

white paper

PRESENTED BY
THE BEST
PRACTICES
COMMITTEE OF
THE ELECTRONIC
TRANSACTIONS
ASSOCIATION

*Best Practices:
Merchant Account
Disclosure*

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INTRODUCTION / EXECUTIVE SUMMARY

While today's merchants are intensely focused on the cost of card acceptance, much of the dissatisfaction expressed by merchants when disputes arise stems from a lack of understanding by merchants regarding the terms of their merchant accounts.

In a strict legal sense, every organization in the transaction processing chain is required to provide, and is bound by, written contracts which govern their conduct and obligations. This White Paper recognizes that these contracts are fundamental to the relationship between merchants and those who process their electronic payment transactions and may be legally sufficient. However, the purpose of this document is to raise awareness that *how disclosures are presented* can be critical to the success of the relationship between merchant and acquirer, and that full and complete disclosure, even when it exceeds strict legal requirements, has material benefits for both sides in the contractual relationship.

This document makes recommendations to assist ISOs and sales agents in providing full and adequate disclosure to their merchant customers. Among them:

- Give each merchant all the required disclosure documents, including those required by law and those required by financial institutions and the card brands, in a form that the merchant is able and likely to understand.
- Ensure that each merchant has reviewed the required disclosures with sales representatives or others designated by the selling organization who are trained to explain them thoroughly and accurately.
- Require each merchant to acknowledge receipt and reading of disclosure documents.
- Where possible, provide merchants with plain language explanations of fees and penalties, including how they are calculated and applied.

OVERVIEW

Merchants, including those non-retail businesses which accept credit and debit card payments, are more aware and more sensitive to the cost of accepting cards than ever before. This awareness and sensitivity has direct consequences for the acquiring industry. Price competition is squeezing margins, card acceptance is being perceived as a commodity product, and attrition in merchant account portfolios has become a heightened concern.

Theories about the underlying causes for this situation are many, but they fail to address one important question: What can acquirers do to mitigate the negative impact of merchant displeasure over the price they pay to accept cards?

This White Paper attempts to provide one part of the answer to that question, by highlighting and promoting industry best practices for the disclosures made when merchant counts are established or renewed. These recommendations are designed to address the fact that at least some (if not much) of the tension in the merchant-acquirer relationship can be traced to a gap between what merchants expect with regard to fees or service and what they actually experience. The source of the gap may lie in misunderstanding disclosure documents, incomplete disclosure documents, differences between oral and printed

disclosures, or – in rare and extreme cases – deliberate misrepresentation.

LEGAL REQUIREMENTS

In a strict legal sense, every organization in the transaction processing chain is required to provide, and is bound by, written contracts, which govern its conduct and obligations. Legal disclosure requirements vary widely by location. Some are very specific in terms of content and even have requirements for the printing of disclosure documents. We assume here that all legal requirements regarding disclosure comply fully with all applicable laws and regulations in effect at the time of disclosure.

EFFECTIVE DISCLOSURE

It is important for acquirers, ISOs and sales agents to recognize that *how disclosures are presented* is critical to the success of the relationship with merchants, and that full and complete disclosure, which may exceed strictly legal requirements, has material benefits for both sides in the contractual relationship. These benefits flow from a commitment to *effective disclosure*, a practice that strives to achieve the goal that merchants understand all of the terms of the merchant account contract and the expectations of all parties are reasonable and likely to be met.



EFFECTIVE DISCLOSURE *Continued*

Among the benefits:

- Merchants are less likely to object to terms and fees they understand and know they've agreed to accept.
- Merchants are less likely to be surprised by unexpected fees or unanticipated requirements.
- Sales agents and acquirers are less likely to have to field questions or complaints from confused or disgruntled merchants.
- Merchants who fully understand their responsibilities for protecting customer data and reducing risk and fraud, are more likely to be partners in mitigating these problems.
- Fully informed merchants are less likely to be persuaded to switch providers on the basis of misleading claims about price and service.

BEST PRACTICES

Recognized best practices for merchant disclosure depend to a large extent on adequate training of sales agents, who are the point of contact with merchants. It is important that agents understand the importance of effective disclosure practices and follow a specific procedure.

An effective disclosure procedure should include:

- Giving each merchant all the required disclosure documents, including those required by law and those required by financial institutions and the card brands, in a form that the merchant is able and likely to understand;
- Where possible, providing merchants with legible, plain language explanations of those terms most likely to be the cause of misunderstanding, including all fees and penalties and how these are calculated and applied;
- Providing similar plain language explanations or the merchant's responsibilities with regard to preventing fraud and protecting sensitive customer data;
- Requiring that each merchant personally review the required disclosures with a sales representative or other person designated by the selling organization trained to explain them thoroughly and accurately;
- Requiring each merchant to acknowledge receipt and understanding of disclosure documents; and

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- Providing each merchant with a point of contact for any questions that may arise regarding the terms disclosed at the time a contract is signed.

CONCLUSION

An effective disclosure procedure is not a guarantee against disputes with merchants. Disclosure is the start of a customer relationship and a foundation for long term success, but should be accompanied by responsive customer service and periodic contacts by the sales agent, for example. Nor is disclosure a one-time event. When terms change or new requirements are put in place, the changes should be communicated, as much as possible, using the same procedures as the original disclosures.



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