and tactics for running a business. The characters learn through a series of events that taking care of the people who do the work is just as important as watching expenditures; each has a place in any successful organization.

Through the course of the story, the Hit Man moves well past filling the role of hatchet man to become an inspiring leader who comes to learn that a company's success is based on much more than big pay-outs to executives and shareholders.

The plant's employees have a few things to learn about him, too. The Hit Man earned his nickname from his reputation and it sounds to be well-deserved, at least in the beginning of the story.

Scott Johnson has been the manager of Plant Georgia for 10 years, has a real affinity for his employees. He is strong



### "The Hit Man"

**One Man's Strategy  
for Growth, Change  
and Profit**

By Philip W. Hurst, Ph.D.  
Longstreet Press, Inc.  
Atlanta, 2003  
ISBN: 1-56352-717-0  
149 pages

in heart, but weak in some areas of business. Corporate sales were down across the board, due to changes in the market and in the industry itself, and following one round of staff cut-backs, it looks as if Plant Georgia might be targeted for closure.

Mr. Watkins from New York, a director of operations known for his no-nonsense, hard-ball intimidation tactics, brings in senior vice president Billy Pounds, a.k.a. the "Hit Man," to review the operation. Billy has intellect and vision, but no heart.

The story is told from Scott's perspective; readers learn about his fears for the future of his plant and its employees and of his serious misgivings about having to work with the Hit Man.

"Now I have to deal with Watkins and his pencil-whipper friend," Scott says. "Billy was named the 'Hit Man' by the Vermont plant manager because Billy loves to nail people for any kind of infraction. Knowing that the two of them were on their way to my office made me feel like a cat in a room with hungry German Shepherds. And there were no trees to climb."

**"This measurement system is a perfect example of how Billy operates. Just because he thinks it should be motivating, in his mind it is motivating! He refuses to look at it from the performer's point of view...It's not that he has bad intent, he just doesn't understand people."**

– Chapter 4, p. 29

Hurst uses several characters and situations to illustrate his points in each chapter, touching on issues such as safety, performance measurement, financials and employee recognition. Plant employees Scott, Red, Pops, Sally and Tattoo Man initially view Billy's strategies with mistrust and outright resistance.

The characters, including Billy, go through the process of learning from their mistakes and incorporating those lessons so they are better able to see things from another's perspective. They end up with a clearer pic-

ture of the overall structure of the organization.

Although the book reads quickly, it includes important information and can serve as an inspiring reference to keep on hand. A Focus Factors section at the end of each chapter encapsulates the business points highlighted in that part of the story.

A Focus Tool Kit at the end of the book is a guide for seeking answers to problems your own company may be experiencing; Hurst recommends forming small focus groups

and having a facilitator lead a discussion of the questions outlined in the Focus Tool Kit.

Even the most cold-blooded hit man has a human side, and a company's accomplishments are the result of the efforts of many people. In the end, the characters learn from one another, to think more creatively and to see the value in others' skills to create a synergy in the workplace.

Those are lessons any business can take to heart. ☑

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**Verified by Visa** - Plug'n Pay was the first internet gateway to complete the certification to the V-by-V specifications. We are ready to route V-by-V transactions for customers looking for this added protection.

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***"Many of life's failures are people who did not realize how close they were to success when they gave up."***

– Thomas A. Edison

INSPIRATION ◀◀◀

## The Finished Business Plan: Comprehensive, To the Point, Well-Packaged



*Last article in a series on how to create a business plan*

**Y**ou've finished all the pieces of your business plan, but now what? All that hard work won't do you any good unless you put it all together in a package that is both attractive and makes sense.

The first step is to create an Executive Summary for your business plan. This will generally be the first thing people read. The Executive Summary should outline the key points of your plan in one to two pages. It is essential to spend a little extra time on this section, because the Executive Summary may also be the only part of your plan that someone will read.

Start with a statement letting your readers know what your business is about. In your description, include an explanation of your products/services. Help your audi-

ence understand what you are trying to achieve. It might help to use your mission statement to get started.

Be sure to include the reason why you will have a competitive advantage. Now is the time to tell the world why your products/services are the best. A brief summary of the competitive analysis and your marketing plan should provide this.

Briefly describe your market and the target customers. Firmly establish and explain the need for your business. (Why did you put this plan together in the first place?)

