

VISA BUSINESS
A GLOBAL GUIDE TO
BEST PRACTICES
FOR RISK MANAGEMENT

September 1999

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VISA BUSINESS: A GLOBAL GUIDE TO BEST PRACTICES FOR RISK MANAGEMENT

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EXECUTIVE SUMMARY

Background

Advancements in risk management over the last decade have improved financial institutions' ability to profitably provide small business owners with credit facilities and payment products. As a result, the small business payments market presents a new, large, growing, and untapped market for Visa and its Members.

- **New.** Payment products for small businesses were first launched in the mid 1980's in the United States and are being introduced throughout the world.
- **Large.** In 1999, Visa expects that nearly US\$30 Billion will be spent on over 5 million Visa Business Cards world-wide.
- **Growing.** Transaction volumes on Visa Business cards have experienced annual growth of more than 35% per year over the last five years.
- **Untapped.** Visa estimates that only about 7% of the total payables opportunity for Small Business has been captured world-wide.

Visa Business: Market and Products

Visa Business is targeted to small businesses. Typically Members define their small business market as companies with less than US\$10 million in annual sales and fewer than 50 employees. Issuers leverage a variety of payment platforms throughout the world:

- Revolving Credit Cards
- Pay in Full Charge Cards and
- Check Cards

This guide focuses on Visa Business credit and charge card products.

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Testing, Screening

The importance of rigorously testing and screening new strategies and credit policies for different markets and customers cannot be overstated. While some policies will work well in one market, laws and regulations may make these policies impractical or even undesirable in another market. Additionally, Issuers have attracted distinct populations. As a result, policies that are appropriate for an Issuer around the corner from your bank may not be applicable for you. Furthermore, as markets change over time, policies and strategies will have to be revised. Accordingly, this guide is intended to provide you with policies and strategies that you should consider and test for inclusion. It is not intended to be prescriptive. Remember especially: this guide cannot and is not intended to provide legal advice. Before you put any strategy or policy in place, consult with your attorney to assure legal compliance.

Organization

Pulling from Members' experience throughout the world, this guide provides significant "best practices" – the strategies and techniques that can be used to better manage credit and fraud risk of Visa Business Programs throughout the world. Specifically this guide should provide Issuing Members with information that they can use to assess and manage the risk management practices of their Visa Business portfolios. The guide covers four key Risk Management areas:

- Acquisition
- Portfolio Management
- Operations
- Fraud

Additionally, a wide variety of risk management tools and data are provided throughout the world by third party vendors and Visa. These tools, and contact information for the vendors, are described in the appendices.

This Executive Summary provides some of the most critical best practices for Visa Business programs. More detail on these and other best practices can be found in the body of the guide.

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Best Practices Summary

Acquisition Risk Management

Balancing marketing growth imperatives with risk management concerns is a constant challenge for many Issuers. Carefully testing and implementing the tactics below can help Issuers not only grow the number of cards and volumes but can also help Issuers increase profits.

Issuance Strategies

- To identify the most profitable opportunities, continually track and test acquisition costs and account behavior (primarily utilization and losses) for a variety of combinations of:
 - Solicitation channels, including: branches, mail, and telemarketing
 - Offers, including: pre-approved, invitations to apply
 - Pricing, including: fees and APRs
 - Platforms, including: credit, charge and debit
 - Segments, including: low and high risk, bank and non-bank customers, in geographic foot-print or bank coverage or not
- Identify and solicit business within the consumer card portfolio for Visa Business cards.
- Limit information requested on applications to what is required for underwriting. Lengthy applications depress response rates.
- Solicit existing, qualified business customers first, followed by new prospects within geographic “footprint” to reduce credit risk and application fraud.
- Leverage existing bank sales channels (including existing branch network, relationship managers, and lending sales forces). Invite small business owners to apply for Visa Business Cards on applications for other bank products such as Business Demand Deposit Accounts, Leases, and Lines of Credit.

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- Decline applications from small businesses that have not been in business for at least two to three years to decrease risk exposure. Consider exceptions for existing high-value customers. Additionally, consider cross-selling a secured product or the Visa Business check card to declined applicants.

