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What is a high risk merchant account?

High risk merchant accounts are given to businesses that process payments in high volumes therefore run a greater risk of payment related problems such as fraud, payment reversal and chargeback. Being designated high risk can also have to do with the type of product or services offered. These accounts have been made to suit the requirement of these businesses and the rates and charges to obtain one are a bit on the higher side. The charges can be so high that it can affect the profit margin of the company and it may be difficult to maintain such an account.

The businesses are classified as high risk mainly because of the payment processing structure and the products. Online gambling, travel agency, adult content, auto rental, bail bonds, pharmaceuticals, and many other businesses are categorized under this category. This is because while working with these companies, the banks are exposed to higher risk of losing money as most of the transactions are done through credit cards. In many cases, it is seen that the information is incorrectly given or there is a payment reversal.

Not only are there risks of financial loss, there is also risk of administrative fallout. For example, there may be the case where a purchaser wants to pay using a debit card that has insufficient funds. In such a case if the issuing bank approves the transaction, it will fail on the acquiring bank and that leads to administrative problems. There can be a problem with the stolen credit card information as well. For these cases, banks have imposed a high rate and some other safeguards. These safeguards include having a delayed settlement of funds with the merchant and a minimum reserve of 10% of incoming payments, which needs to be kept with the bank for 30 to 180 days, depending on the transactions. There are only a few domestic banks and institutions that deal with high risk merchant services so an alternative option would be to choose an offshore merchant account through a third party lender.

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