

## Merchant Fraud Indemnity Policy Renewal Application

**NOTICE:** THE POLICY DOES NOT PROVIDE FOR ANY LEGAL DEFENSE IN ANY MATTER. THE POLICY DOES NOT PROVIDE ANY LIABILITY COVERAGE FOR ANY REASON OR MATTER THAT MAY ARISE DURING THE POLICY PERIOD.

**PAYMENTS MADE UNDER THIS POLICY WILL REDUCE THE AMOUNTS AVAILABLE TO PAY LOSS DURING THE POLICY PERIOD.**

C.L. FRATES AND COMPANY PROGRAM ADMINISTRATOR

Agent Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Application is hereby made by: \_\_\_\_\_

(herein called Insured)

Principal Address: \_\_\_\_\_

(Street)

(City)

(State)

(Zip)

for a Merchant Fraud Indemnity Policy©, to become effective as of 12:01 a.m. on \_\_\_\_\_  
to 12:01 a.m. on \_\_\_\_\_.

Contact: \_\_\_\_\_ Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

E-mail address: \_\_\_\_\_

1. Complete the following for forms and amounts of coverage desired:	<u>Amount</u>	<u>Deductible</u>
Form of Coverage- Merchant Fraud Indemnity Policy		
(a) Class of Merchant – Retail Merchant	\$ _____	\$ _____
(b) Class of Merchant – Future Retail Merchant	\$ _____	\$ _____
(c) Class of Merchant – Mail Order/Telephone Order Merchant	\$ _____	\$ _____
(d) Class of Merchant - Telemarketing Merchant	\$ _____	\$ _____
(e) Class of Merchant – Travel/Tour Operator Merchant	\$ _____	\$ _____
(f) Class of Merchant - Special Merchant	\$ _____	\$ _____

2. Name and years of experience of: Manager, Merchant: \_\_\_\_\_  
Division: \_\_\_\_\_ Years: \_\_\_\_\_

3. Has there been any changes in the following during the last year Yes  No   
If no skip to question 4.

Do you have a Training and Procedures Program for Bankcard staff? Yes  No

If yes, please describe. \_\_\_\_\_

- |   |  |
|---|--|
| (a) Is training given on a regular basis?                                 | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| (b) Are they trained in detecting irregular merchant activity?            | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| (c) Are they required to take two weeks uninterrupted vacation each year? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| (d) Is there a manual provided for the Employees?                         | Yes <input type="checkbox"/> No <input type="checkbox"/> |

4. Number of locations that merchant bankcard business is processed: \_\_\_\_\_

5. What is the Card Association status of your Company?

- Principal Member  Independent Sales Organization (ISO)   
Agent Bank  Merchant Services Provider (MSP)

6. Names and addresses of ISO/MSPs: \_\_\_\_\_  
\_\_\_\_\_

7. Total number of employees in your bankcard operation: \_\_\_\_\_

8. Has there been any changes to your products and services that you provide to merchants through your bank card program in the last year:  
\_\_\_\_\_  
\_\_\_\_\_

9. Have there been any merchant portfolio acquisitions within the last year? Yes  No   
(If yes, please attach full details including from whom the portfolio was acquired, acquisition date, number of merchants, processing volume, loss history)

10. Merchant Statistics:	<u>No. of Merchants</u>	<u>Avg. Tkt.</u>	<u>Volume last 12 mo.</u>	<u>Est. volume next 12 mo.</u>
Retail	_____	_____	_____	\$ _____
Future Delivery Retail	_____	_____	_____	\$ _____
Total	_____	_____	_____	\$ _____

11. Percentage of annual bankcard sales volume generated by:

Direct: \_\_\_\_\_% Agent Bank: \_\_\_\_\_% ISO/MSP: \_\_\_\_\_%

12. Percentage of transactions generated by:

Electronic Data Capture: \_\_\_\_\_% Paper-based System : \_\_\_\_\_%

13. Do any merchants handle transactions in a non face-to-face manner, such as telephone, mail order or internet sales? Yes  No  If yes, please provide:

- (a) Number of non face-to face merchants \_\_\_\_\_  
(b) Average deposit size \$ \_\_\_\_\_ (monthly)  
(c) Lowest deposit amount \$ \_\_\_\_\_ (monthly)  
(d) Highest deposit amount \$ \_\_\_\_\_ (monthly)  
(e) Average ticket size \$ \_\_\_\_\_  
(f) Ticket range (high to low) \$ \_\_\_\_\_ (high) \$ \_\_\_\_\_ (low)  
(g) Volume last 12 months \$ \_\_\_\_\_  
(h) Estimated volume next 12 months \$ \_\_\_\_\_

14. Provide breakdown of the types of business the merchants are involved in. (Attach separate sheet if necessary) \_\_\_\_\_

Has there been any changes in questions 15 through 22 during the last year Yes  No   
If no skip to question 23.

