Visa Performance Solutions

Effective merchant onboarding to drive portfolio growth

Three key stages of merchant acquisition

An increasingly critical aspect of the merchant acquiring business is the effectiveness of the merchant acquisition and on-boarding process.

Visa's research has shown that it is becoming a key differentiator for driving new merchants to a portfolio and for delivering a more active merchant base. For example, acquirers who have invested in streamlining their procedures and systems in this area are experiencing average merchant onboarding turnaround times of two to three times faster than an acquirer that has not done so[1], and this is contributing to a superior portfolio performance.

This paper will examine the practices that are differentiating leading acquirers in three areas: Merchant application, application validation, and onboarding and underwriting.

In This Report:

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1. Merchant Application

2. Application Validation

3. Onboarding & Underwriting

1 Visa Performance Solutions benchmark research and analysis, including research from The Strawhacker Group, 2016

Merchant Application

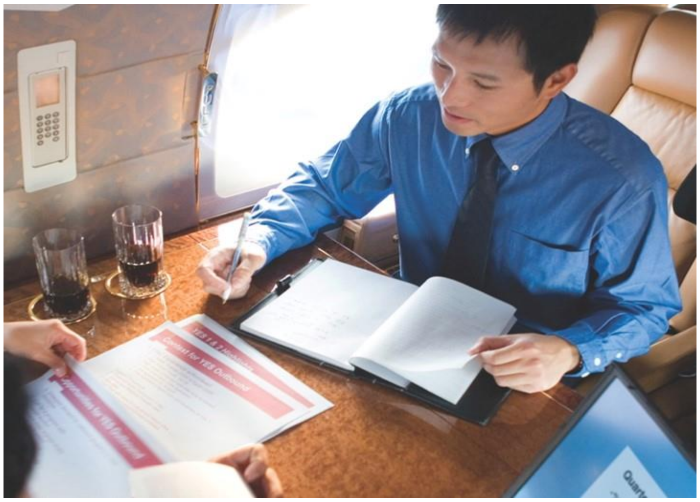
Most acquirers globally provide multiple channels for prospective merchants to apply for a new account or facility, with the predominant channel being the generation of leads through its retail branch network. Today the need to develop online strategies including public facing applications that merchants and third party agents can self-service themselves is already playing an important part in facilitating an improved underwriting process.

Historically, acquirers have designed their merchant application processes around the concept of “sequential approval.” However, with the technology available today, there is an opportunity to refine the merchant application experience to one that delivers an immediate decision, with the risk management activities being conducted in parallel or after activating the account. Acquirer legacy systems have traditionally been designed to receive scanned or paper applications, with merchant agreements referenced in a separate document. This relies on manual intervention and a sales executive to help complete the application and obtain a signature to be submitted for underwriting. Historically, the goal has been to capture as much information from prospective merchants upfront so that a comprehensive risk assessment and due diligence review can be performed, typically initiated on paper application format. However, many acquirers today are implementing systems that now capture key data in an online workflow system to facilitate a smoother merchant underwriting and on-boarding process.

In the US, Square revolutionized the merchant application and onboarding process taking the industry standard 10+ pages of application information and streamlining it to an online point-and-click system which is intuitive and user friendly for prospective merchants. As acquirers move towards implementing online systems to manage the merchant application process, it is important to build a strong process foundation where the merchant can be directed to an online application link and website, with a clear reference to other legal documents relating to payment processing and the merchant services being provided.

For example, the key information and links provided on a merchant website should include:

- Sales and customer service phone number
- Merchant agreement
- Standard pricing schedule (if the acquirer chooses to disclose this)
- Acceptable use policy (including restricted and prohibited merchant types)
- Privacy policy, compliance with card brand rules and other applicable disclosures



Leading Acquirers Practices

The merchant online application process should be designed to incorporate the following:

- Contain all the fields typically included in a paper application form. However the data collection should be designed to keep to the critical elements only, such as company name, registered business and/or tax identification number, registered business address, type of business, sales turnover and bank account details
- Capture contact information early in the process in the event of abandonment
- Be updated and communicated whenever significant changes to terms and policies are made
- Provide a click through "I Agree" button for the merchant to confirm after reading the agreement, and provide the acquirer with the authority to verify the information through background checks
- Deliver a clear and simple user experience with minimal documentation requirements
- Allow the uploading of documentation online by accommodating a variety of file and image formats
- Communicate the acceptance of the submission and outline the status and timeline for response to the merchant on a timely basis
- Provide the prospective merchant an option to return or complete their application at a later date
- Enable eSignatures to complete the application and ensure it complies with the relevant local laws

Acquirers should ensure they supplement the above online application design principles by having regular and consistent reporting in place to monitor the key performance indicators related to the number of online merchant applications started, completed or incomplete, with associated follow-up action and responsibilities in place.

Application Validation

Once the merchant application has been captured for processing, acquirers initiate a validation process which includes a series of filters to block applications entering the processing system until the required critical elements of information is obtained. This validation process is a combination of/online & manual elements.

Online validation

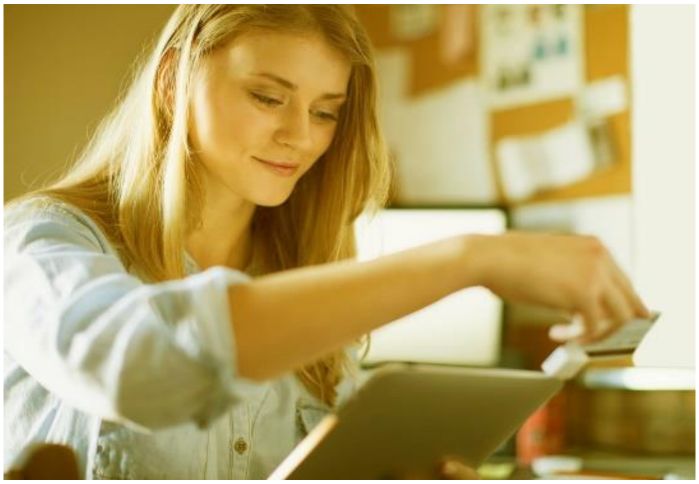
The application is vetted by the system through a series of rules to confirm all mandatory fields are completed with the application denied or held in pending, until all key fields are completed. Upon validation, the system will typically check that all sections are complete and supporting documentation received. A Merchant Category Code (MCC) may be assigned by the system based on the description and fields completed.

Manual validation

Most acquirers in the Asia Pacific region continue to rely on manual processes to perform the checking of the initial merchant application presented, including for completeness and accuracy of information. The process of blocking entry into the underwriting system until all critical information requirements are met will increase the productivity of the underwriting process subsequently. For example, automatic declines can be programmed when a match is triggered against open bankruptcy databases, a low credit score (if applicable in the market), foreign IP address and underage applicants. It is important that acquirers establish appropriate Service Level Agreements (SLAs) to balance the capture of all essential information, which often creates an unpleasant and cumbersome merchant experience by asking for too much information at the outset in order to perform validation.

A well trained merchant sales executive will have the ability to provide all the necessary information to ease the validation process. In many cases, they will be the link to the merchant and to providing ongoing merchant training and awareness. Investing in merchant sales training will not only drive a more efficient merchant application and validation process, but will derive benefits of more informed merchants, which in turn will decrease the burden on the merchant customer service function.

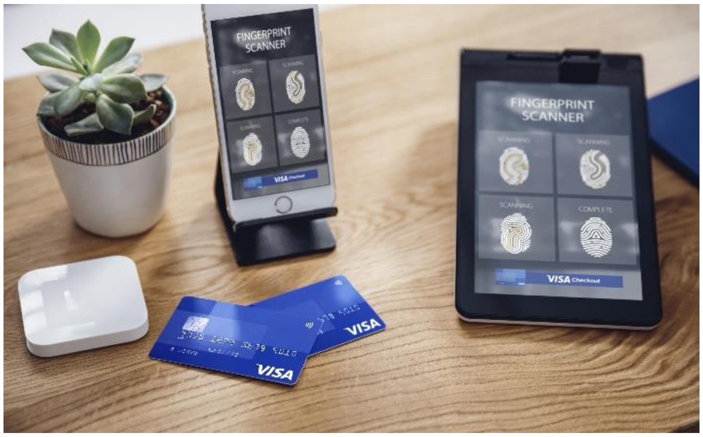
Leading acquirers have refined their merchant application and validation process to streamline the prospective merchant experience, in most cases by allowing the merchant to be signed up immediately either while the online application is being fully approved or while the sales executive is at the merchant location. Providing an online merchant application function also allows the sales executive to enter a large portion of merchant application data directly into the system. This will decrease the time and potential errors that will come from the validation process and a reduction in abandoned applications.