Credit Approval Process

- Base credit approval on the individual with the best credit risk in a partnership to increase card approval rates without significantly increasing risk.
- To improve response rates and reduce underwriting expenses, only require financial statements for line requests above a set threshold. Some issuers in markets with extensive credit bureau data and sophisticated scorecards do not require financial statements for credit lines less than US\$35,000.
- Obtain personal guarantees from principals or owners if unable to enforce joint and several liability. In some countries, joint and several liability does not apply to certain business structures.
- Develop and test a scorecard for decisioning Visa Business applications to promote consistency, improve processing, and reduce risk. Track the performance of your scorecard to enable reliance on it.
- Either disallow branch overrides or establish criteria and a process to limit branch overrides of declined Visa Business applications to a reasonable percentage. Require branches to be fully liable for losses from branch override accounts.

Credit Limit Assignment

- Request the desired credit line (and the allocation among employees) in the application.
- Develop a matrix to set credit limits as part of an automated, scorecard-based approval process. Consider a matrix of score versus a simple measure of ability-to-repay, such as net assets.

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- When applicants qualify for greater credit than they request, set a “shadow limit” that can be readily accessed to fulfill future line increase requests.
- Set a separate, smaller cash limit for Visa Business cards to reduce credit risk.

Account Customization

- Allow businesses to determine which cardholders receive cash, ATM, and convenience check access to help limit businesses’ risk exposure.
- Make your authorization and billing systems consider quasi-cash transactions (such as casino transactions) as cash to reduce risk and enhance finance charge revenue.
- Emboss cardholder and company name on cards to limit fraud and abuse. Additionally, company names on cards increases cardholder satisfaction.

Application Fraud Screening

- Implement effective application fraud screening practices. For example, compare application data with Bank customer data and credit bureau reports. In markets with limited bureau information collect and verify supplier references. Ensure that the process is well suited to high-volume processing.
- Decline direct-mail applications that have been substantially altered or submitted by other than the intended party.
- Develop a “closed-loop” feedback process to identify characteristics of fraudulent applications. Provide information to the credit processing group to assist in developing preventative measures.

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Portfolio Risk Management

Many Visa Business Issuers have not established effective authorization and credit limit parameters. Additionally, many Visa Business Issuers do not proactively review Visa Business portfolios. As a result, there is an opportunity for Issuers to improve their profitability and prevent losses.

Authorization Strategies

- Establish effective authorization matching and hold policies, balancing customer service and risk requirements. The policies should consider the number of days between authorization and transaction posting in your market and provide an authorization tolerance amount for T&E transactions.
- Monitor and track authorizations system performance including: authorization response rates, declines by reason, and system up-time percentage compared to a standard.
- Evaluate whether Visa Positive Cardholder Authorization Service (PCAS) Issuer limits that allow stand-in for low dollar authorization requests during normal processing are set at appropriate levels.

Credit Line Management

- At a minimum, consider time-on-books and delinquency history to assign and manage overlimit “pads” (the percentage by which Issuers allow cardholders to exceed their stated credit limit). Longer term, establish overlimit pads based on transaction and account risk.
- Establish delinquency declines based on transaction and account risk.

Credit Limit Increases

- Develop and test an ongoing program to increase the credit lines of small business customers who merit a credit extension.
- Require line increase requests to be submitted in writing from authorized officers.

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- Within guidelines and rules, allow Customer Service representatives to:
 - Automatically approve line increases within “shadow limits” (described above)
 - Reallocate existing credit limits among the cardholders in a company
 - Grant temporary, emergency line increases within guidelines

Ongoing Risk Assessment

- Develop an ongoing, formal periodic review process to identify accounts that have become high risk. Take action to limit the risk from these accounts, such as eliminating overlimit pads, reducing credit lines, decreasing shadow limits, and closing very high-risk accounts, while abiding by all applicable laws, such as providing cardholders with sufficient warning.
- Focus retention efforts on the most profitable customers.

