

Internet Payment Service Providers and Sponsored Merchants

Effective May 15, 2002

Summarized below are Visa U.S.A. Inc. *Operating Regulations* requirements for use of Internet Payment Service Providers, including:

- ▶ Acquirer responsibilities
- ▶ Jurisdiction
- ▶ Transaction processing
- ▶ Customer service and disputed transactions
- ▶ Web site requirements

Acquirer Responsibilities

- ▶ **IPSP Contract.** An Acquirer that signs an Internet Payment Service Provider (IPSP) to provide Sponsored Merchant acquisition, authorization, payment processing, and/or monitoring functions must ensure that the IPSP performs all such functions in accordance with the relevant sections of the *Visa U.S.A. Inc. Operating Regulations*. An Acquirer's contract with its IPSP must:
 - ▶ Require that each Sponsored Merchant contract with an IPSP contain merchant agreement requirements specified in the *Visa U.S.A. Inc. Operating Regulations*
 - ▶ Include a provision to establish IPSP financial liability for transactions entered into interchange on behalf of Sponsored Merchants, as well as responsibility for any disputed Transactions, credits, or customer service-related expenses
 - ▶ Include a statement that the IPSP or its Sponsored Merchants must not transfer or attempt to transfer financial liability to a Cardholder by asking or requiring a Cardholder to waive his or her dispute rights
 - ▶ Require its IPSP to deposit only transactions from Sponsored Merchants within the Acquirer's jurisdiction

- ▶ Establish an Acquirer's right to:

- ▶ Immediately terminate an IPSP for fraudulent activities or other activities specified in Section 2.5.D of the *Visa U.S.A. Inc. Operating Regulations*
- ▶ Require an IPSP to immediately terminate a Sponsored Merchant for fraudulent activities or other activities specified in Section 2.5.D of the *Visa U.S.A. Inc. Operating Regulations*

- ▶ **Risk Management.** An Acquirer must:

- ▶ Query the Terminated Merchant File before:
- ▶ Entering into an agreement with each prospective IPSP
- ▶ An IPSP enters into an agreement with each prospective Sponsored Merchant
- ▶ Ensure that a merchant listed on the Terminated Merchant File is not permitted to be a Sponsored Merchant
- ▶ Ensure that an IPSP with one or more Sponsored Merchants classified with Merchant Category Code 5967 complies with the high-risk Internet Payment Service Provider registration program
- ▶ Ensure that terminated Sponsored Merchants and terminated IPSPs are added to the Terminated Merchant File
- ▶ **Sponsored Merchants.** An Acquirer of an IPSP must ensure that Sponsored Merchants meet all card acceptance requirements, and comply with *Visa U.S.A. Inc. Operating Regulations* for electronic commerce merchants (e.g., Web site requirements, cancellation policies, refund policy disclosure, privacy notices, jurisdiction requirements).

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Internet Payment Service Providers and Sponsored Merchants (Continued)

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- ▶ **Merchants Ineligible for Sponsored Merchant Status.** To support risk management objectives, certain types of merchants are ineligible for Sponsored Merchant status, as indicated below. However, these merchant types may be signed directly by an Acquirer.
 - ▶ Buyers Clubs/Membership Clubs
 - ▶ Credit Counseling or Credit Repair Services
 - ▶ Credit Protection/Identity Theft Protection
 - ▶ Direct Marketing—Subscription Merchants
 - ▶ Infomercial Merchants
 - ▶ Multi-Level Marketing Businesses
 - ▶ Outbound Telemarketers
 - ▶ Prepaid Phone Cards
 - ▶ Prepaid Phone Services
 - ▶ Rebate-Based Businesses
 - ▶ "Up-Sell" Merchants

These merchant types are generally classified within the following Merchant Category Codes: 4814, 5962, 5966, 5968, and 5969.

Additionally, an IPSP may not qualify as a Sponsored Merchant of another IPSP. An Acquirer must ensure that an IPSP does not process transactions on behalf of another IPSP.
- ▶ **IPSP Reporting—Sponsored Merchant.** An Acquirer must require an IPSP to provide comprehensive lists (including names of principals and their country of domicile) for all of its Sponsored Merchants and transaction level detail reports, and, upon request, to Visa.
- ▶ **Liability.** An Acquirer is liable for all acts, omissions, and circumstances of its IPSPs and their Sponsored Merchants including, but not limited to, chargebacks, failure to provide service, and any legal costs that may arise.
- ▶ **Terminated Merchants/Risk Management.** Acquirers must establish procedures to ensure terminated Merchants (i.e., merchants listed on the Terminated Merchant File) are not permitted to be Sponsored Merchants.
- ▶ **IPSP Payment.** An Acquirer must directly pay or credit its IPSP. An Acquirer that contracts with both an IPSP and its Sponsored Merchant may directly pay or credit the Sponsored Merchant's account for its portion of the deposit, as permitted by local law.
- ▶ **Termination of Sponsored Merchants.** An Acquirer must ensure that it has the contractual right to require an IPSP to immediately terminate any Sponsored Merchant for good cause. In addition, an Acquirer must require an IPSP to terminate any Sponsored Merchant if required to do so by the Acquirer or Visa.

