

Underwriting Online Merchant Accounts



[Image courtesy of Stuart Miles at FreeDigitalPhotos.net]



By Curtis Kleinman
Swipe Payment Solutions

TABLE OF CONTENTS

CHAPTERS

CHAPTER 1 – Introduction	
CHAPTER 2 – Paperwork & Requirements.....	
CHAPTER 3 – Choosing the Right Payment Processor	
CHAPTER 4 – Transaction Types	
CHAPTER 5 – Website, Terms & Conditions	
CHAPTER 6 – Rates & Contract Terms	
CHAPTER 7 – Chargebacks	
CHAPTER 8 – Once in Chargeback Trouble	
CHAPTER 9 – International Processing.....	
CHAPTER 10 – Swipe Questionnaire	
CHAPTER 11 – Swipe Payment Solutions’ Role.....	
CHAPTER 12 – Curtis Bio	

Underwriting Online Merchant Accounts

Introduction

It seems every day another payment processor stops taking risk-free trials. Marketers are challenged to find new payment processors to take their merchant accounts. Many feel unfairly vilified being pooled together with others who haven't followed the rules closely.

Marketers need to present a good story as to why the bank should take their merchant account. So merchants must show they have experience to handle high volume processing. Good credit and a well funded account are fine if you don't have a successful track record of marketing products.

How high risk merchants apply has turned into a precise art since there are fewer choices. This has been shocking to high risk marketers who have opened hundreds of past merchant accounts with little difficulty. They've grown accustomed to opening merchant accounts with minimal paperwork and effort. They have always leveraged one corporate bank account to open many merchant accounts for the same product. This has become trickier. Banks are finding new reasons to reject high risk merchants and certain products are becoming more challenging to underwrite. The banks willing to accept high risk categories are requiring better funded bank accounts than in the past.

What is a Merchant Account?

A merchant account enables your business to accept credit card payments from your customers. The funds are electronically deposited into your bank account one or two business days after a transaction. Most merchant accounts allow your business to accept MasterCard, Discover, Visa and American Express.

High Risk Merchants Accounts

The technical definition of High Risk is anytime a credit card is not present during the time of purchase. This includes mail order/telephone order (MOTO) and internet accounts.

High risk gets further stratified by the product sold and billing model. Is a Risk free trial involved in which the consumer's credit card will be billed automatically each month? Diet, weight loss, prostate, testosterone, skin care, biz op, get rich quick schemes, pharmaceutical drugs, telemedicine, credit repair, computer repair, downloaded/streamed products, debt consolidation, adult entertainment, tobacco, pharmacy, jewelry and other high ticket items are also considered high risk categories. The costs of processing payments increases and you have fewer banking choices when your merchant account is considered a high risk.

Safer High Risk

One time Internet sales are considered a safer high risk category. Rates will be lower and less paperwork is required to open a merchant account.

Paperwork & Requirements

Every underwriting bank likes to see a well-funded bank account. Having all your financial paperwork ready is appreciated and increases your chances of approval.

During the application process underwriters are closely examining the bank account attached to your merchant account. Owners and their corporations are reviewed. Underwriters look at credit, past processing history, liens, bankruptcies, criminal background and more. Underwriters are also asking for more paperwork from merchant account applicants; especially when applying to a new bank.

Swipe Payment Solutions guides merchants on how to best utilize their corporate entity. Merchants must apply differently for established clients versus new entities without financial history. We chose the right processor and review paperwork before submission. We guide merchants to funding levels necessary to achieve their campaigns required processing volume. Swipe negotiates hard on behalf of merchants.

New high risk marketers should have extra paperwork ready including tax returns, up-to-date financials, telemarketing scripts, fulfillment agreement, marketing materials and even testimonials. Having paperwork ready will also speed the application process.

Here are the minimum standard documents required to open a new merchant account.

Documents Required for Domestic Processing

1. Driver's license
2. Business license
3. Voided check
4. 3 months processing statements (if processing)
5. 3 months business banking statements
6. Gateway agreement (Authorize.net, NMI)
7. SS-4 or W-9 IRS document

Additional Paperwork for Higher Risk Accounts

For Risk Free Trial, New High Risk Products or High Volume Accounts with a newly established company or small bank balance.

