



PREVIEW

Merchant Aggregation

A guide to understanding aggregation, the opportunity available and how ISOs may participate



STRICTLY CONFIDENTIAL.

For discussion purposes only.

This Report, and all information, analysis and conclusions hereunder, is in all respects subject to and governed by the terms and provisions of the Engagement Agreement between The Strawhecker Group and the Client.

© Copyright 2014. The Strawhecker Group. All Rights Reserved.



Table of Contents

Report Overview	[03] – [03]
Executive Summary	[04] – [10]
Section 1 – Aggregation Defined	[12] – [19]
Section 2 – Acquirer Eligibility	[21] – [33]
Section 3 – The Aggregation Opportunity	[35] – [42]
Section 4 – Capabilities & Resources	[44] – [49]
Section 5 – Brand Fees & Pricing Strategies	[51] – [55]
Section 6 – Remaining Compliant	[57] – [62]
Conclusions & Recommendations	[64] – [64]
Appendix	[66] – [68]

Report Overview

WHAT IS THIS REPORT?

This 70-page report compares and contrasts the rules and policies of the four major card brands regarding merchant aggregation. Particular attention is paid to how ISOs may participate in relation to the brands, their processor and the sponsoring acquirer institution.

Areas to be covered include:

- Compare and contrast MasterCard, Visa, Discover and Amex aggregation rules
- Agreement requirements among participants
- Maintaining compliance with brand rules
- Business operations
- Processing
- Pricing strategies
- Best practices for success



HOW WAS IT COMPLETED?





TSG's Senior Management Consultant, [Gerritt Kerkstra](#), has extensive knowledge of aggregation allowing him to author this report, in addition to his deep dive into the rules and regulations the four major card brands have produced for the aggregation model.

WHY IS THIS USEFUL?

This report is a guide to understanding aggregation, the opportunity available, and how ISOs may participate.

Competitor PSPs/PFs - *Example Page*

Competitor PSPs/PFs





				
Product Name				
Target Merchant Types				
Business Model				
Pricing				
Differentiation				

Aggregation Risks - Example Page





Aggregation Risks

Acquirer	PSP/PF	Sub Merchant





Section 2: Acquirer Eligibility – *Example Page*

Requirement				
Acquirer must be in good standing with the payment brand				
Any signed aggregators must be in Acquirer's licensed area				
Sub-merchants must be in Acquirer's licensed area				

Section 2: Acquirer Responsibilities – General - *Example Page*





Requirement				
Complete aggregator registration & written approval prior to submitting sub-merchant transactions				
Ensures compliance with TMF or MATCH				
Ensures Payment Facilitator compliance with PCI				
Acquirer is liable for all acts & omissions of PF/PSP and sub-merchants				
Ensure location of PF/PSP and its sub-merchants is in licensed area/geography of acquirer. Location of sub-merchant is determinant, not location of PSP				
Settlement funds must be used to pay sub-merchants.				
Ensure appropriate MCC used reflects each sub-merchant's primary business				

Section 2: Acquirer Responsibilities – General – *Example Page*




Requirement				
Provide PF/PSP and sub-merchant activity reports				
Notify brand if ceasing relationship with PF/PSP and sub-merchants				
Contracts with aggregator to enable sponsorship of sub-merchants				
Requires aggregator and its sub-merchants to comply with all brand rules, policies and procedures				
Holds aggregator liable for errors and omissions of sub-merchants with respect to brand rules, policies and procedures				
Insures aggregator uses appropriate MCC and merchant descriptors for sub-merchants				
Insures aggregator does not have other aggregators as sub-merchants				
Insure aggregators employ due diligence in signing of sub-merchants				
PSP Merchants must meet the definition of merchant				

* Sub-merchant list must be provided within 24 hours of request.





Section 2: Aggregator Responsibilities – Specific – *Example Page*

Requirement				
Register High Risk Payment Facilitator and each of their sub-merchants in the MasterCard Registration System if acquiring in select MCCs (detailed on following pages)				
Provide monthly High Risk sub-merchant activity reports				
Register PSPs considered high-brand-risk as High-Risk IPSP. Special fees may apply				
The name of the High-Risk IPSP must appear in Auth/Clearing record of the High-Risk Sponsored merchant when website of the sponsored merchant is accessed and then linked to IPSP for payment				
Acquirer / High Risk IPSP merchant agreement must be signed by a senior officer of the High Risk IPSP				
Notify processor of PSP status				
Participate in AVS				
Express and prior permission in writing required to operate as PSP				





