



Transaction Risk: Risky Merchants

In partnership with Payrix, Partners have a unique opportunity to work closely with a group of experts in Merchant Risk to keep their SaaS Platform safe and secure. Without controls in place a Partner could be in a position to experience reputational and/or regulatory scrutiny and could experience financial loss associated with Fraud or Credit risk.



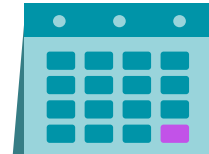
33%

small businesses fail in
the first two years



50%

small businesses fail in
the first five years



33%

small businesses make it
to 10 years+*

The most common reasons small businesses fail include a lack of capital or funding, retaining an inadequate management team, a faulty infrastructure or business model, and unsuccessful marketing initiatives.

* US Small Business Administration, Office of Advocacy

Most prevalent merchant risk types

Bust out fraud: a merchant account is set up with no intention of being legitimate, and many false transactions are processed before being closed down

Identity swap: individuals on watch lists or from a sanctioned country use another identity to set up merchant accounts to bypass Anti-Money Laundering (AML) rules

Transaction laundering (factoring): merchants process unknown transactions for another business.

Business format change: merchants lie about, or change, the nature of the products or services they sell to conceal high-risk activities

Friendly Fraud: when the legitimate card holder makes a purchase, but then later claims the purchase was fraudulent and gets their bank to cancel payment. This is done by filing a chargeback with the bank when the purchase appears on their credit card statement.

Triangulation Fraud: when a fraudster opens a fake online store, and then uses it to sell merchandise purchased with stolen credit cards.

Account Takeover Fraud: when a fraudster uses the stolen personal information of a bank or online store account holder to fraudulently gain access to the account. The fraudster then uses the account to make purchases the actual account holder did not authorize.

Fraud Risk

Credit Risk

Identity

How well does the partner know this merchant?

- Video Sales
- Validate Phone Numbers by calling
- Check Secretary of State website for Business documentation
- Request identification documentation (such as driver's license)
- Review the company website
- Onsite visit

Intent

Does the merchant's business align with the nature of the partner?

- Review the company website
- Request merchant's business plan
- Conduct a public records search to determine if the business owner has risky background activities

Business Model

How does the merchant's business function?

- What type of business model does the merchant conduct (i.e., retail, subscription, leasing/renting, service, etc.)
- How does the merchant expect to receive payment (Card Present, Card Not Present or ACH)?
- How does the merchant respond when consumers are dissatisfied?

Financial Stability

Is the merchant able to support the cost of doing business?

- Request and analyze the following: Balance Sheet, Income Statement, Cash Flow Statement, etc.
- Request processing statements and evaluate ratio of returns/disputes