

May 3, 2006 | Volume 2, Issue 24

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ISO & AGENT

Tips, Tactics and Strategies for POS & ATM Sales Success

OPPORTUNITY

Rent Payments: The New Recurring Frontier for ISOs

Every month, more than 36 million Americans pay their rent, more than 90% of them the old-fashioned way—by writing a check. The median rent—that is, half of rents are more and half are less—is \$625, according to current U.S. Census Data. That means that there are roughly \$300 billion in annual rent payments waiting for ISOs to convert to electronic methods, a potentially huge new revenue stream.

The conversion to electronics has begun. While industry insiders say fewer than 1% of rents are paid by credit card, 6%

are paid through the automated clearinghouse (ACH) system, mainly by renters taking advantage of online bill payment.

As with any new market they enter, ISOs will have to get up to speed on the pros and cons of electronic payments for the merchants and consumers in that arena. Renters, for instance, like the rewards points they get when paying rent with a credit card and the time delay before they have to pay the card bill. Landlords like to get paid without having to chase down renters

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INDUSTRY NEWS

What Would a BofA Network Mean for ISOs?

The financial community has been buzzing with talk of Bank of America developing its own credit card network since last week, but analysts are saying the idea has been around for a while. "This is not something that came up today," says Gwenn Bézard, research director for Aite Group. BofA has been putting the pieces in place for years to launch a network that could compete with Visa and MasterCard, Bézard says.

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PAYMENTS PIPELINE

MagTek Receives Technology Innovation Award From ETA: The ETA awards MagTek Inc. the Technology Innovation Award. *see page 2*

Biometrics & E-Checks Could Expand at Grocers : Nearly half of retailers


in the grocery category are considering enhancements to their point-of-sale systems. *see page 4*

AmbironTrustWave Makes Waves in April: AmbironTrustWave received kudos from a leading industry organization. *see page 7*

>>> MagTek Announces Hybrid Reader

Carson, Calif.-based **MagTek Inc.**, yesterday announced at CardTechSecurTech 2006 the release of its **IntelliStripe 65** hybrid reader, designed for such self-service applications vending machines, kiosks and fuel pumps. The unit reads magnetic-stripe, contactless and smart cards and meets EMV requirements.

>>> CU24 Eliminates Membership Minimums

Credit Union 24's board of directors has eliminated membership-fee minimums for its member shareholders. The decision by the EFT network's board is one of the immediate benefits of a new switch-processing agreement with Fifth Third Processing Solutions. When members complete the transition to the new switch, CU24 anticipates significant savings for members in transaction-processing costs. 



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>>> Rewards Up, Coinstar Down

Rewards Network Inc., a Chicago-based company that provides marketing and loyalty programs to the restaurant industry, reported April 28 net income for the first quarter of \$1.8 million. That's a nice change from the same period last year when the company reported a \$3.7 million loss. Net revenues for the quarter were \$22.8 million, up 46% from \$15.6 million for the same period last year. Rewards Network reported 2.5 million qualified transactions for the quarter, virtually unchanged from the same period last year. The average transaction amount of \$47.65 last quarter was down from the first quarter of 2005, when it averaged \$48.11.

Meanwhile, Bellevue, Wash.-based **Coinstar Inc.** announced April 27 net income for the first quarter of \$4.2


million, down 11% from \$4.7 million in the same period last year. Coinstar operates some 12,000 coin-counting machines in grocery and drug stores nationwide. Earnings per share were 15 cents, down from 18 cents a year ago. Revenue was \$126 million, up 19% from \$106 million. Expenses were \$115.4 million, up 21% from \$95.6 million in the first quarter last year.

>>> NAOPP Granted Tax-Exempt Status

The **Internal Revenue Service** has granted The **National Association of Payment Professionals**, an organization dedicated to professionals engaged in the payment-processing industry, 501(C)(6) status. The special IRS status provides federal tax-exempt status, exemption from some state taxes and non-profit mailing privileges. "We are extremely pleased to announce that the IRS has granted nonprofit

status to NAOPP. This is a major accomplishment for the NAOPP board of directors," says Ken Hannock, board president. NAOPP had been working on attaining nonprofit status since 2003.

>>> MagTek Receives Technology Innovation Award From ETA

The **Electronic Transaction Association** has awarded Carson, Calif.-based **MagTek Inc.**, an electronic transaction technology company that focuses on the magnetic-stripe information on payment cards, the **Technology Innovation Award**. The award was given in recognition of the company's **MagnePrint** product. MagnePrint is a card-authentication technology that allows the mag-stripe on cards to be recognized as a unique security token and addresses risks such as skimming by offering two-factor authentication at the point of sale and at ATMs. 

