



AN 2202—Revised Standards—High-Risk Negative Option Billing Merchant Requirements

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AN 2202—Revised Standards—High-Risk Negative Option Billing Merchant Requirements

Mastercard is announcing revised Standards that will provide additional guidance to acquirers regarding registration requirements and acceptable behavior for high-risk negative option billing merchants.

Version History

The version history of this announcement is as follows.

Date	Description of Change
18 Oct 2018	Initial publication date

At-A-Glance

The At-A-Glance table provides key information about the systems and groups affected by this announcement, action indicators that specify the appropriate action, and the required implementation date or dates.

Type:	Bulletin Announcement
Audience:	Acquirer, Processor
	Each customer must independently determine the impact on its operations.
Brands:	Mastercard®, Debit Mastercard®, Maestro®, Cirrus®
Region:	Global
Category:	Operations, POI, Rules/Standards, Security
Action Indicator:	Brand Mandate
	Program or service requirement
	Financial impact
	Registration required
Effective Date:	12 April 2019

Overview of the Negative Option Billing Merchant Business Model

A negative option billing merchant refers to a type of retailer that provides a sample of a good or service (either complimentary or at a nominal price) to consumers.

The merchant requires the consumer to provide his or her payment card information to receive the sample, then the merchant bills the consumer (cardholder) at a future date, unless the consumer proactively cancels his or her subscription with the merchant.

Observations of High-Risk Negative Option Billing Merchants

Mastercard receives a significant number of complaints from regulators, issuers, and cardholders about deceptive merchant practices.

A significant number of these complaints involve a high-risk type of negative option billing merchant referred to in the industry as a nutraceutical merchant. In alignment with the negative option billing

business model, a nutraceutical merchant typically offers a consumer a free trial lasting up to 30 days (a trial period) or an introductory price for a physical product with supposed benefits (such as cosmetics, healthcare products, or dietary supplements). In exchange for the product, the consumer provides his or her account information. The merchant then sends the same product (of equal or larger size) to the consumer on a scheduled basis and charges the cardholder for the full price—unless the consumer returns the free or first product during the trial period or otherwise cancels his or her subscription.

Mastercard has found that these high-risk merchants often engage in various behaviors designed to manipulate the cardholder into unknowingly signing up for a subscription service (subsequently making it difficult for the cardholder to cancel the subscription once enrolled.) In addition, these merchants often engage in practices designed to hide or disguise their activities from their acquirer, Mastercard, or both.

High-Risk Negative Option Billing Merchants and Customer Relationship Managers

In "AN 1664—Reminder of Acquirer Responsibilities Regarding Service Providers," Mastercard initially discussed the nutraceutical business model and how a number of these high-risk negative option billing merchants are leveraging third-party entities—known as customer relationship managers—without notifying the merchant's acquirer to register these managers with Mastercard as a service provider.

Customer relationship managers tend to operate between the merchant and the merchant's payment gateway or processor.

These managers also may have access to transaction data, including sensitive cardholder account information. A large number of customer relationship managers offer services including but not limited to:

- Subscription and billing management and analysis
- Authorization and preauthorization services
- Fulfillment tracking
- Inventory management
- Transaction management

However, certain customer relationship managers' transaction management services may include tools for conducting deceptive practices, such as routing transactions across multiple merchant IDs—a practice referred to as load balancing. Load balancing helps these high-risk merchants avoid processing thresholds implemented by the merchants' acquirers and compliance programs established by Mastercard and other card brands.

Overview of Revised Standards

Mastercard has received feedback from acquirers that they need additional guidance on the specific behaviors that Mastercard considers unacceptable regarding these high-risk merchants, so that they can help ensure that Mastercard Standards are enforced.

