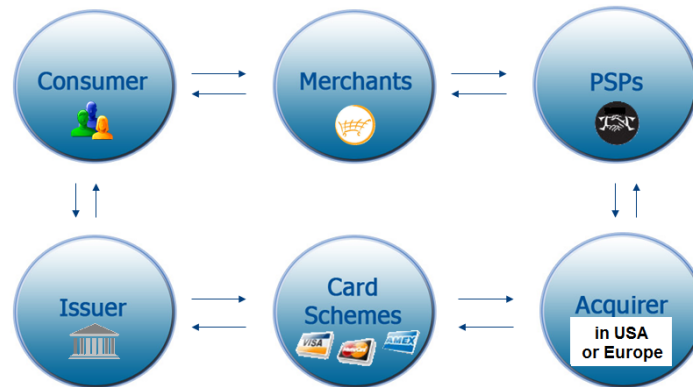


## Opening a "Merchant Account" in the U.S. (Accept credit cards in USD)

### A-Understanding Payment Card Industry in the U.S.

#### 1 - The players in the chain of payment



- **E-commerce and / or MOTO Merchant:** An entity that sells remote goods / services to the cardholder and expects payment in return.
- **Payment Service Provider (PSP):** technical interface that allows the merchant to offer its customers various payment methods - including payment by credit card and online payments. It is connected to the technical platform of the acquirer to pass on the data entered by the cardholder. Commonly called "Payment Gateway"
- **Acquirer:** Financial Institution approved by the "Card Associations". Technically connected to the PSP via its platform. Manages, on behalf of the merchant, the payment process: authorization, data exchange and movement of funds to pay for the various players in the chain.
- **Card Associations:** Visa and MasterCard networks. They authorize the transfer of funds to the appropriate issuers using the data received from the platforms.
- **Issuer:** Financial institutions that issue credit cards. They are responsible for approving or denying the transactions. The acquirer pays for all authorized transactions made by the cardholder and sends an invoice / statement to the cardholder.

#### 2 - Interchange

##### **- What is the Interchange?**

This is an interbank percentage charged to merchants so they can accept credit cards. It is paid by the acquiring bank for the merchant to the issuing bank.

It is used to offset some of the risks and costs that the issuing banks have by maintaining cardholder accounts. Interchange rates are set by the credit card associations (Visa, MasterCard, Discover), and are by far the largest component of costs associated with the acceptance of credit cards (80% to 90% of total fees).

##### **- Who sets the Interchange Rates?**

Visa and MasterCard set the rates and qualification requirements for each category of Interchange. This price is updated twice a year. There are thousands of different interchange rates depending on the type of card, the merchant profile etc., but Interchange rates are the same regardless of the processor.

The Interchange fee charts are published on the Visa and MasterCard websites.

##### **- What factors affect the cost?**

Interchange rates have a complex pricing structure based on:

- The card brand (Visa's rates are different from MasterCard's)
- The type of card (debit / credit rewards, corporate, international, etc.).
- The industry type (retail, restaurants, wholesalers, supermarkets, E-Commerce, schools, gas stations, etc.).
- The average ticket (small tickets get a preferential per transaction cost)
- How the merchant processes the transaction (swipe, online, mobile, etc..).
- Transactions are surcharged when they do not meet the requirements of the Interchange

## **B-Opening a "Domestic Merchant Account" in the U.S. (Accepting USD from a company incorporated in the USA)**

### **1 - Definition of "Merchant Account"**

This is a contract between the merchant and the financial institution "acquirer"

The application can be submitted to several different organizations:

- Independent Providers (Independent Sales Organizations) are the most knowledgeable in their field. They often have the best rates and have a high level of customer service.
- Banks are generally less knowledgeable than ISOs as credit card processing is not their primary function
- Processors: sometimes deal with very large accounts directly (> \$ 50M)

The bank account can be opened at any bank. The merchant is not obligated to process credit cards with their bank- they can obtain their merchant account through any ISO.

A merchant can easily change merchant account providers without changing their bank account, the two are not related.

### **2 - Conditions for obtaining a "Merchant Account"**

Applications are not always automatically approved by underwriting.

Approval is closely linked to the risk assessed on the account based on the merchant's profile:

- If merchant is in a 'card present' environment (cards physically swiped in a terminal) and the average ticket under \$100, the application could be easily approved.
- If the merchant is in a 'card-not-present' environment (eg E-Commerce or wholesalers), and / or if the average ticket is high and / or if the company is a "start-up" (no processing history), then getting an approval will be more difficult. Often additional information is requested such as tax returns, financials, personal guarantees, acceptance of delayed funding etc...

In all cases, merchants will have to provide:

- Bank account in the United States
- Federal Tax ID number (except for sole proprietorships)
- Signature by a majority shareholder or an official representative of the company
- Signer with a U.S. social security number or ITIN (Individual Tax Identification Number), but if not possible there are alternative solutions.

## **C-Accepting USD with a "MERCHANT ACCOUNT" outside the U.S.**

If the conditions for a domestic U.S. Merchant Account are not met, or if the application is declined by a U.S. processor, there are alternatives.

### **1 - Get a European "merchant account"**

Companies whose headquarters are located in Europe can accept credit cards in almost all currencies through specialized acquirers.

Conditions for opening a "European" Merchant Account

- Company incorporated in Europe
- Accept credit cards remotely (telephone sales, wholesaler, E-Commerce)
- Signor may be of any nationality
- Bank account in any country
- "High risk" merchants may be considered on a case by case basis.

### **2 - Getting a "merchant account Offshore"**

This can be a solution for merchants whose accounts have been declined. These accounts are often more expensive.

Riskier accounts can be approved, regardless of the country of incorporation or the nationality of the signor.

### **Conclusion: a particularly complex area**

In France, banks are connected within the Groupement Carte Bancaire allowing merchants to avoid using the Mastercard and Visa networks Associations: thus, the cost of accepting credit cards is very affordable and transparent.

In the United States and abroad, credit card acceptance is much more complex and far more costly for merchants. Often merchants are uneducated on the credit card industry and end up paying unnecessary fees and high rates.

By Sophie Gest, Vice President, [Merchant Services Navidor](#)

*Disclaimer: This item Publishes Information provided as general information only and is not Intended to replace box by box Appropriate advice from advisors. Definitions used are not intended to supersede any Regulatory or legal definition.*