

# MERCHANT PROCESSING NEWS

... EDUCATING AND ASSISTING BUSINESS OWNERS ON THE SUBJECT OF  
"PAYMENT SOLUTIONS TECHNOLOGY"



## PURPOSE OF THIS NEWSLETTER

This month's newsletter is in response to recent emails asking about the roles that Risk and Underwriting play in the approval process of credit card acceptance. I am hopeful that the following information will help clarify any confusion.



## RISK

*Q: What is Risk?*

A: The Risk department is responsible for the process of mitigating loss exposure by managing Merchant accounts on certain parameters such as transaction volume, velocity and methods. Risk management is an integral part of any processor.

*Q: When might I be asked for financials?*

A: You may be asked to supply business financials if:

- The average sale exceeds \$ 1,000
- Your business processes more than \$100,000
- Your business continues to process large

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tickets, the monthly volume exceeds contractual limits or it's determined you may be in violation of your contract then the account will need to be re-underwritten.

*Q: What are financials?*

A: Typically, financials consist of a Profit and Loss Statement (P&L), Balance Sheet as well as business Tax Returns or personal Tax Returns if the business is new. *(Please note that generally bank statements and previous processing statements are required and financials are as applicable.)*

*Q: When are financials required?*

A: Usually when an account poses a risk to the processor such as:

- Large ticket transactions
- Large volume
- Risk of chargebacks
- Risk of rejects

Financials are normally used by processors to minimize future liability with verification of assets.

*Q: Why does Risk verify particular transactions and what is the process of verification?*

A: Risk wants to verify and / or substantiate any situation where a transaction may result in a loss to both the merchant and the processor.

Regarding the process, any single transaction poses a liability of up to six months for a chargeback. With this in mind, if verification with the merchant, cardholder and card issuing bank is successful, the risk is minimized.

- "Flagging" a transaction consists of:
  - a. Contacting the merchant and requesting invoice

- b. A decision is made to Hold or Not Hold funds
- c. Verifying transactions with card holder and card issuing bank
- d. A decision is made to release funds and mark validated or if further information is needed.

*Q: When a transaction is approved (authorized), why does Risk still follow the validation process?*

A: When transactions are authorized through a terminal or a gateway, it does not guarantee that the transaction is valid or not fraudulent.

Generally, at the time of the transaction, the card-issuing bank is only authorizing the transaction's approval based on availability of funds on the credit card and that the card's not marked stolen or closed.

*Q: What is a chargeback and who is liable for the loss of funds?*

A: A chargeback occurs when a cardholder disputes a transaction through their card-issuing bank. If a merchant does not have funds to cover a chargeback, funds will reject out of the merchants bank account and the processor takes the loss of funds.

*Q: What is a reserve account?*

A: A merchant has an established and maintained non-interest bearing deposit account ("Reserve Account") at time of approval. This type of account is used to hold sufficient funds to satisfy the merchant's current and future obligations.



## UNDERWRITING

*Q: What is Underwriting?*

A: Underwriting, as it pertains to the bankcard industry, is the action of an Independent Sales Organization (ISO) or Acquirer setting their name to a merchant account and thereby

answering for risk and / or losses on the account.

*Q: Why is it so crucial to have EVERYTHING completed on an application and attached documentation?*

A: The availability of each requested detail in the file can help the approval process move faster and more smoothly.

On the Application, the important factors for Underwriting are:

- Years in business
- Valid phone numbers (business, residence and contact)
- Drivers license number and date of birth
- Card holders electronic Data Storage checked off
- ALL initials and signatures
- Percentage of swiped transactions vs. Keyed (bankcard sales profile)

Also needed will be a

- Clear copy of driver's license
- Clear copy of voided check or signed bank letter (required)
- A MOTO (mail order telephone order) must be COMPLETELY filled out in DETAIL.

*Q: What does it mean if a merchant is on the TMF (terminated merchant file) or MATCH (Member Alert to control high-risk)?*

A: This indicates a merchant is in breach of contract with a present or past processor for reasons such as:

- Excessive activity, mostly chargebacks
- Factoring (using more than one processor at a time)
- Fraud

A processor is required by their acquiring bank and Visa/MasterCard to place a merchant on the TMF. In essence, this means the merchant can no longer process credit cards.

Please access our [dictionary of terms](#) for more information.

Please feel free to contact our friends over at [IG Consulting Group, Inc.](#) with any questions.

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