Merchant On-boarding and Underwriting

The merchant underwriting approach has traditionally involved completing a full review to ensure the merchant is providing a valid product or service, and operating in compliance with local and international laws. It is only after the underwriting process is completed that the account becomes live and risk monitoring alerts are initiated. This type of underwriting places the onus on the underwriting function and team to determine the merchant liability and typically will require a sufficient number of well trained staff to complete a thorough review of the prospective applications. This results in the need to factor a number of working days to complete this process, which means putting a process in place to keep the prospective merchant updated on the status of their application is critical to ensure engagement.

In recent times, acquirers have increasingly refined their underwriting processes to reduce the amount of underwriting checks prior to providing a conditional approval in order to streamline the merchant onboarding experience and process flow.



However, in replacement of the less strenuous and upfront underwriting checks, acquirers need to invest and strengthen the risk review and monitoring activities after the conditional approval is provided. This type of program may require that all new merchant accounts to be viewed by a risk management function upon first settlement and / or have all processed funds held in suspense until full approval is completed.

Acquirers who are adopting this approach to underwriting are marketing it on the basis of delivering auto approvals, or "instant approvals. "They are usually applied to a selected segment of merchants – for example, prospective merchants who are operating in lower risk industries. An auto-approval program will generally require the following criteria to be met:

- Application and agreement should be completed and signed, and a personal guarantee provided
- Operating in a Merchant Category Code (MCC) that is not on the bank prohibited or restricted list
- Indicative processing volume and average ticket size less than a certain threshold as set by the acquirers
- Card-not-present and manual keyed transactions not exceeding a threshold ratio

Automated underwriting programs

Automated underwriting programs use a set of rules to determine whether to approve, decline or pend an application for manual underwriting review.

The automated program will use specific risk-based criteria which can be updated on a regular basis in response to the latest high-risk behavior and trends. Depending on whether or not an application meets all of the risk-based criteria as set forth in the rules, the application will be either automatically approved or declined, or pended to manual underwriting review if other rule violations are present.

Most large and sophisticated acquirers or payment service providers using an automated underwriting process have developed and customized their own programs internally. However external solutions are available from third parties who can help acquirers digitize the merchant due diligence process using cloud based and real time processing tools to identify likely fraudulent applications from the outset. Whether building or purchasing these solutions, they are designed to provide a platform in which merchants and sales representatives can access online, anytime and anywhere, leveraging a workflow system that ensures tasks are assigned and delivered to business, risk and underwriting staff in a timely and interactive manner. However, underwriting staff are still required to complete certain key areas of the process especially in relation to exceptions and where specific checks such as Know Your Customer (KYC), regulatory required checks, open bankruptcy and other credit reporting alerts, are required.

Differentiating through customer experience

Acquirers have the ability to differentiate themselves through the implementation of effective merchant application, validation and underwriting practices as outlined in this paper. With the ease of access to proven online tools and techniques available today, acquirers have the capability to deliver a merchant onboarding experience that is timely, transparent and customer friendly.

However acquirers first need to acknowledge their intent to change their existing business practices and systems to navigate the evolving landscape. This is often the first and most challenging step, otherwise if insufficient priority or attention is placed to making a change, it will be extremely challenging for the subsequent process and system improvements to be effective.

For more information, please contact your Visa Account Executive or email Visa Performance Solutions at **vps@vps.com**. You can visit us at **Visa.com/VPS** or on **YouTube**.

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