Collections and Recovery

- Establish collections strategies based on risk scores or high-risk account characteristics to make effective use of collector resources.
- Offer cardholders special payment plans, re-age policies, and settlements. These programs provide cardholders with an incentive to pay or a feasible plan.
- In addition to normal business hours, staff collections on evenings and weekends when contact rates and collections effectiveness may improve, abiding by applicable laws.
- Report business owners and account guarantors to consumer and commercial credit bureaus to increase collections leverage, abiding by applicable laws.
- Review overlimit and delinquent accounts with continued activity to identify credit abuse. Block accounts where warranted and review transactions for potential chargeback rights.

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- Immediately assign difficult accounts to agencies and attempt collections internally on other accounts for a limited timeframe prior to agency assignment, abiding by applicable laws.
- Review new chargeoffs and, based on account history, assign to recovery.
- Conduct silent monitoring of Visa Business collections staff to assure quality.
- Establish adequate reporting to monitor collection agency performance, including key metrics such as number and balances of accounts assigned, recoveries received, and recovery percentage.
- Ensure that payment processing systems correctly age accounts that have payments returned for insufficient funds. Some Issuers' systems do not reflect returned payments when determining account delinquency status, which significantly increases risk.

Operations Management

Visa Business Issuers have transferred many of the lessons learned from the consumer card operations management to their business portfolios. A few opportunities exist to build on the existing practices.

Cardholder Statements and Disputes

- Ensure that accounts are distributed throughout all billing cycles to smooth the work required to distribute statements, respond to customer inquiries, and perform collections efforts.
- Implement a process to clarify transaction details for cardholders and prevent disputes, and hence improve customer service and reduce operational expenses.
- To offset operational costs and deter excessive draft requests, consider charging cardholders a small research fee for draft requests when the cardholder was responsible for the charge.

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Fraud Management

Fraud losses are typically lower than credit losses, with fraud ranging among Visa's regions from 5% to 35% of total losses. Lost and stolen cards represent the largest fraud types. Not received cards and counterfeit are the other most significant types of net fraud loss.

Fraud Prevention

- Include a message and a toll-free telephone number on the front of statements for cardholders to immediately report lost or stolen cards.
- Use Visa's Card Verification Value (CVV); do not approve authorization requests with incorrect CVVs.
- Ensure that CVV2 is printed on the signature panel of all newly issued Visa Business cards. Verify CVV2 on telephone and key-entered authorizations when supplied by the Acquirer.
- Evaluate the use of card activation to reduce losses. Avoid over-reliance on card activation in markets with low authorization rates.
- Use a three to four year card issuance period to decrease distribution risk and card issuance expense. Use a shorter issuance period in markets with low authorization rates, if it is difficult or expensive to stop transactions on closed or blocked accounts.
- Mix non-plastic and plastic envelopes to reduce mail theft from the postal service. Strive for at least 10 (preferably 25) non-card envelopes that are similar in size and color for every plastic envelope.
- Systematically flag requests for replacement plastic or PINs. Perform additional cardholder verification if the address has been changed within the past 60 to 90 days.
- Allow individual cardholder address changes, plastic replacements, or PIN requests to be made over the telephone provided that key information about the business, the individual, and recent transaction activity can be confirmed.
- Provide customers with the ability to call and report a lost or stolen card 24 hours per day.

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- If you use a Voice Response Unit (VRU), establish lost or stolen reporting as a primary menu selection to expedite reporting and account blocking. Set lost or stolen calls as the highest priority to minimize cardholders' wait time.
- Monitor the call abandonment rates and average wait times of groups that take lost or stolen calls. Take corrective action as necessary.

Fraud Detection: Systems and Reporting

- Use real-time or near real-time fraud detection systems such as Visa's CRIS service; Experian's Hunter system; Fair, Isaac and Company's Fraud Intercept system; HNC Financial Solution's Falcon system; or Nestor/ACI Worldwide's PRISM system to provide the earliest possible detection of fraud.
- Review fraud detection reports during evening and weekend hours, in addition to normal business hours. Some Issuers utilize after-hours customer service personnel to review the highest-risk accounts when it is not feasible to expand fraud detection group work hours.
- Decline or refer authorizations that fraud detection models indicate have a high probability of being fraudulent.
- Block accounts for referral or decline when unable to reach cardholders in highly suspicious cases.
- Develop specialized exception reports to identify high-risk transactions that are not addressed by authorization-based fraud detection systems or reports. For example, monitor excessive posted activity that lacks an authorization code or is likely to be below applicable floor limits.

