

GOING DIRECT WITH A PROCESSOR

After they have grown to a certain size, many sales agents become curious about taking the next step in “moving up the food chain” by going direct with a one of the handful of large credit card processors. Typically, the sales agent has been working under an Independent Sales Organization (“ISO”) and marketing under the name of the ISO that it represents. In this example, the sales agent wants to expand by contracting directly with a credit card processor and becoming a registered ISO. Below I will discuss the major differences between the duties and responsibilities of a sales agent versus those required for a direct relationship with a credit card processor.

Customer Services and Risk Monitoring

A typical sales agent originates a merchant by identifying a merchant that needs credit card processing services, prepares the merchant application and agreement and submits the relevant paperwork to its ISO. However, the sales agent’s continuing duties related to the merchant are usually very limited. The ISO will provide first line customer service and all risk monitoring for the merchant. The sales agent may provide occasional secondary customer service if the merchant contacts the sales agent directly, but that is usually the extent of the sales agent ongoing responsibilities for servicing the merchant.

In contrast, when a sales agent decides to contract directly with a credit card processor, it will be expected to fulfill a number of obligations in addition to servicing the merchant on a secondary basis. Most credit card processors require that the new ISO provide frontline customer service to the merchants. The merchants are specifically prohibited from calling the credit card processor for any customer service issues unless the ISO pays a fee to the credit card processor. The fee per call payable to the ISO is in the range of \$3.00 to \$6.00 for every call made by a merchant to the credit card processor.

In addition, the ISO that is direct with the credit card processor will be required to monitor risk. This requirement has two parts: underwriting the merchants; and monitoring the credit card transactions for risk. During the application process, the ISO must run credit checks, MATCH reports and other related inquiries to underwrite the merchant’s credit worthiness for the merchant account and the associated processing volume. Once the merchant is activated, the ISO must continue to monitor the transactions processed by the merchants in order to flag and hold those transactions that appear to be of a questionable nature.

This leaves the ISO in the position of having to hire staff to provide these customer service and risk functions that are not required of a sales agent. This is an additional investment in infrastructure that is necessary in order to become a direct ISO with a credit card processor. These costs must be covered by the additional profits derived from being direct with the processor in order to justify such a relationship.

Monthly Minimums

Another important requirement of becoming a direct ISO with a credit card processor is the monthly minimums that the credit card processor will require. The credit card processor, given the investment that it is making in each relationship, is not willing to allow just any entity to become a direct ISO. The credit card processor will require an ISO to make certain financial commitments in order to allow the ISO to contract directly with it.

The monthly minimum fees are related to the amount of money that the credit card processor collects from the transaction fees and other fees that it charges to the ISO. The main source of fees are the transaction fee costs charged to the ISO by the credit card processor.

The typical minimum fee is at least \$5,000.00 per month. It could range up from that amount based on the level of commitment that the parties expect from the relationship. Assuming a \$0.07 transaction fee cost to the ISO, if the minimum fee is \$5,000.00 per month, the number of transactions the ISO would have to process in order to meet the minimum would be \$5,000.00 divided by \$0.07 or approximately 71,500 transactions per month.

The minimums also are payable even if the ISO never boards one merchant with the credit card processor. So, for instance in our example if the term of the agreement is 5 years, an ISO is committing to pay \$5,000.00 for 60 months or \$300,000.00 over the life of the contract. Unless an ISO has a strong belief it can originate enough merchants to generate the necessary number of transactions, it does not make sense to enter into a direct relationship with a credit card processor due to the minimum fees involved.

Merchant Portability

One of the main benefits of being direct with a credit card processor is that there is a greater likelihood the ISO can obtain some level of portability of the merchants. For sales agents, portability is almost unheard of. However, when an ISO goes directly to a credit card processor it can, at a minimum, get limited portability to allow the ISO to move merchants at the end of the term of the agreement. The ISO may need to rewrite the merchants to move them, but this right is better than it would have in an agent relationship.

The only way to get true portability is to have a separate BIN and ICA set up with the credit card processor, along with allowing the ISO to have the merchant agreements assigned at the end of the term. This type of portability is less common, but can be

obtained by the few ISOs with the size and strength to be able to get this type of concession from a credit card processor.

For many organizations, going direct with a credit card processor does not make sense because of the cost of the additional infrastructure and the monthly minimum fees. However, as they grow many organizations will see this as a logical next step to making sure that they derive the maximum benefit from their merchants.

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