

Underwriting 101

Underwriting in the payments industry is the process of assessing and verifying potential customers – including adherence to banking, brand, and governmental rules – to protect consumers from entities that are wanting to engage in fraud or other illegal activities by accepting credit card transactions. This is essential to maintaining a safe payments ecosystem to safeguard everyone’s money and well-being.

Before a payment facilitator or other payments company can onboard a new customer (referred to as a merchant) to allow them to begin accepting electronic payments, they need to first ensure that the merchant is a legitimate business that does not engage in any sort of illegal activity.



Collecting Merchant Information

The process of underwriting a new merchant first involves collecting the information from the merchant that is needed to run the underwriting checks. This is typically done via an online form that is sent to the prospective merchant for them to fill out. The payment facilitator has the ability to tailor the requested information to their specific customer base, when that is appropriate. New technology, such as [Infinicept's Underwriting Platform](#), allows payment facilitators and other payments companies to automate this underwriting process and create a more seamless experience for their customers.

The information that is requested includes personal information on the owner(s), business details, and info regarding the types of goods or services the business sells. Once the payment facilitator receives this information, they can then pass it through the necessary underwriting checks. These checks will generally vary depending on the vertical of your customers, how they operate their business, and how risky the industry they operate in is.



Underwriting Checks

A term commonly used in underwriting is KYC which stands for, Know Your Customer. This is the essence of what underwriting is, the opportunity for the payment facilitator to understand who the customer is and what the business does before allowing them to accept payments using their infrastructure.

Performing underwriting checks allows the payment facilitator to ensure that the customer they are bringing on is a viable business that is not engaged in activities outside the risk appetites of either themselves or their sponsoring partners. The goal of these checks is to answer questions such as:

- Is this merchant going to be involved in fraudulent credit card transactions?
- Is the merchant who they say they are?
- Will the merchant be able to generate enough income to cover operating expenses?
- Is this merchant involved in illegal activities or terrorism?

REQUIRED UNDERWRITING CHECKS

There are often three underwriting checks that are required by the credit card brands for any merchant wanting to begin accepting credit card payments.



The first check is an IRS TIN Match. This check ensures that the tax ID the merchant gave in their application exists and validates that the tax ID is associated with the legal entity name they gave on the application. .



The second is ensuring the merchant is not on Mastercard's MATCH list. MATCH stands for Member Alert to Control High Risk Merchants. This list contains merchants that have been terminated by other Acquirers and Mastercard requires a payment facilitator to be aware of. If the merchant that is applying for a processing account is found to be on this list, they will most typically not get approved.



The third required underwriting check is to make sure the business owners, principals, and business itself, are not on governmental sanction lists commonly referred to as OFAC (Office of Foreign Asset Control) screenings but, much wider than this one Treasury Department controlled database. These lists contain individuals, organizations, and geographies who have ties to crime or terrorism or are otherwise prohibited from doing business with.

BEST PRACTICE UNDERWRITING CHECKS

Aside from just the required underwriting checks, there are other screenings that are considered best practice to ensure that you truly know who your customer is before you engage in business with them.

The first of these may be performing an identity verification on the business owner. There are various services that offer identity checks with the goal of ensuring that the owner's information listed on the application is valid and that they are not engaging in any sort of identity fraud.

In the same vein of ensuring that the owner's information is legitimate, it is also recommended to verify some of the other pertinent business information listed on the application. This typically includes the email address used, the business address, and the business website (when applicable).

It is also recommended to verify the bank account that is listed on the application. The underwriter will want to ensure that the bank account listed is a legitimate bank account and that owner of that bank account is the legal entity listed on the application as the merchant.

Lastly, with social media becoming more and more prevalent for businesses all over the world, this gives underwriters the ability to obtain additional information to verify the business' legitimacy. Infinicept's [underwriting platform](#) uses a proprietary social media check called InfiniScore Social. This check analyzes the business' social media accounts and gives a score measuring how legitimate those social media accounts appear. This helps give the underwriter more information when determining whether to approve the application.



Time to Onboard the New Merchant

Once all of the underwriting checks are complete and the information is validated, the payment facilitator or payments company can then decide to onboard the new merchant and allow them to begin accepting electronic payments.

Performing all the underwriting checks helps the payment facilitator reduce risk, maintain a safe payments ecosystem, and ensure they are doing business with legitimate entities.



To speak with a payments expert or to learn about how Infinicept's underwriting platform can help you automate your underwriting process, [contact us](#).