8. 2 years corporate tax returns and current business financials
9. 3 months personal bank statements
10. Personal tax returns
11. Fulfillment Agreement
12. Business Plan

Gateways

For each merchant account you open an associated gateway must be established. The most common gateways are Authorize.net and NMI. A gateway provides security measures to assure customer transactions aren't fraudulent before a transaction is approved and funds are transferred. Gateway accounts can be set up the same business day usually with 30 minutes.

Do I need a Social Security number?

To establish a domestic merchant account a Social Security number is required. For Canadian citizens a SIN number or passport is sometimes accepted. A merchant owner can find a signer with a social security number to bear responsibility.

Your Corporate Entity

Some processors now allow only two merchant accounts per established business entity or person. The processing volume allotted to certain merchants has been reduced. For many, these lower processing volumes mean less media spending and reduced profits.

It is important to rotate your corporate bank balance by paying expenses like marketing, product manufacturing and vendors and adding money periodically. Processors would rather see money coming in and out than a lump sum of money sitting untouched.

Is Establishing a Corporation Required?

No it is not. Establishing a corporate bank account to process payments isn't necessary. A merchant can use their personal bank account.

Timeframe Necessary

Swipe can often acquire merchant accounts for customers in 2-3 business days. It may also take 3-4 weeks, especially for some high risk accounts. Swipe moves fast but we must still account for delays from our processors and merchants applying. Processors take vacations, may not identify paperwork received, or often get backed up days with dozens of applications.

Past History

Payment processors love marketers who have a past history of success, a well-funded bank account and good credit score. Money in the bank and good credit and is great when you do not have a successful track record.



[Image courtesy of Stuart Miles at FreeDigitalPhotos.net]

Choosing the Right Payment Processor

Payment processors have a varying appetite for risk tolerance. You must choose the right payment processor based on your specific situation. Do you offer a risk free trial? Selling Skin care products versus an Ingestible? Muscle building versus Prostate health? Do you have an existing processing history versus a new product?



(Image courtesy of ddpavumba at FreeDigitalPhotos.net)

Transaction Types

MasterCard, Visa & Discover

These should be accepted by all merchants.

Accepting American Express

American Express is not the favorite preferred card for merchants. Many merchants feel as though American Express is on the customer's side and doesn't defend their merchants. By not offering American Express you can lose 20% of sales volume.

Debit Cards

Debit cards are a much safer transaction. A customer must enter personal home address information at the point of sale. Merchants can expect to pay less for debit card transactions.

AVS

AVS is a very safe transaction since it validates a cardholder's address against the issuer's records. It's also another way to minimize chargebacks. This service is part of a credit card authorization for mail order and telephone order transactions.

Loyalty, Rewards & Customer Retention Programs

Gift & Loyalty Programs are great ways to increase profits. At first glance it may appear a business is losing money by giving away a free product. You are developing a loyal customer it's easier to retain. These programs motivate customers to spend more money at your website by rewarding them every month they stay as a customer. They also can prevent a customer from cancelling if offered correctly.

Website, Terms & Conditions

A common pushback for modification from underwriters is the “Terms and Conditions” (T&Cs) on the merchant’s website. Underwriting is looking for everything prominently displayed. Merchants often have multiple offers thus a greater risk of experiencing chargebacks.

Website Bad Claims & Endorsements

Mentioning Dr. Oz will certainly help your website conversions. However; these practices are strictly prohibited. Just because your product has some of the same active ingredients on Dr. Oz.’s show does not mean your formula may use his endorsement, video, image or likeness.

Claims of losing 21 pounds and 8 inches in 3 weeks sound amazing. Can you back them up with clinical trials? You should not make claims not derived from you own clinical research. Yours claims should not set unrealistic customer expectations. Today marketers who use deceptive practices put more people at risk than just themselves. There is more emphasis from the FTC that vendors know more about the backend operations of their customers. This includes media agencies, affiliate marketers, web developers and payment processors.

Is Your Refund Policy Too Strict?