Section 2: Acquirer/PSP Agreement Requirements – *Example Page*

Acquirer/PSP Agreement Requirements				
Any stipulations required in merchant agreements must be included in PSP agreement*				
Must comply with all brand rules, regulations, policies. Particularly anything applying directly to merchants				
Acquirer's right to terminate the PSP/PF or a sponsored/sub-merchant for good cause, fraudulent activity or upon payment brand request				
The PSP/PF is liable for all acts, omissions, cardholder disputes and services issues caused by its sponsored/sub-merchants				
The PSP/PF is liable and responsible for transactions submitted into interchange				
The PSP/PF may not transfer financial liability by having cardholders waive their rights				
The PSP/PF may not deposit transactions of another PSP/PF				





Section 2: Acquirer/PSP Agreement Requirements – *Example Page*

Acquirer PSP Agreement Requirements				
The PSP/PF may not sign a sponsored/sub-merchant terminated at brand direction or by a government agency				
The PSP/PF may not deposit transactions outside their acquirers licensed area				
Must provide the names of principals and country of domicile for all sponsored merchants and transaction activity reports on request				
Sponsored/sub-merchants must comply with PCI DSS and PA-DSS				
Eligible acquirer responsibilities delegated to Payment Facilitator should be specified in agreement. Does not relieve acquirer of responsibility				
Notice that once specified brand volume per sub-merchant/sponsored merchant exceeds \$100,000 annually, a direct contact with acquirer is required				





Section 2: Aggregator Responsibilities – *Example Page*

Requirement				
Obtain MATCH or TMF inquiry from acquirer on every sub-merchant				
Post any sub-merchants terminated for cause to MATCH or TMF				
Sub-merchant due diligence to include background, credit check and references of owners, partners and principle shareholders. Conduct site inspection of sub-merchant premises and/or websites. Retain all investigation records for 2 years after the sub-merchant agreement expires				
Aggregator will maintain a current list of sub-merchant names, addresses, DBAs and URLs and supply to payment brand or acquirer on a determined schedule or request				
Responsible for funds settlement with sub-merchants. Sub-merchant agreement may provide for withholding of reserve funds for chargebacks or similar purposes				
Must provide sub-merchants with materials and services to effect transactions				




Section 2: Aggregator Responsibilities – *Example Page*

Requirement				
Accurately assign MCC reflecting each sub-merchant's primary business				
If any portion of sub-merchant business is non-face-to-face gaming, MCC 7995 must be used				
Provide unique name in merchant descriptor field for display on cardholder statements.				
Unique name must include identification of PSP/PF and sponsored merchant/sub-merchant				
Educate sub-merchant in use and display requirements of brand marks and provide materials				
Clarity of PSP/PF identification on sub-merchant websites				
Ensure sub-merchant compliance with brand specific risk, fraud, security programs as well as PCI compliance				
Aggregators considered Level 1 Processors				
Notify your processor of your status as a PSP				
Register as High Risk Payment Facilitator if acquiring in select MCCs (detailed on following pages)				
Provide customer service either directly or through sponsored/sub-merchants				





Section 2: Prohibited Sub-Merchants - *Example Page*

Prohibited				
Any MATCH or TMF listed merchant for cause				
Any merchant reported under the Excessive Chargeback Program				
Other PSPs				
Any merchant engaged in a prohibited activity that is identified as a prohibited merchant or is on a government sanctions list				
Travel industry, all				
4812 Telephone equipment & telephone sales				
4813 Key-entry telecom merchants				
4814 Telecom services – prepaid calling cards				
4816 Internet service providers				
4899 Cable, satellite, and other pay TV and Radio				

Section 2: Prohibited Sub-Merchants - *Example Page*

Prohibited				
5122 Non-face-to-face Drugs And Pharmacies, Wholesale				
5912 Non-face-to-face Drugs And Pharmacies, Retail				
5966 Direct Marketing -- Out Bound Telemarketers				
5967 Direct Marketing – Inbound Telemarketing, E.G. Adult				
5968 Direct Marketing – Continuity /Subscription Merchants				
5969 Direct Marketing – Not Elsewhere Classified, E.G. Infomercial				
5993 Non-face-to-face Tobacco Product Merchants				
7273 Dating & Escort Services				
7278 Buyer Shopping Services, Clubs				

Section 2: Prohibited Sub-Merchants - *Example Page*

Prohibited				
7321 Consumer Credit Reporting Agencies				
7841 Video Rental Stores				
7995 Non-face-to-face Gambling Merchants				
Up-selling Merchants				
Internet Auctions				
Rebate Based Businesses				
Credit Protection/ID Theft Protection, Credit Counseling Services				
Business Opportunity Merchants, MLM Businesses				
Political Parties				
Any Goods Consisting Of Endangered Species Or Their Products				