Jurisdiction

- ▶ **Sponsored Merchants.** An Acquirer must ensure that an IPSP does not sign a Sponsored Merchant outside the Acquirer's jurisdiction.
- ▶ **Multiple Acquirer Contracts.** An IPSP may have contracts with multiple Acquirers, but may only submit transactions to an Acquirer from Sponsored Merchants within that Acquirer's jurisdiction.

Transaction Processing

- ▶ **Merchant Category Code (MCC).** An Acquirer must
 - ▶ Use the appropriate MCC to reflect each Sponsored Merchant's principal line of business (e.g., clothing, antiques, hobbies/collectibles). Visa may grant a waiver to the specific MCC requirement and permit use of a general MCC. However, high-risk and online gambling MCCs are excluded and the waiver may be revoked at any time.

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Internet Payment Service Providers and Sponsored Merchants (Continued)

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- ▶ Assign Merchant Category Code 7995 to a Sponsored Merchant that provides gambling chips or electronic funds for use in online gambling, even if gambling services is not the Sponsored Merchant's primary business.
- ▶ Transaction Country. The Merchant country code descriptor in the VisaNet messages must contain the country code of the Sponsored Merchant. In addition, the Merchant country code must be a country in which the Acquirer is permitted to operate under the Visa International By-Laws and Regional Board Delegations and Visa International Operating Regulations.
- ▶ Transaction Receipts and Cardholder Statements
 - ▶ IPSP Name—The IPSP name may appear alone on the cardholder transaction receipt, which may be in the form of a confirmation e-mail or statement, only if the customer accesses the IPSP Web site directly (e.g., Toymall.com). In this case, the consumer is intentionally shopping at Toymall and expects to be billed by Toymall. Thus, the IPSP name must remain obvious to the cardholder during the goods-services selection, order, and payment processes.
- ▶ IPSP Name/Sponsored Merchant Name—If the customer logs onto a Sponsored Merchant's Web site and is then hyperlinked to the IPSP site for payment, the IPSP name may only appear in conjunction with the Sponsored Merchant's name on the transaction receipt and in the clearing record.

Customer Service and Disputed Transactions

- ▶ IPSP Liability. The IPSP may provide customer service and after-sales support either directly or via its Sponsored Merchants. In either case, the IPSP takes full responsibility for any disputes, credits, or customer service-related issues and bears ultimate liability for the transaction.

Web Site Requirements

- ▶ Display of Marks. An Acquirer must ensure that IPSPs and their Sponsored Merchant Web sites display the Visa marks for acceptance in accordance with the Visa U.S.A. Inc. Operating Regulations.
- ▶ Customer Service Access. If the customer accesses the IPSP Web site directly when placing an order, the customer must be able to access customer service through the IPSP.

Visa may require an IPSP to include the Sponsored Merchant's name in the clearing record if the IPSP, or some or all of its Sponsored Merchants, generate excessive customer disputes (e.g., qualifies for the Global Merchant Chargeback Monitoring Program or generates excessive copy requests or other indicators as determined by Visa).

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High-Risk Internet Payment Service Provider Registration Program

Effective November 15, 2002

The Visa U.S.A. Inc. Operating Regulations governing use of High-Risk Internet Payment Service Providers establish a registration program, risk standards, and operating requirements for High-Risk IPSPs.

Definitions

High-Risk Internet Payment Service Provider (IPSP): An online entity that enters into a contract with an Acquirer to provide payment services to Sponsored Merchants, and includes one or more Sponsored Merchants classified as MCC 5967 (Direct Marketing—Inbound Teleservices Merchant) in its Sponsored Merchant portfolio.

High-Risk Sponsored Merchant (SM): An online business designated with MCC 5967 (Direct Marketing—Inbound Teleservices Merchant) that contracts with an IPSP to perform some or all of its payment operations on its behalf.

Risk Management

- ▶ **Capital Requirement.** A minimum Tier 1 capital requirement of \$100 million must be maintained for registration of a High-Risk IPSP.
- ▶ **Acquirer Status.** An Acquirer must be in good standing in all Visa risk management programs.
- ▶ **Reserves.** High-Risk Sponsored Merchant reserves, when required by the High-Risk IPSP or Acquirer, must be held directly by the Acquirer.
- ▶ **Terminated Merchant File.** An Acquirer must query the Terminated Merchant File for each potential High-Risk Sponsored Merchant. Additionally, an Acquirer must ensure that all its High-Risk IPSPs are notified of Merchants that have been disqualified from the Visa system and that Visa processing privileges must not be extended to them. In addition, all Terminated Merchant File requirements specified in Section 2.2.C, Visa U.S.A Inc. Operating Regulations, apply to High-Risk Sponsored Merchant acquisition and termination.