Summarize your financial statements; a brief financial history of the company can be included here. Follow the summary with an explanation of the future financial needs of the company and how these needs will be met.

Finally, include your vision for the future of the business. Tell the reader what your hopes are for the business and how you plan to achieve them.

While writing your Executive Summary, remember that this is the section that can make or break the plan. If it doesn't catch the attention of the reader, it will most likely end up buried under a pile of papers. If the reader is a potential investor, this can be disastrous.

There are ways to avoid having your plan end up on that pile. Be brief and to the point, but include enough information so the reader will understand your business. Attract attention, but don't be overly flashy. Achieving this balance takes some time and will probably require you to rewrite the Executive Summary at least once.

Some people begin the Executive Summary about halfway through the business plan preparation process while some write the summary when they're done with the plan. Your view of things may change somewhat after you complete the other sections, so you might consider what makes the most sense for you.



## NACHA – The Electronic Payments Association Teleseminar

*Check 21 – Discovering the Right eCheck Mix*

**Highlights:** The recently signed Check Clearing for the 21st Century Act (Check 21) defines Image Replacement Documents (IRDs) as the legal equivalent of the original checks. Many bankers anticipate that this simple legal modification will open up more opportunities for electronic check clearing such as image exchange. Learn about the options and gain insight on creating the right eCheck mix for your organization. Topics to be covered include: Should financial institutions and corporations invest in imaging equipment, standards and exchanges? How will the check landscape change with regard to conversion versus truncation? How will the increasing level of check conversion have an impact on adoption of image exchange? How does ARC fit into this picture? Anyone who needs to know more about the future of electronic checks should participate.

**When:** December 15, 2003 1:30 – 3:00 p.m. EST

**Registration:** Visit [www.nacha.org/conferences/teleseminars](http://www.nacha.org/conferences/teleseminars) for sign-up and call-in information.

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Double check to make sure you have all the pieces in place. Your completed business plan should now include:

- Table of Contents
- Executive Summary
- Mission Statement
- Competitive Analysis
- Marketing Plan
- Financial Statements, including:
  - Income Statement
  - Cash Flow Analysis
  - Balance Sheet
  - Financial Assumptions

It's time to package all the pieces. Create a plan that looks professional and tells the reader you are a successful business owner. Now is not time to be frugal, so avoid cutting corners. Important subtleties encourage the audience to read further.

Include a table of contents and tabs. Make it easy for anyone to quickly find what they're looking for in your plan. If the reader has to hunt for information, they may lose interest and put the plan down on the desk.

Take the plan to a professional shop to be printed and bound. These print shops offer many varieties of paper and covers and can professionally bind the plan for you. Choose a high-quality cover and be sure to include the name of your business.

Make sure to print the plan on quality paper. A soft color other than white (but keep it light) can make the overall document look polished, and heavier stock can make the plan feel more substantial.

After all your hard work, you now have a quality business plan. Share it with your family and trusted advisors; use it to gain the interest of future investors. The plan may also be helpful if you are trying to obtain financing from a bank.

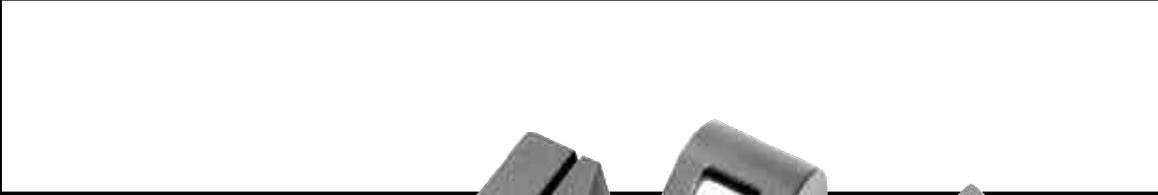
It is important to use the plan as a benchmark in your business. Measure the progress of your business monthly. If things move off track, read the plan—it may help you determine why things are not going the way you thought they would.

Finally, review and update your plan annually. Significant events in your life, the marketplace and the economy are all going to have an impact on your business. If you keep the plan updated, it will serve you for many years to come.

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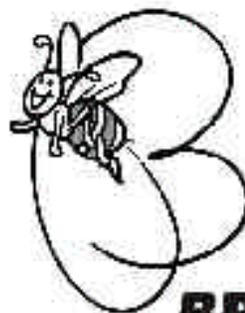
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