

## **So You Want To Be An ISO?**

By Paul A. Rianda, Esq.

In my last article, I discussed the process to register as an ISO. As a continuation of that article, I will discuss the operational requirements and other considerations that are needed to actually become an ISO.

### **Additional Duties and Responsibilities:**

In order to understand the requirements placed upon an ISO, it is important to define the various parties that we will be discussing. The most powerful parties to the merchant relationship are Visa and MasterCard who have overall control over the credit card transaction process. Next in the chain, below Visa and MasterCard, are the various member banks that belong to those associations and sponsor the various ISOs.

The ISO is usually the party that provides the frontline customer service, chargeback processing and risk monitoring functions for the merchant transactions. The ISO is the party in the chain with the most direct contact to the merchant. Next below the ISO is the sales agent that must have a contractual relationship with an ISO in order to allow the sales agents to submit merchant accounts.

In order to register as an ISO, you are required to take on a number of different duties and responsibilities that a sales agent is not required to do. In order to enter into an ISO relationship, it is necessary to enter into a contract with a sponsoring bank that will provide you with the tools to allow you to provide your merchants with merchant accounts. However, the sponsoring bank has little in the way of operational duties and responsibilities for servicing the merchants.

Once you have registered as an ISO, it is up to you to provide almost all of the merchant support, although the sponsoring bank may be available to assist with the more difficult customer service issues on a fee basis. The ISO though has a substantial commitment from a cost and manpower perspective in order to adequately service the merchants.

A registered ISO will also take risk for chargebacks and other merchant losses for the merchants that it submits to the sponsoring bank. What this means is that for any unreimbursed losses that occur as a result of the merchant processing credit card transactions, the ISO has to pay those losses to the sponsoring bank.

Due to this potential exposure, the sponsoring bank requires the ISO to put on deposit a reserve account to pay for any such losses. The typical deposit can be as little as \$25,000 but can be \$500,000 or more depending upon the annual processing volume of the merchants submitted by the ISO and other risk factors. In addition, if the reserve account is ever utilized to reimburse the bank for any merchant losses, the ISO must immediately bring the reserve account back up to the level it was prior to any chargebacks being debited from the reserve account.

In addition to taking the risk for chargeback losses, the ISO also has the duty to monitor all its merchants' transactions to minimize the potential for any merchant losses by identifying any high-risk transactions. The ISO will be provided with a software program that identifies any high-risk credit card transactions from its merchants. Each day these high-risk transactions are summarized in a report for the ISO to review. It is the responsibility of the ISO to determine whether or not it should hold funds on any of these transactions to minimize the risk of loss. By holding funds, the ISO is able to divert the funds into an account the bank controls and keep the merchant from obtaining the funds. This allows the ISO to make a more detailed investigation into the nature of the transaction to determine whether or not it should release the funds to the merchant or continue to hold the funds to ensure the transaction does not become a chargeback loss.

In addition, many banks require that the ISO guarantee a minimum fee to the bank for the term of the contract. Most ISO contracts are for a term of five (5) years. Banks typically require that the ISO guarantee at least \$100,000 per year or more in revenue to the bank in order to allow the ISO to be sponsored by the bank.

### **Benefits of Registering as an ISO:**

The overarching benefit of registering as an ISO is that it allows the ISO to be the master of its own destiny. From the perspective of servicing merchants, the ISO no longer has to rely upon another ISO to provide customer service. Many sales agents complain that their ISO causes them to lose merchants because they do not provide the level of customer service that the sales agent's merchants require. When a sales agent becomes an ISO, it can provide a higher level of customer service to its merchants. It can accomplish this by identifying particularly important merchants and providing them with a higher level of service. In addition, because a new ISO does not have as many merchants as a more established ISO, it is able to more tightly control the level of customer service that it provides to its merchants.

A typical sales agent merely originates merchants and does not provide ongoing customer service, risk monitoring and other related merchant services. As a result, the sales agent generally splits the profit on a merchant account with 70% of the profit going to the sales agent and 30% going to the ISO to pay for ongoing servicing of the merchants. However, an ISO can receive a substantially larger portion of the profits derived from the merchant. Instead of making 70% the ISO may make at least 80% or more likely 90% of the profits derived from the merchant. In addition, there are a number of programs that allow the ISO to retain 100% of the profits derived from the merchant (except for a small fee that goes to the bank for the sponsoring the relationship). If the ISO originates merchants itself, the additional funds earned offset the additional costs it incurs by having to service and monitor the merchants. In addition, the ISO can recruit its own sales agents of the increased profits.

The decision to register as an ISO should not be taken lightly. The sales agent needs to determine when it makes financial sense to take on the duties of an ISO and the additional costs that they will incur. Once that point is reached, sales agents should register as an ISO to allow them to make additional profit and also control their own destiny.

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