UNDERSTAING ROLLING RESERVE REQUIREMENTS

White Paper Series

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Understanding Rolling Reserve Requirements

A merchant account rolling reserve is a specific amount of fund detached from the Merchant's business checking account by the acquiring bank to mitigate bank losses. The acquirer uses this funds to settle any unexpected liability such as a chargeback fee. Escrow holds reserved amounts.

Rolling reserves are expressed as a percentage of each transaction, usually between 5% to 10%. As per the merchant processing agreement, these funds are held for an agreed amount of time, say 6 to 12 months. This is strictly deposit money. No interests. When the time limit elapses with no significant liabilities, the processor releases the money to you in order from the earliest withheld.

Who May Receive A Rolling Reserve Requirement

Practically every business owner with credit card processing risks a merchant account reserve. If not for your sake, for your acquiring bank's. These are always part of the question at the outset of every merchant processing agreement. If or not they stay, depends on the progressiveness of your business.

As your credit card handler, the processor feels the need to protect themselves (and you to some point) from business risks. The risk your business poses is proportional to the size of your merchant account rolling reserve.

Factors Determining the Need for a Rolling Reserve

Whether or not you get a rolling reserve of whichever nature will depend on some elements.

1. A high-average transaction value comes with a risk. When a consumer makes a large amount purchase, they believe they are buying something quality. What if the product/service turns out otherwise? The consumer demands a refund or in most cases files for a chargeback. Of course, fees and other chargeback costs are involved. See where a rolling reserve comes in?
2. The total monthly credit card processing funds are a huge determinant for a rolling reserve. A high volume is an indication of high activity within your credit card for the previous month. Hence exposure to risks such as chargebacks and fraud.
3. The payment strategy your business uses is of essence in setting up a security deposit. Online transactions grow in popularity each day. And so do online fraud tactics. Sure, there are fraud monitoring tools in place (90% efficiency), but what of other risks? Card security, technicality failures, and rogue foreign and multi-currency transactions. This is not a gamble your processor is willing to take.
4. High chargeback rates often associate themselves with high-risk business industries. Therefore, an extensive rolling reserve. Vulnerable sectors include jewelry, electronics, firearms, Health, legal services, online gambling, travel and hospitality, gaming, financial services, adult entertainment, etc. Any fraud or theft could incur massive loss withdrawal from your risk money.

5. How long you've been in business matters. The acquiring bank can assess your business' history and progressivity and determine if you need a rolling reserve anymore. If you are just starting out, you will need one, even if temporary.
6. Turnover. Refers to how quickly cash flows into your merchant account. The acquirer bears a high risk for every coupon sold. In that, it takes a more extended period to redeem the ticket from its time of purchase. This is a high-value transaction thus liable.

Considerations of a Rolling reserve;

Indeed, rolling reserves can be associated with particular effects on your business. Best you consider how the withheld funds affect cash flow. Make sure they leave you with enough income for your expenditure and the continuation of your business.
When starting out as a merchant, a rolling reserve can take quite a toll on your working capital. This goes for small businesses too. Money for marketing and other business expenditure is cut down. You won't have as much cash to facilitate your business' growth.
Even so, rolling reserves exist for a favorable cause. In a highly competitive online world, they ease the granting of merchant accounts to businesses that might otherwise be unable to get one. Reserve policies vary according to your processor. Variations will depend on industry rules, your credit history, and business type.

Other types of Merchant Account reserves

While rolling reserves are the most commonly used, processors have come up with other two merchant account reserves to fit more specific needs of merchants;

1. Up-front reserve- An agreed amount with the acquirer during the processing agreement that is submitted on day one of the accord. It is established following the due monthly revenue.
2. Capped reserve- Cuts a certain percentage from each credit card transaction to hit a set target. From then on, there are no additional funds for a duration agreed upon in the processing agreement.

Merchant Best Practices

- Watch out for fraudulent activities and tricks.
- Regulate consumer complaint rates to the minimum 1%.
- Always deliver goods/services before acknowledging payments.
- Have a productive communication pattern with your buyers. Inform them of any costs or postponements.

In conclusion, merchant account rolling reserves are as important as any other business necessity. It is in your best interest to incorporate them into your plan. Evaluate your merchant options, and business type and organization. While many may view them as a business cost, this insight helps you understand rolling reserves as a long-term uplifting for your business.