The revised Standards described as follows are intended to provide this additional guidance to acquirers regarding unacceptable merchant behavior:

- Mastercard will designate negative option billing merchants that provide a physical product (as opposed to services or digital content) as a high-risk merchant category that must be registered by the acquirer through the Mastercard Registration Program (MRP), thereby requiring the acquirer to verify such merchant's compliance with Mastercard Standards and applicable laws.
- As part of the merchant onboarding process, an acquirer must identify all third-party entities that provide services directly for the merchant involving access to cardholder data (such as customer relationship managers), and subsequently the acquirer must ensure that it registers these entities with Mastercard as appropriate.
- An acquirer must monitor authorization messages to identify occurrences when the same primary account number (PAN) is used across multiple high-risk negative option billing merchant IDs in its portfolio within a 60-calendar day period. When an acquirer identifies such a PAN, the acquirer must take reasonable steps to verify with each merchant that the sale represents a bona fide transaction between that merchant and the cardholder (such as by obtaining a copy of the email receipt that was provided to the cardholder). Any information associated with such verification must be retained for at least one year from the verification date and made available to Mastercard upon request.
- Acquirers must code any transactions arising from a high-risk negative option billing merchant with card acceptor business code (MCC) 5968 (Direct Marketing—Continuity/Subscription Merchants).
- The trial period must begin on the date that the product is received by the cardholder.
- For electronic commerce (e-commerce) transactions in a dual message environment, data element (DE) 43 (Card Acceptor Inquiry Information), subfield 1 (Card Acceptor Name) must include the website URL where the cardholder requested the product.
- For mail order or telephone order (MO/TO) transactions in a dual message environment, private data subelement (PDS) 0170 (Card Acceptor Inquiry Information), subfield 1 (Customer Service Phone Number) must contain the merchant's contact telephone number. The telephone number provided must be valid and accessible by all consumers worldwide.
- All subsequent recurring payment transactions at the same acquirer must be processed under the same merchant ID in DE 42 (Card Acceptor ID Code) and merchant name in DE 43, subfield 1 (Card Acceptor Name) that was used for the initial payment transaction.
- After the trial period for a product has ended, but before any additional payments are made by the cardholder, the merchant must provide the cardholder with the following information for which the cardholder's authorization will be requested, and the merchant must obtain the cardholder's explicit consent for the payment amount before initiating the authorization request:
 - The payment transaction amount
 - The payment date

Note:

Although this date is not permitted to change, the merchant may provide a secondary billing date in case the cardholder's account has insufficient funds, but only if this date is disclosed prior to obtaining consent.

- The merchant name as it will appear on the cardholder's statement
- Instructions for canceling the subscription at the cardholder's discretion
- Each time that the merchant attempts an authorization transaction, the merchant must send a receipt to the cardholder by email or other electronic means (such as a text message) that includes instructions on how to cancel the subscription service or recurring billing cycle. If a receipt is produced following an unsuccessful authorization transaction attempt, the receipt must indicate the reason for the decline response.
- An e-commerce high-risk negative option billing merchant must provide a direct link to an online cancellation procedure for recurring payment transactions on the website where the cardholder

made the initial purchase. In addition, the merchant's website must display a customer service phone number on the website maintenance page for periods during which the website is offline (such as for software updates, scheduled maintenance, or technical difficulties).

- The merchant must send written confirmation to the cardholder when the cardholder's trial period and/or high-risk negative option billing plan has been canceled.

In addition to the revised Standards provided in this announcement, Mastercard reminds acquirers that they can leverage existing Mastercard Standards to mitigate these high-risk merchants' deceptive practices as well. These Standards include, but are not limited to, Chapter 3 and Chapter 5 of the Transaction Processing Rules manual with regard to the requirements for properly conducting acceptance procedures and card-not-present transactions, respectively.

Revised Standards

To view marked revisions, refer to the attachment associated with this announcement. Additions are underlined; deletions are indicated with a strikethrough.

Questions?

Customers with questions about the information in this announcement should contact the Global Customer Service team using the contact information provided on the Technical Resource Center home page.