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INDUSTRY NEWS

What Would a BofA Network Mean for ISOs?

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And BofA has confirmed it could create its own network, but the bank says the concept is only one of many strategic ideas it has under review. "We are considering many options. This is one of them," a BofA spokesperson told *ISO&Agent* sister publication *CardLine* but declined to comment further on the proposed network.

One thing is for certain, launching its own network could save BofA a lot of cash. An analyst from Morgan Stanley suggested in a report that operating its own card network could save the issuer \$70 million annually. The BofA spokesperson says the bank does not comment on analyst reports.

Bézard agrees that the bank could see interchange savings and fewer legal headaches if it had an in-house network. "BofA can dodge the interchange bullet by creating its own network and dealing with merchants one on one," he says.

However, by saving itself money there is also the question of who would suffer financially if BofA created its own network. And that does not just mean Visa or MasterCard. "My feeling is that ISOs typically make between 20 basis points and 50 basis points on bank card transactions today. A new single-bank network would be more Discover-like, and so it would be more of a per-transaction-like billing model for ISOs. So their transactions revenues could be halved," says Mike McCormack, executive vice president of Noblett & Associates LLC, a Fort Lauderdale, Fla.-based consultancy.

BofA would have to take the position of being merchant-friendly, McCormack says. "They would be providing many of the acquiring services to the merchants directly," he says.

At this point McCormack admits there are many questions that still need to be answered about how the model would work, but he anticipates BofA's network would function more like the Discover and American Express models than Visa's or MasterCard's. And that would definitely effect the profitability for ISOs. "I don't think ISOs would be in favor of it. But that said, I would think they [BofA] are taking all this into consideration," McCormack says. "They are going to have to come up with ways to work with ISOs in the industry."

BofA already owns National Processing Inc., a major merchant processor, which it purchased in July 2004 for \$1.4 billion from National City Corp. When BofA combined its BofA Merchant Services unit with NPC, it formed the nation's the second-largest merchant acquirer with \$250 billion in annual processing.


Possible ISO discontent also will be mitigated by the fact that BofA has upwards of 700,000 merchant accounts with more than 1 million locations, says McCormack. "With that in mind, I they could put together a good acceptance base, and I don't think the ISOs could stop them from moving forward.

But it's probably a consideration of how to make it the most palatable to them," he says.


At first it may not be a huge consideration, as BofA likely would start out using an inside sales force and target a select group of merchants or a particular region, says McCormack. The model is fairly smart because a company can test the products, pricing and marketing messages in a smaller arena, he says.

But eventually, BofA likely would want to broaden its network acceptance, and that means lots of merchants, which means ISOs and agents. McCormack suggests BofA may follow the path American Express did with its sales team in the early 1990s, when it realized it needed to team up with the industry.


AmEx formed its External Sales Agent program, which allows ISOs to sell acceptance of AmEx cards to merchants. AmEx then pays the agent an agreed-upon fixed fee for each approved merchant application and allows the salesperson to retain amounts over the set discount rate and an incentive to sell and to reimburse the agent for the cost of sales.

While speculation continues to swirl about the possibilities of a new card network, it could seem to some like the writing is starting to show on the wall. BofA already had left MasterCard's board, and on April 28 it left Visa's board as well. 

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MARKET TRENDS <<<

KEY EVENTS THAT COULD SET THE STANDARDS OF THE FUTURE

>>> BIOMETRICS & E-CHECKS COULD EXPAND AT GROCERS

Nearly half of retailers in the grocery category are considering enhancements to their point-of-sale systems, with biometrics and electronic check programs as the most likely additions, according to a survey of retailers from **Javelin Strategy & Research**. Pleasanton, Calif.-based Javelin surveyed in December more than 900 merchants from seven industry categories, including convenience store, automotive, wholesale and specialty retail. Most merchants were not considering adding any new payment technology at the point of sale, Javelin found. But 47% of grocers were checking out new ideas, and 26.6% cited biometrics as a possibility while 26.6% cited electronic checks. Bruce Cundiff, the Javelin analyst who led the study, notes that biometric provider **Pay By Touch** has


implemented its technology at grocers **Albertsons Inc.** and **SuperValu** in the last year. No grocers were interested in contactless programs, and about 7% cited smart card technology as a possible addition. Biometrics garnered moderate interest from other retailers, as nearly 12% of convenience stores and 6% of wholesalers saying they would consider adding biometrics. Electronic checks did better with about 16% of specialty retailers, and 14% of wholesalers. Among both convenience stores and automotive stores, 12% said they were considering adding electronic checks to their POS systems, according to Javelin.

