



A Perfect Match

To find the right processor partner for your business, investigate these critical areas

KEY NOTES

- ▶▶ Before contacting potential processor partners, ISOs need to set goals for their organization and determine if they plan to attain registered status and if they intend to concentrate on sales or provide other services and products as well.
- ▶▶ Insist on the non-liability programs that have become an industry standard. Consider partnering only with processors whose risk management and mitigation practices mandate keeping customers in the loop about problems.
- ▶▶ The manner in which processors protect data and the controls they use to protect their systems are as important as any other factor that comes into play when processor-shopping.

By Julie Ritzer Ross

Five years ago, NXGEN, an ISO/MSP headquartered in Whitefish, Montana, needed a new processor. After investigating several candidates, COO Tom Nitopi selected a large organization he believed would be a good fit primarily because it was an “industry legacy” that had forged many long-term relationships with other ISOs. It was, Nitopi says, one of the worst business decisions he has ever made.

“Yes, I was able to secure a good rate, and yes, the staff were nice people,” he notes. “But did what the processor offered allow our independent agents to effectively sell our services? No. Were our merchants able to get the assistance they needed? No. Were the back-end systems appropriate for our needs? No—and these problems represented just the tip of the iceberg.”

As Nitopi’s experience illustrates, myriad issues beyond industry tenure, size, and competitive rate structure require careful consideration when evaluating processor candidates. Getting answers to the following questions will ensure these issues are addressed, and increase the likelihood you’ll strike a deal with the right processor partner.

What type of ISO operation do we aim to run, and what are our business objectives? Before contacting potential processor partners, determine or reaffirm a clear-cut identity, scope, and set of goals for your organization.

“Unless ISOs know who they are, what they are trying to accomplish, and what they want to be when they grow up, it is hard for them to determine what they need from a processor partner,” says Tom Della Badia, senior vice president of processor Cynergy Data in New York City. “And deciding whether and how to bring them on board becomes difficult for us as well.”

Among other details, Della Badia advises, determine whether you plan to attain registered status (providing you haven’t already done so) and if you intend to concentrate on sales or will provide other services and products, such as POS system maintenance, as well. Cash flow requirements also warrant discussion, as both these and processor payment structures/schedules vary from organization to organization.

“Not every processor is right for every ISO, and it is a waste of time for potential partners to pursue each other if there isn’t enough basic common ground there,” affirms Darrel Anderson, senior vice president of sales and strategic partnerships at TSYS Acquiring Solutions, a processor headquartered in Tempe, Arizona. “For instance, the setup of some ISOs necessitates that they have access to a processor’s call center—and if the processor doesn’t have one, exploring the relationship further” would not make sense.

Processors’ willingness to ask potential ISO customers detailed questions about how they run their businesses is another early indicator of whether to pursue their services. Avoid any candidate that skips this step in favor of automatically rattling off a list of prices, issuing recommendations, or pressuring you to sign a contract, Anderson advises.

How do our goals align with those of the processors we are evaluating? Disparate goals may not be a problem initially, but could create issues later. For example, a processor may intend to reimburse its funding entity in five years and sell its portfolio to another processor. When such a sale occurs, “there usually is merchant attrition, with 15 percent or so of accounts not emerging from the other end of the conversion tunnel,” says David McAlhaney, senior vice president, North American third party sales, for Atlanta-based acquirer Elavon. “A proces-

sor in the ‘winding down’ stage wouldn’t be a prospect for an ISO that’s nowhere near closing up shop—and it’s best to know this” at the start of the shopping-around process.

Are candidates willing to meet with us in person, at their offices?

Information conveyed to the ISO/MSP community by telephone or in industry publications is never as comprehensive as information communicated face-to-face. Formulating a decision based on an incomplete—or possibly inaccurate—processor “picture” could lead to trouble down the road.

“A visit isn’t by any means the be-all and end-all of the decision-making process, but it’s the only way to know what you’re really getting out of the deal,” suggests Brian Cook, president of Centennial, Colorado-based ISO Perfect Processing. Cook admits to having learned the hard way how important it is for ISOs to speak with processors’ underwriters, customer service representatives, and technical support personnel, rather than with their executive teams alone, during such meetings. “You don’t want to find out, when it’s too late, that there’s just one tech support representative, or that the customer service reps seem unhappy.”

What is the financial condition of the processors in question?

Limit your short list of processor prospects to entities that not only are financially stable, but have the financial resources to invest in the research and development of new product offerings, says Brian Goudie, senior vice president, partner sales, for First Data Merchant Services in Greenwood Village, Colorado.

What financial parameters would apply within each prospective processor partnership? ISO/MSP/processor contracts “come in many flavors, and it’s important to be comfortable with those from the outset,” McAlhaney says. Notably, many contracts specify minimum residuals ISOs/MSPs must achieve in order to be paid or to obtain aggressive pricing, he says. Some ISOs may be comfortable, and able to grapple financially, with such requirements. Others may not.