Most merchants are giving customers 30 days to cancel for a full refund. Some merchants feel such a refund policy is customer friendly and unfair. As a business owner, everything you do is centered on protecting your assets. Looking for any slight advantage to keep you ahead it’s never wise to give away more than you are required to, unless you have an excessively strict refund policy. Your products costs pennies on the dollar compared to the havoc chargebacks can wreck.

Just offering a fair return policy is not enough. Merchants must go above and beyond their customer expectations and still hope for the best. When issuing a refund send your customer an email or text notification informing them it may take a few days to see the actual credit you’ve given them. All experienced marketers know refunding their customers without hassle leaves the customer less prone to chargebacks. Most merchants refund customers during the customer call before receiving the unused/damaged goods. Smart marketers issue refunds not requiring customers send product back. Who wants to deal with the expense associated with returns anyway? Don’t stand on principle. Giving a refund quickly can stop a chargeback, even before it’s attempted.



Rates & Contract Terms

Budgeting Net Effective Rate

When it comes to payment processing merchants often have low rounded budgets missing line items. Your Net Effective Rate is the total processing volume divided by the total of all rates and fees combined. This includes processing rate, chargeback fees, retrieval fees, statement fees, reversals, transaction charges. You must account for downgraded surcharges (Charged when your customer's credit cards has perks attached like rewards, mileage, cash back, gas and benefit cards. Corporate and international cards will also cost you more to accept).

Low Risk Rates

Even with proper business practices and a safe, working product, chargebacks and refunds will usually occur. Marketers should factor approximately 3.5% - 4.5% for their "net effective rate" just to be safe.

High Risk Rates

Rates have risen in the last few months for risk free trials. Product markers are more concerned with the ability to be approved and acquire MID'S and are willing to pay 2.0% – 3.0% more than the past. Marketers should factor approximately 6.0% or more for their "high risk net effective rate" just to be safe.

Personal Guarantee's

What is a Personal Guarantee? By signing a personal guarantee, you are agreeing to pay all fees associated with your merchant account. This assures if you stop processing payments and remove all funds from your bank account, you're agreeing to pay all refund, chargeback and banking fees.

Reserves

The reserve is a fee which the processor will keep back as "insurance" against chargebacks and other problems. Those selling products involving risk free trial and continuity products should expect to pay a reserve. The most common hold back is a 6 month rolling reserve. A certain percentage of your sales are held each month. At the end of your 7th month you'll get back holdings from the 1st month. In the case of very high risk products some processors ask for a prefund taking the first dollars in processing reserve.

Chargebacks

Every marketer is trying desperately to keep their chargebacks down.

What is a Chargeback? A chargeback is a refund initiated by the customer's Credit Card Company or bank instead on behalf of the cardholder. Chargebacks are more detrimental than a refund you provide.

When a merchant has a chargeback, they are debited the amount of the sale and the chargeback fee. If the product has been delivered (or service rendered), the merchant can also lose the product cost and shipping fees. If a merchant wins a chargeback, it remains on their record and add to their overall chargeback count.

When you get in chargeback trouble, be ready to pay higher rates and have greater reserves held from you. Even worse, you may have your merchant account terminated altogether if your chargeback ratio is excessive. Once chargebacks are high, it's virtually impossible to establish another merchant account for your same product or website.

What's the Chargeback Threshold?

Visa and MasterCard require you don't go over 1% and 100 chargebacks in a given month. Your processor can shut you down for going over 1% and under 100 chargebacks.

Expanded Customer Service Hours

Always make your customer service number available on your website and in your original product packaging. Some marketers choose not to easily provide their customer service number, so cancelling a shipment or making a return is more challenging. If you do this, don't be surprised when you see a chargeback. Make sure customer service is available during daytime hours in regions where you sell your product or even 24/7. Credit card holders call their credit card providers to claim chargebacks if they can't reach your customer service department or sense resistance to issue a refund.

Customer service reps concentrate primarily on closing and saving precious sales. But, if there is too much focus on saving the sale and your customers will feel pressured. Sometimes customer service saves a sale and your customer will instead initiate a chargeback.