- ▶ **High-Risk Merchant Monitoring.** Existing Operating Regulations require an Acquirer to comply with the High-Risk Merchant monitoring standards, as specified in Section 2.5.C, Visa U.S.A. Inc. Operating Regulations.
- ▶ **Disqualification.** As currently specified in the Visa U.S.A. Inc. Operating Regulations, Visa may disqualify a High-Risk IPSP or High-Risk Sponsored Merchant in accordance with the Chargeback Monitoring Programs or for other activity that causes undue harm to the Visa system.
- ▶ **Merchant Prohibition.** Visa may prohibit one or more online Merchants from inclusion as a High-Risk Sponsored Merchant in an Acquirer's High-Risk IPSP portfolio.
- ▶ **Transaction Processing Restriction.** An Acquirer must ensure that High-Risk IPSPs do not process transactions for other IPSPs.
- ▶ **Lawfulness of Visa Transactions.** As currently specified in the Visa U.S.A. Inc. Operating Regulations, an Acquirer must warrant that High-Risk IPSP transactions entered into interchange do not violate, and will not cause an Issuer to violate applicable federal, state, and local laws. An Acquirer agrees to indemnify and hold harmless the Issuer for any claims and liabilities resulting from an Acquirer's breach of this warranty.

Registration Program

Before entering transactions on behalf of High-Risk Sponsored Merchants (MCC 5967) into interchange, Acquirers of High-Risk IPSPs are required to submit to Visa:

- ▶ **Exhibit VV—Visa Third-Party Services Registration (Exhibit VV has been updated to include "High-Risk Internet Payment Service Provider" as a business category).**
- ▶ **Documentation to confirm compliance with the Enhanced ISO/Service Provider Risk Standards document, which requires an Acquirer to perform**

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High-Risk Internet Payment Service Provider Registration Program (Continued)

Effective November 15, 2002

a comprehensive risk and financial review prior to entering a business relationship with a third-party servicer.

- ▶ A comprehensive list of all High-Risk Sponsored Merchants in an electronic format specified by Visa.

In addition, an Acquirer is required to provide ongoing reports on High-Risk Sponsored Merchant activity on a monthly basis in an electronic format specified by Visa.

After Visa reviews the registration information and determines that the Member has satisfactorily met the risk standards, a letter approving the registration will be sent to the Member.

This registration program addresses concerns about IPSPs potentially using the aggregator business model to circumvent identification of High-Risk Sponsored Merchant activity in Visa chargeback or risk monitoring programs.

Program Requirements

- ▶ **High-Risk IPSP Contract.** An Acquirer is responsible for including a provision in the High-Risk IPSP contract that requires the High-Risk IPSP to have a supplemental Merchant agreement with each High-Risk Sponsored Merchant.
- ▶ **High-Risk Sponsored Merchant Agreement.** The High-Risk Sponsored Merchant agreement must be signed by a senior officer of the High-Risk IPSP and contain relevant Merchant agreement requirements, as specified in the *Visa U.S.A. Inc. Operating Regulations*.
- ▶ **Operating Regulation Compliance.**
 - ▶ An Acquirer must comply with all applicable requirements in Section 1.4, *Visa U.S.A. Inc. Operating Regulations*, which govern Member use of third-party servicers and Independent Sales Organizations.
 - ▶ High-Risk IPSPs and High-Risk Sponsored Merchants must comply with applicable Visa

Operating Regulations. An Acquirer is responsible for monitoring these entities' compliance with the Visa Operating Regulations.

- ▶ An Acquirer must ensure that any High-Risk Sponsored Merchant that accepts cardholder data is compliant with the Cardholder Information Security Program (CISP) requirements. (Note: Acquirers may wish to limit their CISP certification responsibility by prohibiting High-Risk Sponsored Merchants from accessing cardholder information.)
- ▶ **Prohibition Against Cross-Border Acquiring.** An Acquirer or its High-Risk IPSP must not solicit Sponsored Merchant outlets located outside the jurisdictional rights of the Acquirer. Cross-border acquiring is prohibited.
- ▶ **Processing Requirement.** The Merchant Name field must use the format specified in Section 7.2, *Merchant Data Manual*. The High-Risk IPSP name abbreviation must occupy the positions specified within options, 1, 2, or 3. The Sponsored Merchant Name will always follow the asterisk. For example: "Skyshopping*Sponsoredmerchant"
 Note: An Acquirer must identify the selected format to Visa during the registration process.
- ▶ **Web Site Requirement.** The High-Risk IPSP name that will appear on the cardholder statement must be clearly disclosed on each Sponsored Merchant payment Web page. The payment Web page must include the following language:
 "[High-Risk IPSP name] is a designated payment processor for [High-Risk Sponsored Merchant name]. [Actual High-Risk IPSP name*Sponsored Merchant Web site name] will appear on your cardholder statement."
- ▶ **Settlement Funds.** An Acquirer must ensure that Sponsored Merchants receive settlement funds as entitled.