Della Badia agrees, adding that ISOs should also carefully investigate how quickly the terms of a particular contract would enable you to issue payments to MLSs hired as independent contractors. ISOs with limited working capital, and therefore more constraints on their “ability to put money in MLSs’ pockets,” will probably fare better by gravitating toward processors whose terms allow them to help speed MLS payments along, he says.

Closely examine ownership of residual streams as well. Sources claim that ISOs can and should maintain such ownership, so you can not only sell your residuals, but also hold them and keep getting paid, pass them along to heirs and assigns, or procure loans against them.

What limitations, if any, will processors place on portfolio sales, acquisitions, and portability, either via their structure or contractually? Whether in five years or in 25 years, at some point, ISOs will sell the businesses or acquire other portfolios. In either case, Goudie notes, the sale of “a portfolio... that hap-

pens to be on the same platform as the (buyer) is more valuable than a sale to a client that needs to move merchants off one platform and onto another.”

As for portfolio portability, some ISOs may want the right to assign merchant agreements and transfer residuals to buyers in order to reap the full benefit of selling the business. Moreover, they may want the flexibility to move merchants to another processor without reprogramming equipment, or the right to transfer residuals and contract to another party. “A reputable processor will be up front about building all these rights into a contract,” Anderson states.

How will liability and risk be handled? At one time, NXGEN, like many ISOs, agreed to retain liability and risk management responsibilities for its portfolio as a means of procuring lower rates from processors, but it doesn’t anymore.

“Working out liability and risk is still a subjective (matter), but from what I have seen, signing with processors that want ISOs/MSPs to assume liability is a bad idea for most companies in today’s marketplace—unless they have years of experience and large reserves to balance against potential losses,” Nitopi says.

Not only should you insist on the non-liability programs that have become an industry standard; you should only consider processors whose risk management and mitigation practices mandate keeping customers in the loop about problems in this area, advises Matt Litberg, president and founder of ISO Strategic Merchant Solutions in Westlake Village, California. For example, processors should inform the appropriate ISO when a merchant’s account has been canceled rather than allow the ISO to be informed by that merchant itself.

“The question to ask processors is whether there will be risk-related surprises, or if their internal rules call for being proactive and keeping ISOs and their MLs in the loop,” Litberg says.

How will merchant underwriting be handled? Certain ISOs/MSPs prefer processors that allow them to handle merchant underwriting in-house, thereby enabling them to cast as wide a customer net as possible, as well as to approve all merchants if they so desire. Other players have no problem with leaving underwriting to their processor partners.

Each approach has its benefits and drawbacks. Choosing from a pool of processors whose policies dictate handing off some or all merchant underwriting yields ISOs/MSPs enhanced opportunities to bolster merchant bases, but it also exposes them to more risk than they would encounter were underwriting not within the realm of their responsibilities. Meanwhile, aligning with processors that execute the underwriting process on their end minimizes risk, yet it also decreases the volume of merchants ISOs may add

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to their portfolios because not all accounts will meet processors’ acceptance criteria.

What are processors’ approaches to security and compliance, and how secure are their networks and other systems? Given the data breaches and similar events of recent months, the manner in which processors protect data and the controls they use to protect their systems are as important as, or even more important than, any other factor that comes into play when processor-shopping, says Nitopi.

Anderson counsels ISOs/MSPs to avoid being “fooled” by processors whose security efforts do not transcend adhering to basic requirements. “Talk to the head of risk and compliance, and ask exactly what that processor does in terms of security,” he advises. “If you’re told simply that they ‘follow the rules,’ look somewhere else.”

What tools and programs do processors offer to help ISOs/MSPs attract and maintain accounts? Most sources say they favor processors with diverse product menus and a “one-stop shop” for solutions and services. “The processor an ISO/MSP eventually chooses must be able to support multiple vertical markets, such as petroleum, wireless, mobile commerce, Internet solutions, brick-and-mortar, etc.,” Goudie says. “It’s terrible when a salesperson makes a sale, but a processor is unable to support the merchant due to the type of business, product set, or lack of solution for a particular vertical.”

Weed out processors that don’t provide check solutions, gift card programs, leasing programs, equipment deployment services, and the like, Goudie notes. “The more things ISOs/MSPs can do under one roof,” because they have selected one-stop processors, “the more accountable and streamlined the merchant experience will be,” he explains.

What caliber of support do the processors being evaluated provide to ISOs/MSPs, as well as to their customers? “For example, do they offer reporting capability, so that ISOs can see at all times what is happening with their merchants,” says Litberg. Are the people who answer the phone knowledgeable? Do they pick up right away? Are they dedicated to particular accounts? Does the way they are set up allow ISOs access to the person they really need to talk to, be it technical support personnel or an underwriter? If their answer to me on any of these is ‘no,’ then that is my answer to them.”

When the ink dries on processor contracts, you should be entirely confident you have chosen the right partner. **TT**

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