

A Comparison of BIN and Agent Relationships

By Paul A. Rianda, Esq.

In this article, I will discuss the various relationships that may exist between sales agents, ISOs, and banks. This article will focus on attributes and the impact of a direct relationship between a sales organization and a bank (commonly referred to as a BIN relationship) as opposed to a standard agent agreement, where the sales organization contracts with an ISO instead of a bank. In my experience, there is also a hybrid of these two relationships that I refer to as a pseudo-BIN relationship that I will also outline. Below, I will discuss the duties and responsibilities of each party to such relationships for items including customer service, risk, charge backs, merchant agreements and related issues.

Agent Relationships:

The typical arrangement between sales agents and the credit card acquiring industry has been an agent arrangement. In an agent arrangement, the sales organization contracts directly with a sponsoring ISO and provides merchant accounts directly to that ISO. In addition, the sales agent markets under the name of the ISO. At the discretion of the ISO's sponsoring bank, the sales agent may or may not enter into the direct contractual relationship with the sponsoring bank.

In such a relationship, the sales agents duties and responsibilities are mainly limited to selling the merchant account. Once the merchant account is submitted by the sales agent to the ISO, the ISO provides all services related to underwriting and approving the account. Once the account is approved, the ISO is generally responsible for all merchant support such as customer service, billing, collections, merchant statements, charge backs, returns and credits.

As to the issue of risk, in an agent relationship, the agent rarely takes any responsibility for merchant losses, except for merchant losses where the sales agent is complicit in the activities that caused the loss. Otherwise, an agent arrangement is usually a "no risk" situation for the sales agent. In addition, the sales agent does not have to fund any reserve amounts to pay chargebacks to the ISO.

Of note, the sales agent is almost never a party to the merchant agreement in these circumstances. This means that the sales agent does not have any of the contractual protections that are enjoyed by the ISO and the bank.

As can be expected, since the ISO is providing most of the continuing support for the merchant, the sales agent receives a lower amount of the profits derived from the merchant than can be expected in the BIN relationship. A sales agent can expect to receive anywhere from 50 to 80 percent of the profits derived from the merchant over what is usually a slightly padded cost of goods as provided by the ISO. Finally, the sales agent can expect to be allowed to sell its residual stream, but not the merchants themselves as they are owned by the bank and the ISO.

Pseudo BIN Relationship

The next step most sales organizations take as they grow in size and processing volume is to enter into what I call a pseudo-BIN relationship. In such a relationship, the sales organization again

contracts with an ISO and not directly with the sponsoring bank. The main difference in the pseudo-BIN relationship as opposed to the agent relationship is that the sales organization will generally register with VISA/Mastercard so that it can market its goods and services in its own name. In addition, the sales organization provides a greater level of service to the merchant and hence receives a larger share of the revenue derived from the merchant.

In the pseudo-BIN relationship, the sales organization takes over the responsibility of underwriting an approval of the merchant, subject to certain limitations. The sales organization will generally have a monthly processing volume limitation under which it may automatically approve merchants. However, the ISO usually maintains greater control over the approval of the merchants than it would in a typical BIN relationship. In addition, the sales organization is responsible for keying the merchant into the credit card processing network.

Although the sales organization is responsible for merchant account customer service, the ISO still maintains responsibility for billing, collections, and statements to the merchants. In addition, the ISO will continue to process charge backs, returns, and credits. Although a sales organization in a pseudo-BIN relationship will generally have access to risk monitoring software, the primary duty for monitoring risk falls on the ISO.

Another important difference between an agent arrangement and a pseudo-BIN, is that a sales organization will take 100% of the risk associated with merchant losses. This allows the sales organization to receive a larger percentage of the profits attributable to the merchant (up to 90% of the profit derived from any particular merchant). Because of the risk being taken by the sales organization, the ISO will require either a rolling reserve of 2 to 5 basis points that is paid to a reserve account, or a reserve account must be funded by a cash infusion by the sales organization before processing begins.

The advantage of a pseudo-BIN relationship to a sales organization is that it allows it to derive greater revenue from the merchants that it produces. Of course, this comes at the expense of having to hire additional staff to underwrite accounts, input data, provide customer service and all the other items associated with servicing a merchant.

I find that many sales organizations take this step to a pseudo BIN too early. For the most part, many organizations do not generate a sufficient volume of merchant accounts to justify such a relationship. When the merchant account volume and corresponding processing volume is low, the losses from a single merchant can serve to wipe out most, if not all, of the sales organizations residuals.

BIN Relationship

The most lucrative, but also most risky, relationship a sales organization can enter into is as a pure BIN relationship. In such a relationship, the sales organization contracts directly with a sponsoring bank and is its own ISO. As a result, the sales organization will obtain its own unique BIN and ICA to place its merchants. This allows the sales organization to have a large measure of portability for the merchants that it places with the sponsoring bank.

BIN v. Agent Relationships

In a pure BIN relationship, the sales organization takes over the risk and charge back functions that it did not have to assume under the pseudo BIN relationship. Because it is overseeing the risk function, the sales organization has to provide a substantial payment or line of credit to the bank as a reserve for any potential merchant losses. In addition, the sales organization ordinarily has to provide the primary risk monitoring with oversight from the sales organization.

One of the main advantages of a pure BIN relationship is that the sales organization gets true interchange pricing. This is usually subject to some minimal limitations in regard to a merchant on file fee that is charged by the sponsoring bank. However, these on file fees are generally insignificant compared to the profit splits that are charged in an agent or pseudo BIN relationship. This allows the sales organization to derive as much income from the merchants as possible. In addition, this means the sales organization can effectively compete to obtain its own agents.

As a sales organization in a pure BIN relationship, the organization relies upon sales agents and does not have its own internal sales force to originate merchant accounts. In a pure BIN relationship, the object is to process as many merchant accounts as possible and focus on the operational aspects of doing so. Given the large investment necessary in order to fund a reserve, provide risk management software and personnel, provide customer service and related items, an organization wishing to enter into a BIN relationship must process a minimum of 1000 accounts per month to be both operationally efficient and profitable. The good thing about a BIN relationship and the services that are provided under such a relationship, is that an organization can quickly expand to a much larger number of merchant accounts with only a minimal increase in staff.

No matter which type of arrangement you choose, it is important to carefully analyze the risk you are exposed to as opposed to the potential reward in the form of increase merchant residual. As a sales organization continues to move up the ladder from agent relationship to pseudo BIN to BIN, it must be careful to not make a step up too early. To do so can mean a costly investment in infrastructure and unnecessary exposure to the risk of chargebacks.

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