



**Don't Risk Your Business'
Reputation, Customers, & Profits
By Using 3rd-Party
Credit Card Processors**

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What merchants need to know about third-party payment services — compared to having a real merchant account.

PayPal draws ire of stranded customers

March 26, 2002 Posted: 8:42 a.m. EST (1342 GMT)
<http://archives.cnn.com/2002/TECH/industry/03/26/paypal.stranded.idg/index.html>

(IDG) -- While most of PayPal's 15 million customers are blissfully buying and selling with the online payment company's handy service, a small but vocal group is questioning the firm's commitment to customer care. PayPal's online payment service has earned a well-deserved reputation for exceptionally low fraud. The company claims that only 0.42 percent of its transactions in 2001 ended in fraud, well below the 1.3 percent fraud rate of credit card transactions measured by Gartner Research.

But some customers who experience account problems or are mistakenly caught in PayPal's fraud prevention program, and those who experience the rare case of actual fraud, say the customer support and phone-based support are sorely lacking.

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Mastercard to stop third-party transactions

CNN Money, April 19, 2002: 2:45 PM EDT
<http://money.cnn.com/2002/04/19/news/companies/paypal/>

A new rule by MasterCard could crimp online commerce by stopping merchants from accepting credit card payments through third parties, such as the popular PayPal, USA TODAY has learned.

The reason for the change, says MasterCard spokesman Alex Lau, is to protect financial institutions and card holders from fraud and identity theft. Based on the rule's wording, it could affect other third-party services such as Yahoo's PayDirect and eBay Payments, Gartner's Litan says.

What is a third-party payment service?

Third-party payment services, a.k.a. P2P (person-to-person) payment services like PayPal, ClickBank, 2CheckOut, or iBill are services that provide individuals with the means to pay each other with credit cards. Although they are not merchant accounts, on the surface they seem to act like one.

How does it differ from a merchant account?

The main point that differentiates P2P payment services from a merchant account is that funds are not processed through the merchant's own merchant account. All transactions are processed through one or more large bank accounts that the merchant needs to access to get his funds. They are not directly deposited into the merchant's checking account.

The account(s) where these funds get pooled is/are typically too large to be FDIC insured. Another drawback is if something should happen to the bank or the payment service's processing capabilities, a multitude of merchants could be unable to access their funds all at once.

This method of clearing and settling transactions skirts the rules established by Visa and MasterCard as well as state

and federal bank regulations. Because of these practices PayPal faces potential challenges from state banking regulators. During the past two years, California and Idaho have questioned whether PayPal is operating an unauthorized bank. Meanwhile, officials in Louisiana and New York have gone a step further and stated their opinion that PayPal is doing just that. In Feb 2002 Louisiana went ahead and asked PayPal to halt service in that state.

Fraud Prevention vs. Happy Merchants.

PayPal and other P2P services or master merchant accounts, mainly got their popularity from being a method of payment for eBay sellers and buyers. Originally PayPal enabled auction payments without first authenticating the sellers. Moving money between unknown parties without authentication and an established dispute process brought out inevitable fraud. PayPal has since begun attempting to authenticate its sellers and has been successful in curbing fraud.

Unfortunately, its current handling of risk is seen by many PayPal merchants as ruthless and in some cases unwarranted. Merchants are at the complete mercy of PayPal and get their accounts frozen for 'suspicious activity' with little or no recourse.



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Don't put your customer service & satisfaction into the hands of 3rd-party processors!

— they don't value your company or products!

Don't let this happen to your business!

One day, your customer receives their credit card statement in the mail and notices a credit card charge on his/her account that he/she does not recognize. The first question they ask is, "Who is this company and what is this charge for?" It is only normal for that person to think they have been a victim of fraud and will need to go through the hassle of closing their credit card account and get a new credit card.

Before doing that, he/she calls the telephone number that appears on his statement (if there is one listed). He/she will get a customer service representative that works for a 3rd party processor like PayPal, ClickBank, 2CheckOut, or iBill (but not you or your business). These people do not have the same level of customer service or professionalism as you provide your customers. And they are representing your business! Their priority is not to help the customer or answer their questions as if it were their own business.

When talking to your customer, the customer service representative is thinking, "Not another one!" They already had a bad day, and your customer is the 30th person to call that day. They don't know anything about your company or the products they bought from you, and they don't care. Besides, this company they work for doesn't pay him/her enough to deal with dozens of callers who are screaming because they feel like they are a victim of fraud. Instead of trying to help **your customer**, they are rude and hang up on them.

WHAT HAPPENS NOW? They get their credit card and call the toll free number on the back of their card. You have now lost your customer, your product that you shipped, your money from the sale, and any chargeback fees that you will owe (up to \$50 per chargeback). When your customer finally realizes that they bought the product from you, they will refuse to do business with you because he/she went through a very bad experience and will only blame you for what happened. **YOU JUST LOST A VALUABLE CUSTOMER!**

3rd-Party Processors are used more and more every day by the **criminals** who are looking to commit fraud!

