

# Maximising merchant accounts in high-risk industries

High-risk merchant services and MCC codes explained



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[WWW.TOTALPROCESSING.COM](http://WWW.TOTALPROCESSING.COM)



## About Total Processing

Founded in 2015, Total Processing answered the call for people-focused, bespoke and interactive payment solutions. We took on the guidance and experience from multiple banks nationwide, alongside the experience from our own histories within the industry; to establish a network of relationships with acquirers focused on helping businesses.

Our lack of sole acquirer established a network for us to operate and offer customisable and borderless payment processing solutions, within a consolidated framework for ease-of-access for all.

Our merchants enter into partnerships free from human error, underscored with human interaction.

With USPs that only serve to help businesses globally, Total Processing is a leading provider in bespoke innovation and flexibility.

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# Introduction

A high-risk merchant account is provided to businesses who are:

1. Seeking to facilitate credit and debit card transactions and therefore need a merchant account.
2. Whose business operations exceed security parameters set for an aggregate merchant account.

Upon establishing a business with a merchant account, the merchant is assigned a MID or MCC (Merchant Category Code), to help designate their services into risk categories.

This is to the benefit of banks when consumers are making transactions at the point of sale.

An MCC can also be very telling for acquirers and issuing banks as to the nature of the business and the payment methods facilitated by the merchant.

## WHAT IS A HIGH-RISK MERCHANT ACCOUNT?



### ISO ACCOUNT INDEPENDENT SALES ORGANISATION

Better known as an ISO account (Independent Sales Organisation); a business is deemed high-risk when applying for a merchant account, if the nature of their business and business plan meets the bank's specification of such.

The way a business delivers goods or services alongside the merchant's previous credit history, are all risk factors to be considered by the acquirer.

In some cases, the improvement of a credit score over time can reduce a business's MCC classification or account fees.

Regardless, a standard high-risk merchant account provider will often charge higher set up, annual and transaction fees, and impose a longer settlement period on transactions. High-risk businesses are also subjected to increased account security.

To benefit merchants, an Independent Sales Organisation will include a smaller aggregate merchant account as well as flexibility, to suit multicurrency transactions and offer fraud protections.

An AMA account is much smaller and offered to streamline business operations.



“

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Out of the 500 MCC codes; these codes fall under high-risk category merchant accounts:

**MCC 6012** refers to payments collected by financial institutions - typically in situations surrounding loan agreements or other credit related activities.

A **6012 MCC** is considered a high-risk code and usually requires additional information when a transaction is being made through a payment gateway. The amount of information required is dependent on the parameters set by the issuing bank.



Examples of information required is:

- *First 6 letters of client's surname.*
- *First part of client's postcode.*
- *Client's date of birth.*
- *Client's 8-digit credit loan account number.*



What this means:

These parameters are in place to verify that the customer knows that they are entering into a credit agreement with the merchant.

In supplying this extra information to the bank, they are assured that each transaction between the merchant and a client is genuine and protected. With the

authentication of the customer's identity, the merchant is also protected against chargeback risk.

As the legislation surrounding the 6012 MCC is new, not all payment gateways can comply with all 6012 assigned merchant accounts.

## CODE CLASSIFICATION

MCC	RISK ANALYSIS
7995	Betting (Including Lottery Tickets, Casinos, Social Gaming, Gaming, Off-Track Betting and Wagers): <ul style="list-style-type: none"> <li>•Money prizes to win.</li> <li>•Mastercard requires a gambling license.</li> </ul>
7994	Videogame Arcades/Establishments: <ul style="list-style-type: none"> <li>•Skilled games that require registration.</li> <li>•Games that offers in-game products as prizes.</li> <li>•Skilled games that offer no prizes or money to win.</li> <li>•No gambling license required by Mastercard or Visa.</li> </ul>
8999	Professional Services (Not Elsewhere Offered): <ul style="list-style-type: none"> <li>•Appraisers.</li> <li>•Auction Houses.</li> <li>•Graphic Designers.</li> <li>•Brokers.</li> </ul>
5977	Cosmetic Stores
5499	Food Stores: <ul style="list-style-type: none"> <li>•Such as Convenience Stores, Delicatessens, And Speciality Markets.</li> </ul>
7273	Dating and Escort Services: <ul style="list-style-type: none"> <li>•Including Online Services.</li> </ul>

## MERCHANT SERVICES HIGH-RISK INDUSTRIES

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- CBD Oil.
- Dating and Escort Services
- Forex (foreign exchange markets).
- Online gaming and gambling.
- Adult entertainment.
- Cryptocurrency.
- Credit repair and debit management.
- Domain registration.
- Events and tickets.
- Software downloads.
- Prepaid phone cards.
- Tobacco and E-cigarettes.
- Insurance.
- Money Transfer Services.
- Vehicle Sales and Car Parts.
- Tattoo Studios.
- Investment Schemes.
- Lender merchant accounts and services.
- PPI merchant accounts and services.
- Nutraceuticals.
- Travel and Tourism.
- Payday loans.
- Online Auctions.
- Health and Wellness products.
- ISP and Hosting Services.
- Direct Sales and Pyramid Selling.
- Alcohol Products.



### 3.0.0. SETTLEMENT DELAY:

Commonly found in insurance scenarios and other credit agreements, a settlement finalizes a transaction - following the authorisation and clearing process. It is the completion of a transaction from a customer to a buyer.

A settlement of funds occurs Monday through Friday (excluding bank holidays in the jurisdiction of the issuing bank).

A settlement delay occurs when a customer or merchant fails to meet an agreed settlement date, and this can result in penalty interests. Delays can be incurred through bank error, administration error; or can be deliberately delayed for bookkeeping purposes, recurring payments or SEPA payment guidelines.