>>> PREPAID CARDS FOR FANS OF THE MAN IN BLACK

EDP Licensing Inc. is putting a little cash in people's pockets – **Johnny Cash** that is. The company has obtained the rights to the likeness of the country music star from

his estate to place on **Visa-branded** prepaid debit cards. Paul Cleveland, the CEO of Nashville, Tenn.-based EDP, says the cards will be the first in a series containing images of the man in black. Cash died in 2003. "We hope Johnny's fans will be as excited about the program as we are," says Cleveland. The Cash cards are scheduled to be launched in June. The company recently announced the launch of prepaid cards decorated with the image of Elvis Presley, and it said it is looking into the possibility of using Muhammad Ali's likeness on prepaid cards.

>>> KIOSKS TAKING CHARGE OF ELECTRIC BILL PAYMENTS

The 340,000 customers of utility **Nashville Electric Service** this summer can pay their bills at the **E-Wiz** kiosks deployed by **Tio Networks Corp.** at 20 Exxon Mobil Tigermarket and On The Run convenience stores in Nashville. 

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OPPORTUNITY

Rent Payments: the New Recurring Frontier for ISOs

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and the guaranteed payments inherent with credit cards. Neither likes the fees that credit card payments bring, and one of the challenges for ISOs is to figure out how to make the overall system attractive enough to landlords that they will absorb the fees. Landlords doing this provides a strong incentive for renters to pay with credit cards.

These are all challenges, to be sure. But early entrants into the rent-payment market say the potential payoff is great. "Rent payments are an enormous opportunity for ISOs looking for new clients. ISOs can offer property managers a way to automatically manage rent payments, and in turn property managers can give their renters a new way to pay," says Bryan Wine, vice president of third-party sales for First National Merchant Solutions in Omaha, Neb., which offers three recurring-payment products to ISOs for property management, utility, cable, government and education. The products differ according to the complexity of the transactions, type of payments accepted, batch processing and Internet account management.

The preferred way to pay for renters is the credit cards—but only if it's free. "Renters generally would prefer to pay with a credit card to earn rewards points, but the convenience fees are too high," says David Bateman, CEO of Provo, Utah-based Property Solutions, a property management Web portal and software company founded by Brigham Young University graduates. (They won the BYU Business Plan Competition and *Fortune Small Business* magazine's first business plan competition in 2003.) Although Bateman would not disclose exact sales figures, he says their client base has doubled in the past three months, one indicator of the potential demand for electronic rent-payment systems.

Eighty-one percent of renters who use Property Solutions' software choose the ACH when given the choice of credit cards or ACH for making their monthly payment electronically because of added surcharges of about \$11 for credit cards versus a \$1 or \$2 for ACH. About 15% of property managers who use Property Solutions software have decided to eliminate fees for residents, says Bateman. He predicts that in the future more property managers will eliminate convenience fees to attract more renters and convert more of them to paying electronically. Bateman says that best markets for credit card acceptance have been university rental housing and luxury apartment buildings.

However, ISOs must do their homework as they move into this market. "Selling and servicing the multifamily industry is not a slam-dunk sale," says Stephen Lefkovits, property management consultant at Oakland, Calif.-based Joshua Tree consulting and author of the American Express white paper, "The Value of Card Acceptance in the Multifamily Industry."

"ISOs have to spend time and invest in understanding the

industry to effectively serve property managers and offer both credit card and ACH services to meet demands," says Lefkovits. Site-level marketing at the properties informing renters of services by property managers is important to the success of the program, he adds.

Lefkovits says that there are several reasons why credit card payments appeal to renters. Renters want to consolidate payments and their spending, and paying rent by credit card allows them to do that. Research reveals membership rewards programs help increase lease renewals and increase initial leases. According to Lutherville, Md.-based multifamily research provider SatisFacts Research LLC's "Automatic Rent Payment Preference Study," 36% of residents surveyed cited that a rent payment program with rewards would have a positive impact on their decision to renew. Thirty-five percent of residents surveyed cited that a rent payment program with rewards would have a positive impact on their decision regarding where to rent next. When deciding between two otherwise equal apartment communities, 31% of residents surveyed cited that a rent payment program would have a positive impact on their decision on which of the two they would select.

Renters, however, strongly dislike paying convenience fees and are extremely unlikely to use a credit card if they have to pay a fee. SatisFacts research shows adoption rates among

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People & Promotions

Walter M. Macnee has been named president of **MasterCard International's Americas region**, replacing **Ruth Ann Marshall**, who is retiring. Macnee is the former president of MasterCard Canada. He will oversee MasterCard's business in the U.S., Canada, Latin America and the Caribbean. Macnee begins as president on May 15 and will report to Alan Heuer, MasterCard's chief operating officer. Macnee also will become a member of the card association's operating committee. Marshall will remain on the job until June to assist in the transition, MasterCard says. She is leaving MasterCard as it pursues

an initial public offering that has been delayed by the illness of association President and CEO Robert W. Selander.