15. Do you obtain the following from your merchant applicants:

- (a) Copy of Business License/DBA filing? Yes  No

- (b) (i) Trade References? Yes  No   
(ii) Do you verify? Yes  No   
(c) (i) Bank References? Yes  No   
(ii) Do you verify? Yes  No   
(d) Copies of Financial and/or Tax Returns? Yes  No   
If yes, for what type merchant and what circumstances do you require these: \_\_\_\_\_

- (e) Credit Bureau report(s) on the business and principals? Yes  No   
(f) Personal Guarantees? Yes  No   
If No, please advise why: \_\_\_\_\_  
(g) (i) Name of merchants current/previous processor? Yes  No   
(ii) Do you verify? Yes  No   
(h) Bankcard processing statements in respect to those merchants with  
current or previous processor? Yes  No

16. Are the names of all prospective merchants and principals checked against  
the Combined Terminated Merchants File before you begin processing? Yes  No

17. Do you ever accept merchants with a prior bankruptcy? Yes  No   
(business or personal) If yes, in what circumstances. \_\_\_\_\_  
\_\_\_\_\_

18. In what circumstances if any, do you require merchants to use:  
Service Bureaus: \_\_\_\_\_  
Product Fulfillment Services: \_\_\_\_\_

19. Future Delivery Merchants - i.e. merchants that take cardholder funds prior to the delivery of  
the product. Are there any special features of your merchant underwriting and/or security  
system which specifically addresses these risks? Yes  No  If yes, (attach separate  
sheet if necessary)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

20. Are any of your risk management/security operations outsourced? Yes  No   
To whom? \_\_\_\_\_  
Describe the outsourced operations: \_\_\_\_\_  
\_\_\_\_\_

21. Do you generate any of the following exception reports? Yes  No

PARAMETER \* FREQUENCY

- |   |       |       |
|---|-------|-------|
| (a) Excessive sales volume by merchant:                       | _____ | _____ |
| (b) Numerous sales by merchant over average<br>ticket amount: | _____ | _____ |
| (c) Cardholder account number duplication:                    | _____ | _____ |
| (d) Paper drafts from and EDC merchant:                       | _____ | _____ |
| (e) Sales versus returns:                                     | _____ | _____ |
| (f) Merchants open more than 3 months<br>without activity:    | _____ | _____ |

- (g) High percentage keyed transactions: \_\_\_\_\_
- (h) Excessive Chargebacks: \_\_\_\_\_
- (i) Other: \_\_\_\_\_

22. What procedures are followed to resolve exceptions generated by any of the above reports?

\_\_\_\_\_

23. Please give the percentage of the number of chargebacks to the number of sales for your portfolio:

- (a) Past 12 months \_\_\_\_\_%
- (b) Past 6 months \_\_\_\_\_%
- (c) Past 3 months \_\_\_\_\_%

24. What is the average monthly deposit of all merchants for the past 12 months: \$ \_\_\_\_\_

25. During the last year, has your Merchant Program:

- (a) Experienced any uncollectible chargeback losses exceeding \$5,000 from any individual merchants? Yes  No
  - (b) Experienced any acts of dishonesty on the part of any sales organization or bank employee leading to uncollectible chargebacks? Yes  No
  - (c) Terminated any merchants for excessive chargebacks or fraud? Yes  No
  - (d) Had any merchants which exceeded the chargeback limits set by Visa/MasterCard? Yes  No
  - (e) Accepted any merchants or principals who are listed on the Combined Terminated Merchant File? Yes  No
- If yes, to any of the above, please provide full details (attach additional pages if necessary):

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

26. (a) List all losses sustained during the past year, whether reimbursed or not.