### 4.0.0 PRICING RESERVE ROLLING RESERVE:

A rolling reserve or pricing reserve is a common risk management strategy put in place by acquirers to offset losses caused by chargeback claims.

In most cases, a rolling reserve is accrued from the merchant. By establishing a rolling reserve, both the acquirer and the merchant are protected against devastating losses down the line.

### THE RESERVE IS TYPICALLY HELD FOR A PERIOD OF 180 DAYS

The reserve is typically held for a period of 180 days (or past the average period for a chargeback claim) and then released. A percentage of the credit card volume is processed in escrow and secured to cover against any potential business risk.

#### Other risks include:

- *Lost Sales Orders*
- *Bank Errors*
- *Missing Deliveries*



Funds are often settled differently if a rolling reserve is applied to a transaction. The nature of this is dependent on the merchant's agreement with their acquirer.

## 5.0.0 FIXED BONDS | UPFRONT RESERVES:

Whereas a rolling reserve can be considered the continual taking of a small percentage of revenue over business operations; an upfront reserve demands high-risk merchants to invest a bigger sum of money upfront into the protection of their business.

Merchant accounts assigned a high-risk MCC, or accounts with a high volume of transactions, are typically required to present an upfront reserve to their acquiring bank.



Other merchants that require an upfront reserve are:

- ⓧ Businesses with card-not-present transactions.
- ⓧ Businesses processing large transaction amounts.
- ⓧ Businesses in an industry with high chargeback claims.

If a merchant is unable to raise the funds for an upfront reserve:

- ⓧ They can draw a line of credit from a bank.
- ⓧ Transfer funds from another account.
- ⓧ Allow the acquiring banks to keep 100% of credit card takings until they meet the reserve.

Whereas, the onus is on rolling reserves to protect against chargebacks, an upfront reserve acts as a security deposit against other risks such as fraud and deferred payments. Like a rolling reserve, it protects both the acquiring bank and the merchant from any liability in these instances.

Acting similarly to a rolling reserve, the fixed bond/upfront reserve will be released at the end of the chargeback period (or once equity has been accrued). If a chargeback is raised against the merchant, the funds from the reserve will be used to pay the customer.



## 6.0.0 HIGH-RISK CHECKLIST:




### PRE-APPLICATIONS AND KYC

If your business meets this high-risk checklist, you may be subjected to higher rates.

A merchant service provider such as Total Processing should be able to onboard this process for you. In negotiating the best rates for your business, a merchant must first fill out a pre-application and KYC document to help your provider acquire the best deal.

In applying for a quote through the Total Processing website, merchants will shortly receive an email thereafter inviting them to fill out a pre-application form online.



### Total Processing KYC Upload Form

Supporting documents for poij

To upload files drag files here or click here

Allowed file types: jpeg, png, doc, docx, pdf, zip, xls, xlsx

File list

File Name	File Type	Size	Date Uploaded	Actions
No KYC documents have been uploaded yet.				

## Your KYC should include:



Photo ID for any shareholders/directors (passports/  
driving licenses of anyone with over a 25% share).



All documents should be dated within the last 3 months.



Recent business bank statement.



Recent utility bill for any shareholders/directors.



Proof of business address (utility bill or lease agreement).



Certificate of incorporation (if business is registered out of the UK).

## 7.0.0 CONCLUSION

IT IS WITH TOTAL PROCESSING THAT  
MERCHANTS CAN ACQUIRE FREEDOM

Throughout this paper we have reviewed the key parameters that establish the criteria for high-risk merchant accounts. In doing so, the benefits of payment gateway integration for the high-transaction volume and fraud security measures, have been discussed.

Early on, this white paper introduced you to the MCC codes that classified as high-risk and explained the justification behind categorising specific merchant industries. It was concluded that at their core, high-risk merchant accounts were established for industries wishing to facilitate debit/credit card transactions. There is, however, room to wonder how the extended implementation of PSD2 SCA will reveal changes to merchant accounts across the board; and how emerging digital currencies will affect these classification parameters. In dismantling the semantics of fear around establishing a high-risk merchant account, the paper concluded that some MCC classifications were given in instances where businesses simply didn't qualify for an AMA account. This posed a question on whether categorisations could be removed or altered in cases where a credit history can be improved, or the merchant's daily transaction volume changes. Whilst this is

Attaining a high-risk merchant account comes with a default increase in costs and the rates assigned to each transaction. Merchants often experience difficulty getting established in accepting payments and maintaining their accounts within particular industries.

Our lack of sole acquirer allows us to negotiate long-established relationships and obtain competitive pricing from banks for the majority of merchants that apply with us.

unlikely - as MCC codes are industry specific - it could alter your expected upfront reserve.

The paper concluded that MCC codes benefited issuing banks and acquirers. The merchant had the benefit of ISO flexibility and increased security. This benefit extends to the fact that increased security is a growing demand on the behalf of the consumer and merchant at the point of sale; especially in e-commerce spaces.

This paper has provided a detailed overview on establishing and managing a merchant account, and the way in which to obtain a provider service that suits your needs.

A high-risk merchant account is designed to protect all parties and financial institutions. These accounts are gradually offering industries with these classifications and protections in place, the right payment solutions.

## 8.0.0 REFERENCES

[www.totalprocessing.com](http://www.totalprocessing.com)

[www.visa.co.uk](http://www.visa.co.uk)

[www.web-payment-software.com](http://www.web-payment-software.com)

[www.centus.com](http://www.centus.com)

[www.payprin.com](http://www.payprin.com)

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