Criminals choose 3rd-party processors as their first choice to process fraudulent credit card transactions, take the money, and run! Many criminals use these 3rd party processors because it is convenient as their identity is less likely to be fully verified. Criminals use these services to get payments from unsuspecting customers who never see their product delivered or money refunded. **This exposure to criminals can easily bankrupt 3rd-party processors overnight!** And you lose your money!

Do you really want to jeopardize your name and reputation by using a 3rd-party processor as your main provider for credit card processing? Although your business is legitimate and very honest, using 3rd-party processors will give your business a bad reputation that consumers will avoid at all costs.

FDIC Insurance protects your business!

3rd-Party Processors puts your money **AT RISK!**

Choosing to use a 3rd-party processor like PayPal, Clickbank, 2CheckOut, iBill will put your business and your money at risk! **Did you know that your money is not FDIC insured when you use a 3rd-party processing company?** If your business is processing \$100 or \$10,000 a day in credit card orders, you could lose it all overnight. There is no US Government backing for 3rd-party processing merchants.

What merchants need to know about third-party payment services

— compared to having a real merchant account.

Because services like PayPal cater to both consumers and merchants, many merchants feel that PayPal does not sufficiently represent the interests of merchants in fraud cases. This causes many merchants to second-guess their decision to have a P2P service handle their business funds. A regular merchant account offers the merchant reasonable recourse against fraudulent consumer transactions and also chargebacks.

The merchant's prosperity is important to merchant service providers that offer real merchant accounts, as only the merchant is their customer.

Conclusion

P2P Payment Services serve their purpose when it comes to individuals selling personal items on auctions or other web sites that offer some sort of selling service. They are not merchant accounts, and do not offer all the protection and services that an actual merchant needs to sell products for their business. Actual merchants that have a business will enjoy better customer service, protection and even better discount rates with a real merchant account.

For a side-by-side comparison, between a P2P payment service and a merchant account, you can view the information provided below.

Benefit	Merchant Account	Typical P2P Payment Service
Payment Gateway included.	Yes with FCCP	Yes
Fully complies with Visa, MasterCard & bank regulations.	Yes	Questionable
Merchant protected from consumer fraud.	Yes	Questionable
Chargeback re-presentment rights and arbitration.	Yes	No
Funds held in an FDIC insured account.	Yes	No
Point-of-Sale transaction enabled. (Swipe accounts for retail)	Yes	No
Funds are available within 24-48 hours.	Yes	No
24-hour live customer service.	Yes	No
Direct deposit into your bank account.	Yes	No
Provides the ability to accept ATM cards (POS only).	Yes	No
No need for the buyer to enroll in the program.	Only seller enrolls.	Seller and buyer need to enroll
Customers can instantly pay with credit cards.	Yes	No, customers need to enroll first
Merchant has recognized merchant status from Visa and MasterCard / allowed to display the Visa/MC logos.	Yes	No

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Merchant Account Comparison

3rd Party Processor vs. a Real Merchant Account

Side-by-side comparison of P2P payment providers vs. a real FreeCreditCardProcessing.com merchant account

Rates & Fees	Our Rates	PayPal	2Checkout	ClickBank	iKobo	iBill	Yahoo	CCave
Discount Rate	2.35%	3.40%	5.50%	7.5% + \$1	2.99%	15.19%	4.19%	7.00%
Transaction Fee	.30¢	.30¢	45¢	N/A	.29¢	N/A	.20¢	.40¢
Set-Up Fee	Free	N/A	\$49.00	\$50.00	N/A	N/A	\$50.00	\$45 - \$600
Application Fee	Free	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Statement Fee	\$10.00	N/A	N/A	N/A	N/A	N/A	\$22.95	N/A
Shopping Cart	Free	Yes	Yes	N/A	N/A	Yes	Yes	Yes

SAVINGS COMPARISON CHART

Your Costs below based on processing \$10,000 per month in credit card transactions

3rd Party Processor	Transaction Fee & Discount Rate	YOUR COST! (Sales of \$10,000)		Your Annual Savings
2CheckOut	5.5%	\$550.00+ PER MONTH	LOW RATE OF 2.35%	You Save \$3,780.00
ClickBank	7.5%	\$750.00+ PER MONTH	LOW RATE OF 2.35%	You Save \$6,180.00
iBill	15.19%	\$1,519.00+ PER MONTH	LOW RATE OF 2.35%	You Save \$15,408.00
Yahoo	4.19%	\$419.00+ PER MONTH	LOW RATE OF 2.35%	You Save \$2,008.00
CCAvenue	7.0%	\$700.00+ PER MONTH	LOW RATE OF 2.35%	You Save \$5,580.00

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