Check if none \_\_\_\_\_

Date of Loss	Amount of Loss	Amount Recovered From Insurance	Amount of Loss Pending	Recover From Other Than Insurance	Type of Loss	At Other Than, Main Office, State Location

**Note:** Explain corrective actions with regard to the above losses.

- (b) Does any director or officer of the Insured or its holding company have any knowledge of any pending loss(es) or of any information that could give rise to a claim(s) that could be covered under this policy? Yes  No  If yes, explain: \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_

**One copy of each of the following documents is attached and made a part of this application**

- 27. (a) Most recent bankcard internal/external audit report, together with management response.
- (b) List of the ten largest card-not-present and retail merchants, including the last 2 months sales, number of transactions and chargeback ratios.

**Please include the following if any changes were made in the last year.**

- (c) Merchant approval procedures/underwriting criteria.
- (d) Written procedures that are in place to protect the insured against chargeback.
- (e) Sample of merchant application forms.
- (f) Sample of merchant agreement contract.
- (g) Schedule of the number and dollar amount of the last two months of transactions.
- (h) Schedule of the number and dollar amount of non face-to-face transactions for the last 2 months (if applicable).
- (i) Agreements/Contracts with ISO's and/or MSP's.
- (j) Contract with third party risk management service providers.
- (k) List of exception reports for merchant monitoring.

**The present officers, employees, agents and partners of Insured have, to the best of Insured's knowledge and belief, while in the service of Insured, always performed their respective duties honestly. There has never come to its notice or knowledge any information which in the judgment of Insured indicated that any of the said officers, employees, agents or partners are dishonest. Such knowledge that any official or officer signing for Insured may now have in respect to his or her own personal acts or conduct, unknown to Insured, is not imputable to Insured.**

**Warranty**

The present officers, employees, agents and partners of the Insured represent and warrant that the information furnished by the Insured or its agents in this application and as part of the application process, including certain underwriting procedures and standards followed by the Insured in connection with its business activities insured by a policy issued by the Underwriter, is complete, true and correct and that such information shall not be materially changed without prior written notice to the Underwriter. The Underwriter has relied on this application and such information in its underwriting of a policy and decision to issue a policy to the Insured. The application and such information constitutes part of any policy issued by the Underwriter. Any misrepresentation, omission, concealment, incorrect statement of a material fact in this application or such information, or any material change in such information shall be grounds for the rescission of any policy issued by the Underwriter. In Kansas and Wyoming, any reference to "warranty" is deleted and amended to "misrepresentation".

Insured acknowledges that Underwriter, at its discretion, may require an on-site assessment process to determine if Insured has provided Underwriter with fair and accurate information of Insured's business and customers, and Insured agrees to hold Underwriter and its assessment vendor harmless and forfeit any recourse relative to the assessment findings and recommendations.

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_  
(Insured)

\_\_\_\_\_  
(Signature and Title)

See other side for fraud warnings.

**Any person who knowingly and with the intent to injure, defraud or deceive any insurance company, files a statement of fact containing any false, incomplete or misleading information is guilty of a felony.**

**ARKANSAS AND LOUISIANA FRAUD WARNING**

Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information on an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

**COLORADO FRAUD WARNING**

It is unlawful to knowingly provide false, incomplete or misleading facts or information to an insurance company for the purpose of defrauding or attempting to defraud the company. Penalties may include imprisonment, fines, denial of insurance and civil damages. Any insurance company or agent of an insurance company who knowingly provides false, incomplete or misleading facts or information to a policyholder or claimant for the purpose of defrauding or attempting to defraud the policyholder or claimant with regard to a settlement or award payable from insurance proceeds shall be reported to the Colorado Division of Insurance within the Department of Regulatory Agencies.

**KENTUCKY FRAUD WARNING**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance containing any materially false information or conceals for the purpose of misleading information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime.

**MAINE, TENNESSEE AND VIRGINIA FRAUD WARNING**

It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits.

**NEW JERSEY FRAUD WARNING**

Any person who includes any false or misleading information on an application for an insurance policy is subject to criminal and civil penalties.

**NEW MEXICO FRAUD WARNING**

Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to civil fines and criminal penalties.

**NEW YORK FRAUD WARNING**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

**NORTH DAKOTA FRAUD WARNING**

Any person who knowingly and with the intent to injure, defraud, or deceive any insurance company, files a statement of fact containing any false, incomplete or misleading information may be guilty of a felony.

**OHIO FRAUD WARNING**

Any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

**PENNSYLVANIA FRAUD WARNING**

Any person who knowingly and with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.