Use a proper Billing Descriptor

Using a proper and accurate billing descriptor is the easiest and cheapest way to fight chargebacks. A billing descriptor is how your product's charge appears on your customer's credit card billing statement. Your billing descriptor should include your website (or product name) and customer service phone number. You will save money, time and effort if customers can easily identify your purchase as valid. Using your customer service number in your billing descriptor makes it convenient to call you for a resolution first and not their credit card company.

Customer Communication

Your customer should know when your product will arrive on their doorstep. State your delivery terms on your website or when customer service takes the order. How long will it take you to ship their order? What is the expected arrival date? Smart marketers E-mail (or text) their customers to inform them that their product has been shipped. Communication is the key to reducing chargebacks.

Bad Affiliate Traffic

Affiliate marketers can help drive you sales and customer leads. Affiliates are heavily incentivized to create customers for you through sales, calls, lists or clicks. Thus, you can't always trust the quality of the customers provided by certain affiliates. Often, affiliate traffic will help drive sales, but bad leads will drive a spike in refunds/chargebacks to your merchant account. This appears several months later if there's a risk free trial involved. You must closely monitor all affiliate traffic to assure you don't see a spike in refunds or chargebacks from sales.

When evaluating affiliates do your research online, ask around and take the time to properly evaluate. Don't choose affiliates because you are comfortable with your sales person or impressed with the size of their company.

These are all issues you must consider when choosing a payment processor.

Consequences of Choosing the Wrong or Local Bank

Choosing the wrong bank leaves your business open to a variety of bad possibilities. Every processor cuts loyal merchants daily and they often lose the ability to process payments at their busiest time. Many terminated with no notice or proper time given to open another merchant account. Many were merchants selling skincare, ingestible items and membership services.

Some who use the wrong payment processors may experience higher rates, reserves, lower chargeback tolerance, unexpected termination and lower processing limits. Banks' underwriting and risk departments may end up not being comfortable with the product or billing model associated. Then you're in trouble during a spike in sales volume, a few customer complaints, or when just a few returns/chargebacks occur. Local Banks often approve a merchant account for their loyal customers must it can hurt later.

Processors Sharing Underwriting

A number of payment processors who use Harris and Deutsche Bank's on the back end now share information between underwriting departments. These processors monitor and won't allow merchants to process as many merchant accounts as the past.

Bank Balance for Required Processing Volume

High Risk

Regarding risk free trial accounts for every dollar you have on the bank expect roughly 2 times in monthly processing volume. For instance with a bank balance of \$35,000 in the bank expect \$70,000 in monthly processing volume. Asking for a processing volume of more than \$70,000 per account triggers more paperwork including financials and tax returns.

Low Risk

If your merchant account isn't considered a High Risk having a lower bank balance may be sufficient for the processing volume you require.

Options Once in Trouble

High Chargebacks

Once in Chargeback trouble you may be asked to pay higher rates, reserves, go into a chargeback monitoring program or even worse terminated and matched. Once matched you may be blacklisted by all payment processors. Acquiring a new merchant account when you have chargebacks over 1.5% becomes challenging.

MATCH List

What Is The MATCH or TMF List? It's a list to identify specific merchant owners who've been previously terminated for bad reasons. Once a merchant is on this list it becomes challenging to have future merchant accounts approved. The MATCH list, is essentially a blacklist from which it is almost tough to be removed. Your best chance is to work directly with the payment processor who placed you on the MATCH List and resolve the issue.

Some merchants end on MATCH List due to fraud, high chargebacks and letting another business process payments using their Merchant ID number.

Using Aggregators

Swipe often uses aggregators on behalf of or clients. Aggregators can be helpful in two different ways.

- 1- Helping to find a bank who will accept your merchant account if you don't know where to apply.
- 2- If you've already been denied by several high risk payment processors.

By using an aggregator you can apply to several institutions with one application. The negative aspect of using aggregators is you'll often pay higher rates and reserves. The timeframe to acquire a merchant account can take weeks longer than going directly to a traditional payment processor.



[Image courtesy of Adamr at FreeDigitalPhotos.net]

International Processing

International processing is a long term commitment. Are you selling or settling in a foreign currency? Do you have a foreign entity established? International processors require the establishment of a foreign entity and a bank account in the same area as your foreign corporation. They prefer 6 months of banking history and request the potential to process at least \$50,000 or more in a month.