Related Reports & Services

Related Reports

- [Merchant Processing Pricing Benchmark Study](#)
- [Merchant Acquiring: Leading Practices in Retention Management](#)
- [Attrition & Growth Report](#)
- [ISO Telesales Study \(limited preview\)](#)
- [Directory of U.S. Merchant Acquirers](#)

[Click here for a full list of TSG Reports](#)

TSG's Aggregation Team

TSG can assist your company with aggregation educational sessions, viability assessments, and customized implementation & strategy

Gerritt Kerkstra

Gerritt G. Kerkstra, Senior Management Consultant of The Strawhecker Group, is a thirty year veteran of the payments industry, having worked at Bank of America, Visa, and most recently, MasterCard. He is a recognized leader in the industry and is a frequent presenter at industry conferences. Gerritt is focused on strategic Payments Industry assignments with TSG Clients. At MasterCard he was last Senior Vice President of acquirer relations for the United States directing account relationship representative coverage of the top 50 US acquirers and member service providers. He also managed the interaction between MasterCard's Regional acceptance staff and U.S. Commerce Development. For Commerce Development, he represented merchant and acquirer interests on internal MasterCard committees and working groups including the pricing committee, customer risk management, various interchange working groups, the point-of-interaction advisory group, the merchant advisory group, chargeback working group, operations and security. [More about Gerritt](#)

Linda Perry

Linda Perry, a Senior Management Consultant of The Strawhecker Group, has over 30 years' experience in the payments industry, most notably with Visa, Citicorp and Michigan National Bank. Perry joined Visa in 1992 as Vice President and Regional Manager of Member Relations. In 1995, Perry transferred to Merchant Relations and subsequently was promoted to Senior Vice President of the Acquirer & Processor Sales for the US. She served on the Presidential Advisory Council as an ex-officio member of the Electronic Transactions Association's (ETA) Board of Directors for 13 years. Prior to joining Visa, Perry was a Vice President at Citicorp Establishment Services in Chicago. She spent 11 years with Michigan National Bank in a variety of positions, including Vice President for Michigan Bankcard Services and Sales Manager for Cash Management Products. [More about Linda](#)

Have Questions?

402.964.2617

info@thestrwegroup.com

About TSG

The Strawhecker Group (TSG) is a management consulting company focused on the electronic payments industry.

TSG's Service Groups

Payments Strategy - Payments Strategy encompasses the full spectrum of advisory services within the Payments Industry. The depth of these services is built on deep industry knowledge - the Partners and Associates of the firm have an average of over 20 years of industry experience. With clients from card issuers to merchant acquirers, TSG has the experience and expertise to provide real-time strategies.

Transaction Advisory - Whether buying or selling, seeking investment funding, or planning your company's exit strategy, TSG's experience can be critical to achieving success. TSG has performed more than 100 Payments Company Valuation and/or Business Assessments in the past three years - ranging in value from \$1 million to \$1 billion.

TSG Metrics - TSG Metrics, the strategic research and analysis division of TSG, provides the Payments Industry with highly focused research and industry-wide studies. TSG Metrics takes data, boils it down to information, transforms it to knowledge and presents it to provide wisdom to its client partners.

TSG's Unparalleled Experience

TSG consists of Industry leaders with extensive experience leading teams through explosive growth periods, mergers and acquisitions, and international and domestic expansion within the Payments Industry. Both Partners and Associates of the firm have held key senior management positions at leading industry companies including First Data / First Data International, Visa Inc., MasterCard, TSYS, Humboldt Merchant Services, WorldPay, Heartland Payment Systems, Cardservice International, iPayment, Alliance Data, RapidAdvance, Accenture Consulting, Redwood Merchant Services, Chase Paymentech, as well as other leading financial institutions and Payments companies.

TSG's Influence Shapes the Payments Industry

Over the last three years, TSG has completed over 400 projects for more than 200 different clients including financial institutions, merchant acquirers, card issuers, card associations, technology providers, ISOs, processing companies and the investment community. Additionally, the firm and its Associates sit on several industry committees whose focuses range from emerging product development to governmental regulation advisement.

Other recent TSG reports and analysis include (Click for more information):

The Top 10 Ways
Acquirers Can Block the
Breach

TSG Analysis: Global
Acquisition of PayPros

What Benefits Me By
Paying a Credit Card
Swipe Fee

TSG Mobile Payments
Infographic

ETA/TSG Q1 2014
Economic Indicators
Report

For more information, contact TSG at info@thestrwegroup.com

[Subscribe to TSG's NewsFilter](#) * [PaymentsPulse.com](#) * [Follow TSG on Twitter](#) * [Follow TSG on LinkedIn](#) * [TheStrawGroup.com](#)