

SEVENTY-NINE-NINETY-FIVE IS NOT JUST THE PRICE TAG... OR IS IT?

When iGaming Business asked us to write an article that looks at how payment solutions in the gaming industry differ from that in other industries, and what unique obstacles face this industry that aren't apparent in others – we jumped at the opportunity to provide our unique perspective on this by way of a two-part editorial.

A BRIEF HISTORY LESSON

No, Al Gore did not invent the Internet, and according to Wikipedia, the World Wide Web was created in 1989 by Sir Tim Berners-Lee, working at the European Organization for Nuclear Research (CERN) in Geneva, Switzerland and was released to the world in 1992. Sixteen years later, the Internet IS the primary business tool taking over from phone and fax for all businesses and it fundamentally has changed how we live, communicate, shop and of course, play! We started FAC in 1998 and at that time the Internet was still very much the "wild, wild west". The VISA and MasterCard compliance rules were in place for retail POS businesses and MO/TO businesses including telemarketers, but there were no specifically defined rules for electronic commerce merchants. Ecommerce was lumped in with MO/TO compliance for 'card-not-present' transactions and the rules simply did not fit how businesses operated, or the rapidly evolving Internet technology. It took a few more years before the Card Associations actually updated their manuals and Merchant Category Codes to implement regulations specifically for online businesses, and this is where life got interesting for all of us in the payments industry.

THE EVOLUTION OF MERCHANT CATEGORY CODES

In 1998, the Internet had not reached many countries in the Caribbean so the learning curve was steep, with basic education on what an online payment gateway did and how clearing of online payments would work with acquiring banks who needed to set up separate BINs for clearing. Once the industry took hold, the banks were hungry for the fee income generated by online casino volumes and merchants were signed up by the dozens without anyone realizing the risk associated with card-not-present consumer chargebacks and online fraud. There was unsophisticated ecommerce monitoring in place and acquirers were typically assigning the 'electronic commerce' Merchant Category Code (MCC) 5967 for all online merchants, regardless of the products they sold. The Card Associations were unprepared for the exponential growth of online gambling and realized the compliance rules to govern and monitor this new industry needed to be different than standard POS rules, which were well documented in the Card Association manuals. Prior to 2000, the VISA Operating Regulations classified online gambling under 'High Risk Telemarketing' which included direct marketing,

inbound telesales related to telephone gambling, outbound telemarketing, online gambling, in-transit service gambling and adult entertainment. In February 2000, VISA International adopted a unique category code for online casinos which included lotteries, off-track betting and the sale of gambling chips. Banks and processors were required to register their online casino merchants with the new 7995 MCC code in an effort to provide real-time risk monitoring and reporting for the acquiring banks. Land based casinos were issued their own unique MCC codes (i.e. Lady Luck Hotel and Casino was MCC 3624) allowing those card transactions to be distinguished from Internet casino based transactions which further divided the industry. 7995 transactions did not start to be blocked by American Issuers until sometime in 2001, but there were some Issuers who posted these transactions as Cash Advances and not Sales, creating a customer service issue for the gaming merchant that could not be easily resolved.

MCC codes are where the differences between gambling merchants and the rest of the merchant world significantly divide. The implementation of MCC classification and monitoring is fundamentally what changed the payments industry and led to the infamous 'coded Vs non-coded' payments landscape. MCC codes are intrinsic to all VISA and MasterCard payments and acceptance of transactions by Card Issuing Banks. The Visa International Data Quality Improvement Program monitors the Acquirer's use of specific merchant category codes to ensure that the code best describes the type of merchandise or service that the merchant provides. There are about 580 VISA MCC codes and it is the responsibility of the Merchant Acquiring Bank to ensure they have selected and applied the correct MCC to the Merchant ID so that the Issuer can identify what type of transaction their

cardholder is performing, from what website and in which country. Issuers can block transactions at the interchange BIN level based on MCC, country code, and more recently ECI indicator. Transactions can also be blocked at the point of authorization based on a variety of parameter settings.

CATEGORIZING INDUSTRIES

What I find fascinating about the MCC definitions is how the Card Associations categorize the industry groupings. Over the past 8 years, MCC 7995 has been vastly broadened to include an enormous category of businesses. June 2008's classification includes "merchants who operate gambling or betting establishments, including those that may be associated with hotels, restaurants, riverboats, and resorts, that allow customers to use their bank cards to purchase gambling chips, lottery tickets, or to place wagers. For gambling or betting merchants associated with hotels, restaurants, etc, transactions representing the purchase of gambling chips, lottery tickets, or wagers with a bank card must be classified under this MCC". So a Riverboat casino that does not have its own unique MCC, is required to classify their transactions as 7995, resulting in a decline rate of about 85%. Now if you review MCC 5999, which is a catch-all classification for "Miscellaneous and Specialty Retail Shops", acquirers are to "use this MCC for merchants who sell unique or specialized products that are not described by another merchant category code, such as, map and atlas shops, firearms and ammunition shops, magic shops, party supply shops, silk flower shops, fireworks shops, ice dealers, picture frame shops, sunglasses shops, beauty supply shops, and dealers of bottled and distilled water. This MCC should be used only when a more descriptive MCC is not available". Why are firearms and ammunition shops in the same MCC category as picture frame shops, silk flowers and bottled water?

So an 18 year old can go buy a 9mm Military Specs Beretta gun with bullets online at Guns America.com (listing #977002954) for \$580.00 using their newly issued CAPITAL ONE VISA card and their bank would not know if they had purchased a nice pair of designer sunglasses or a military grade gun with bullets in excellent condition. But, I can't go enjoy my long weekend on the Mississippi Riverboat cruise with my CITI VISA card because transactions would be automatically declined. Gives a whole new meaning to the marketing slogan "VISA... The Currency of Life". ■

AUTHOR PROFILE



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