International chargeback thresholds are similar to domestic processing despite rumors offering a more optimistic view.

Documents Required For International Processing

1. Government-Issued Identification
2. Certificate of incorporation
3. Memorandum and articles of association
4. Voided check
5. 3 months business banking statements
6. SS-4 or W-9 IRS document (accountant should have a copy)
7. 2 years corporate tax returns and current business financials (if applicable)
8. Original utility bill, personal bank statement or credit card statement (less than 3 months old)
9. Certificates listing the current directors, current shareholders and registered address of the Applying Company issued by the Company Registrar (must be less than 6 months old)
10. Certificate of Good Standing issued by Company Registrar (if applicable) or an official registry document confirming that the Applying Company is not in the process of being dissolved, struck off, wound up or terminated (must be less than 6 months old)
11. Board resolution confirming appointment of Authorized Signatory (if applicable)
12. PCI scan (existing merchants)



Swipe Questionnaire

This is Swipe Questionnaire to help determine which banks we can place a merchant with.

Current Processors:

- 1- List Domestic merchant accounts and approximate monthly volume?
- 2- List International merchant accounts and approximate monthly volume?
- 3- What payment gateway are you using?

Recently Applied

- 1- Where have you applied for a merchant accounts already?
- 2- Where have you been accepted?
- 3- Where have you been denied?
- 4- Where are you still pending?
- 5- Date you'll need processing?

Owner/Product

- 1- In what countries are your owners a resident of?
- 2- What is your website address?
- 3- Is your product sold with trial/continuity or a one-time purchase?
- 4- In what countries do you plan to sell your product?
- 5- In what countries are your owners a resident of?
- 6- How much working capital is in your corporate bank account?

Swipe Payment Solutions' Role

We offer solutions based on your need. We have direct relationships and you'll pay less going through Swipe. This is due to the volume of accounts Swipe underwrites giving us our bargaining leverage. We never touch your money on the merchant side and not tied to any financial institution.

Banking Choices

We have 12 banking choices and evaluate which are best for each specific client. Swipe is always diligent to establish new and reputable banking relationships. We seek partnerships with well-established financial institutions and technology companies to add benefit to our merchants. Our agnostic approach keeps marketers leveraged with access to the best banking products.

Relationship Managers

Swipe Payment Solutions offers 8 Relationship Managers who handle backend tasks and all work hard to support our 2,000+ merchants.

During Underwriting

Swipe negotiates favorable terms, processing volume and rates. We eliminate many start up/monthly fees. We populate paperwork from information obtained verbally, client's website, previous paperwork, documents submitted etc. when we apply for additional merchant accounts.

We guide merchants how to the best utilize their corporate entity. Merchants must apply differently for established clients versus new companies without financial history. We review all paperwork before submission to processors. We guide merchants to funding levels necessary to achieve their campaigns needed processing volume.

Web Testing & Integration

Swipe assists their merchants with API gateway set up and we can deal with you vendors. Swipe helps clients create authorize.net login, password and establish security settings. We review websites for compliance. Upon launch we'll analyze your chargeback and decline codes. We'll make fast and necessary adjustments to reduce lost sales.



Curtis Kleinman Bio

Curtis Kleinman Qualifications:

2011 DRMA Member of the Year, 29 years banking experience, authored 30 articles and several eBooks. Curtis speaks publically and on TV, radio guiding merchants. In 1998 pioneered the first targeted email marketing campaign.

1986 – 2008 Founded Information Systems Resources managing a staff of 125 professionals. Clients include Viacom/MTV, BMG Music, Time Life, Disney/A.B.C., Estee Lauder, Revlon, Avon, Coach, Web MD, Nature's Bounty, Ralph Loren, Ann Taylor, Young & Rubican, Bed Bath & Beyond, Fox Sports, Pfizer, Colgate Palmolive, Lever Brothers, Price Waterhouse, Ernst & Young, Deloitte & Touché, Morgan Stanley, SONY, Citibank, and J.P. Morgan/Chase.

Curtis@swipellc.com
310-573-9019

Underwriting High Risk Accounts

By Curtis Kleinman, Swipe Payment Solutions