

So You Want To Register As An ISO?

By Paul A. Rianda, Esq.

I find that there is a lot of confusion as to when it is appropriate to register as an ISO with Visa and MasterCard. Many “feet on the street” sales agents come to me with the understanding that there are substantial benefits to registering. I have found that in most circumstances, the typical sales agent does not need to register. Below I will explain why:

The Un-Registered Sales Agent:

If a sales agent is not registered, there are a number of Visa and MasterCard rules that limit the way in which the sales agent may operate. The two rules that most often impact the operations of the sales agent have to do with the name under which the sales agents markets and advertises to merchants and whether or not the agent can have other independent contractors that sell on behalf of the sales agent.

In order to understand how registering is important, it is helpful to understand the chain of companies that are involved in providing a merchant account. The most powerful parties to the merchant relationship are Visa and MasterCard. Visa and MasterCard have overall control over the credit card transaction process, including the ability to regulate and fine member banks, Credit Card Processors, merchants and agents.

Next in the chain below Visa and MasterCard are the various member banks that belong to those associations. These banks sponsor the various Credit Card Processors. The Credit Card Processor is usually the party that provides the frontline customer service, charge back processing and risk monitoring functions for the merchant transactions. The Credit Card Processor is the party in the chain with the most direct contact to the merchant.

The sales agent must have a contractual relationship with a Credit Card Processor (also commonly known as an ISO) in order to allow the sales agents to submit merchant accounts. In addition, Visa and MasterCard rules require that any sales agent that is not registered with Visa and MasterCard must market itself to merchants under the name of the Credit Card Processor.

There are many aspects to the requirement that the unregistered sales agent only market itself under the name of its Credit Card Processor. The requirements include that the sales agent represent itself in the name of the Credit Card Processor when answering the phone, on the sales agent’s business cards, in any printed marketing materials, on the sales agent’s website and in any other manner the sales agent markets itself to merchants.

The other main restriction place upon unregistered sales agents is that they cannot have any independent contractors that sell to merchants on their behalf. Some sales agents have other agent offices that work for them that solicit merchants independently of the sales agent called sub-agents. The use of sub-agents by a sales agent is a violation of Visa and MasterCard rules unless the sales

agent itself is registered. Consequently, most sales agents decide to register when they want to engage sub-agents or wish to market in their own name.

The Registration Process:

The registration process is tedious and time consuming. The required documents and information are collected by the Credit Card Processor and then sent to the sponsoring bank and also to Visa and MasterCard. The sales agent is required to provide detailed information and supporting documentation, enter into required agreements and submit itself to a background check. There are also ongoing costs associated with registering with Visa and MasterCard.

In order to be registered, a sales agent must provide a substantial amount of information. There is an application that requires general information about the sales agent and its corporate information if the sales agent is not a sole proprietor. The application requires the sales agent to provide information to anyone that has a significant ownership interest in the sales agent. The sales agent must provide information regarding its income and profits, as well as any assets and liabilities it may have. In addition, all the principals and owners of the sales agent must provide personal financial statements including detailed information about their personal assets.

There are also a number of new contracts that the sales agent must enter into to register that generally benefit the banks and credit card associations. Visa and MasterCard each have their own separate required agreements that call for the sales agent to defend and indemnify Visa and MasterCard in the event of any claims that arise from the actions of the sales agent. The sponsoring bank often times also requires the sales agent to provide similar protections for the bank.

Finally, there are the financial requirements of registering. Visa and MasterCard require that a sales agent pay a total of \$10,000 fee in the first year and \$5,000 every year thereafter in order to be a registered ISO. This fee is due to each and every Credit Card Processor that the sales agent wishes to register with. For instance, if you register with two different Credit Card Processors in the same year, the sales agent has to pay a total of \$20,000 that year and \$10,000 every year thereafter.

Deciding Whether to Register:

For most smaller sales agents, the benefits associated with registering do not outweigh the costs and additional paperwork associated with the process. A small sales agent will derive little benefit from marketing under its own name. It is generally better to market under the name of the Credit Card Processor, since the Credit Card Processor's name will usually be better known than the name of the small sales agent. In addition, smaller sales agents generally do not have sub-agents so that would require it to register.

However, as a sales agent grows larger it may decide that registering is an important thing to do. If a sales agent grows to the point where it has the opportunity to sign up sub-agents, the amount

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of money that the sales agent makes from the sub-agents may offset the registration fees it has to pay. As to marketing in its own name, a sales agent may determine that this is important to the extent that it can build brand loyalty and customer awareness in its name.

The decision to register in the end comes down to a cost-benefit analysis. The sale agent has to estimate the addition profit that it can make selling under its own name or utilizing sub-agents. If the additional profit a sales agent can make is more than the costs to register, the sales agent may be able to justify the additional expense and work necessary to register.

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