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High-Risk Internet Payment Service Provider Registration Program (Continued)

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Fees and Fines

▶ Registration Fees.

High-Risk IPSP:

- ▶ \$5,000—Initial registration
- ▶ \$2,500—Annual registration

High-Risk Sponsored Merchant:

- ▶ \$500—Initial registration
- ▶ \$250—Annual registration

These fees will be processed through the Integrated Billing System, and are equivalent to fees charged for registration of High-Risk Telemarketing Merchants and third-party agents.

▶ Fines. An Acquirer that fails to comply with registration requirements for a High-Risk IPSP or High-Risk Sponsored Merchant is assessed penalties as follows:

- ▶ \$25,000 per High-Risk Sponsored Merchant or High-Risk IPSP per month
- ▶ \$100,000 per month after three violations in a calendar year and/or prohibition against signing a High-Risk Sponsored Merchant

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Enhanced ISO/Service Provider Risk Standards

Risk Standards to be administered during the registration process and throughout the life of the agreement.

1. Member financial institution must submit a completed Exhibit VV to Visa along with the documentation supporting an adequate risk and financial review prior to any transaction activity with the ISO/Service Provider. The Member must not proceed with transaction activity with the ISO/Service Provider until registration has been recorded, and the Member notified in writing, by Visa.
2. Member is responsible for providing the following minimum supporting documentation with respect to the ISO/Service Provider:
 - a) An adequate financial review of the ISO/Service Provider by the Member has been completed which includes a review of current and audited financials and a D&B check.
 - b) An adequate financial review of the principals by the Member has been completed that includes business tax returns, statement of net worth listing all assets and liabilities and adequate proof that anyone accepting financial liability would be able to support that liability.
 - c) A thorough on-site review has been conducted by the Member, which covers all major services that will be provided.
 - d) Thorough background check by the Member on the ISO/Service Provider and its principals has been performed.
 - e) Current and previous Acquirer business relationships, both foreign and domestic, including all DBAs, of the ISO/Service Provider have been checked and reviewed by the Member, and have been checked against the list of disqualified entities at Visa.
 - f) Adequate controls have been established by the ISO/Service Provider and reviewed by the Member, including an auditing process, with clear and secure procedures for adding and deleting merchants.
 - g) An adequate and timely management and exception reporting process has been established by the ISO/Service Provider to which the Member would have access.
 - h) Cardholder information security practices of the ISO/Service Provider have been reviewed by the Member and meet Visa standards.
 - i) An ongoing process for controlling risks associated with the ISO/Service Provider has been established by the Member, which includes a review of all the items on this document on an annual basis.
3. Appropriate officers of the Member must review all documentation and approve the ISO/Service Provider. Approval must be based on sound business practices that will not compromise either the Member or Visa and may not be based solely on the language of the service agreement that limits the Member's financial liability.
4. Member is accountable for activities of the ISO/Service Provider, including compliance with applicable Visa Operating Regulations. For the purposes of the Visa Operating Regulations, including fines and participation in the Visa system, acts of the ISO/Service Provider will be treated as if they had been done by the Member directly.
5. Member must provide to Visa a copy of the executed agreement with the ISO/Service Provider and within 30 days. A pre-condition for executing an agreement with an ISO/Service Provider is registration and good standing with Visa. Any changes to the agreement must be provided to Visa within 30 days. This is for informational purposes only, and must not be construed as an endorsement or approval by Visa.

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Enhanced ISO/Service Provider Risk Standards (Continued)

6. Member must ensure that quarterly reporting on the ISO/Service Provider's activity is submitted in a timely manner as required in section 1.4.C.2.
7. Member must ensure that prompt and appropriate action is implemented if Visa risk monitoring programs identify the ISO/Service Provider as introducing substantial risk into the Visa system.
8. Member must disclose any current or future equity positions it has or may take in the ISO/Service Provider.
9. Member must disclose any current or future loans it has made or may make to the ISO/Service Provider.
10. Member is responsible for ensuring that any services provided by the ISO/Service Provider on behalf of the Member as stipulated in the written contract are performed by that ISO/Service Provider itself and are not subcontracted to any other entity.

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