PreCash Inc., a Houston-based payments network, has announced the appointment of **Alex Calicchia** as the director of marketing. Calicchia will focus on expanding PreCash's Vision line of prepaid Visa and prepaid MasterCard products. Calicchia comes to PreCash from Capital One where he was manager of brand and product marketing for the banking division. 



Alex Calicchia

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residents who were extremely or very likely to use a rent payment program dropped from 35% to 13% if a convenience fee was added.

"We've found that there is a higher level of as much as 25% of all the rents at a property for credit card usage [for rent] when fees are not passed on to the renters by the property management company," says Ryan Gilbert, CEO of PropertyBridge, an Oakland, Calif.-based ISO that provides property-management payments software and online and telephone payment services to property managers. His company recently began contracting with agents to sell PropertyBridge services. He says PropertyBridge currently processed \$500 million in transactions over the last 12 months, up from \$250 million last year. He leaves it up to property managers to decide whether to charge renters fees for using the payment service and to set those fees.

Gilbert sees the most important aspects of selling payment services to property managers are the time-saving benefits of the software, including data integration for easier accounting reconciliation. Data can be imported directly into the major property management accounting software programs. There is less paperwork and trips to the bank for the property manager, he says. Funds are transferred faster than traditional check rent payments and next-day availability of funds compared with an average three days for traditional payments also is a bonus for landlords.

Automated payments ensure that the rents are paid on time. PropertyBridge fees to property managers are based on straight interchange rates, plus a one-time set-up fee ranging from \$495 to \$3,000 depending on the number of rental units and the scope of the data integration. A nominal undisclosed per-transaction fee is charged to the property manager for property management accounting software integration data.

"Generation Y renters who are used to paying online and by credit card don't


like writing checks and will often pay a convenience fee to avoid an even higher late fee," says Matt Golis, CEO of San Francisco-based RentPayment. RentPayment is an agent of financial transaction processor Chase Paymentech and provides a Web portal for rental payments of "no card, no terminal present" transactions, which usually incur higher transaction fees. Fees average \$19.95 and go as high as \$29.95 (depending upon the rent). That is less expensive than a typical rent late fee of 10%, averaging \$50 and going as high as \$100, says Golis.

Paying rent with a credit card also adds a "float" time until the bill is due and creates a greater demand from renters. Popular convenience features for renters include the 24/7 availability of online, e-mail and phone payments, which eliminate the need to wait in lines at property-management offices.

When Golis started his company in 1999, after marketing Netscape e-commerce applications, he thought the primary selling aspect of credit card payments for renters would be rewards points. Recently, with high vacancy rates, he has noticed the added benefit of credit card payments in closing the initial rental lease on vacant apartments. Often a renter has not received a security deposit back from the previous landlord, and a credit card payment allows the renter to commit to a new apartment before getting back a previous security deposit. It also enables the landlord to fill the vacancy sooner.


Golis has also noticed that smaller family-owned apartment owners are more likely to absorb the cost of credit card payments because electronic payments save on the administrative time spent depositing checks.

All this is new, both for many ISOs and the property managers they are approaching. Thus, Gilbert advises thorough training of agents before they tackle this opportunity.

"The best way get to the property managers," he says, "is by having informed feet on the street." 

VENDOR BRIEFS

AmbironTrustWave Makes Waves in April

AmbironTrustWave received kudos from a leading industry organization, launched a business unit and completed an audit of a firm that manages card programs for issuers, all in one month. AmbironTrustWave is a provider of compliance services and is a Visa-approved data-security company that assesses whether firms meet the Payment Card Industry (PCI) data security standard. The company in April completed a compliance audit of Capital Card Services Inc. Sioux Falls, S.D.-based Capital provides issuers with card-program support, including marketing, customer service and portfolio management. The completed audit now goes to the card associations for approval. Also in April, the company created the SpiderLabs unit to detect and mitigate threats from online hackers and viruses. And last week the Electronic Transactions Association named AmbironTrustWave its Business Partner of the Year. The firm served on four of the association's committees, developed and taught a course at ETA University called Data Security Essentials and spoke at several industry events. 

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ISO&Agent is published bi-weekly by SourceMedia, Inc., One State Street Plaza, 27th Floor New York, NY 10004. Subscriptions are free. For subscriptions, renewals, address changes or delivery service issues contact 800-221-1809. For reprints, call Howard Gilbert, 212-803-8367; fax, 212-843-9624. Direct editorial inquiries to ISO&Agent, 300 South Wacker Drive, 18th Floor, Chicago, IL 60606; phone, 312-983-6127.

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