Fraud Detection: Payment Review

- Place extended authorization holds on foreign checks submitted for payment to ensure that funds clear.
- Place one-to-two day authorization holds on large-amount domestic checks made for payment to selected accounts. Limit the authorization hold to large payments on newer accounts that present fraudulent application risk.

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Fraud Case Management and Loss Recovery

- Reassign fraudulent transactions to cardholder accounts if the cardholder does not provide an affidavit or other written documentation stating that the charges were not made by the cardholder or authorized user.
- Establish transaction amount thresholds above which all fraud drafts will be requested with the exception of transactions where drafts are not required for chargeback rights, such as mail or telephone order and automated fuel dispenser transactions.
- Track and report fraud losses, loss rates, and recoveries as a percentage of initial fraud set-up to monitor performance and identify potential operational issues.

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BEST PRACTICES

Helping Members Manage Risk

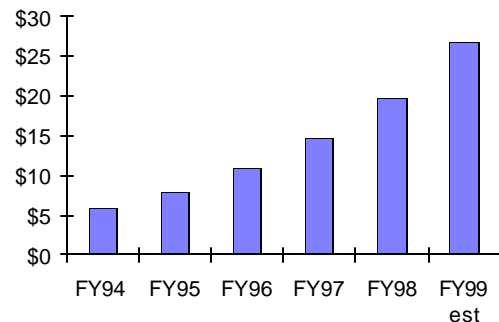
The Global Guide to Best Practices for Risk Management is the result of a study of Visa Business credit and charge card risk management practices. Visa International commissioned the study in response to Member requests to identify strategies and techniques for Issuers to better manage credit and fraud risk.

Visa Business, which is frequently the Members' largest and most profitable commercial card product, provides Members with a valuable source of new volume and profit growth. Visa Business volumes have been increasing by 35 percent per year worldwide. (Please see chart.)

It is intended that this guide enhance your ability as Issuers to develop and effectively manage your Visa Business charge and credit card portfolios.

The developers of this guide realize that risk management panaceas do not exist across borders or even across Issuers. The importance of rigorously testing new strategies and credit policies for different markets and customers cannot be overstated. For example, while some policies work well in one market, laws and regulations may make these policies impractical or even undesirable in another market. Additionally, Issuers have attracted distinct populations. As a result, policies that are appropriate for an Issuer doing business around the corner from your premises may not be applicable for you. Furthermore, as markets change over time, policies and strategies will have to be revised. Accordingly, this guide is intended to provide you with policies and strategies that you should consider and test for inclusion; it is not intended to be prescriptive. Remember especially: this guide cannot and is not intended to provide legal advice. Before you put any strategy or policy in place, consult with your attorney.

**World-Wide Visa Business
Volume Growth
(US\$ Billions)**



BEST PRACTICES

Study Overview

The study of Visa Business credit and charge card Issuers' risk management practices throughout the world was conducted by Visa International and Risk Management Consulting. The study results are based primarily on in-depth reviews of operating approaches of seven Visa Business Issuers in five Regions outside the U.S. from April through June 1999. Also reflected in the study are best practices recently identified through reviews of over a dozen U.S. Visa programs from 1995 to 1999. In total, RMC has conducted over 30 assessments of Visa Business programs world-wide and over 60 risk reviews of consumer programs.

The study focused on risk management and operational "best" practices used by Visa Business Issuers to reduce risk, improve customer service, decrease operating costs, and increase program profitability. On-site reviews of each study participant were performed to assess risk management practices.

One of the major challenges Visa Business Issuers face is balancing the control of credit and fraud risk with marketing growth objectives. As discussed in this study, however, excellent risk management practices can be incorporated into successful marketing efforts and operations to enhance profitability.

Guide Topics

Pulling from Members' experience throughout the world, this guide provides significant "best practices" – the strategies and techniques that can be used to better manage credit and fraud risk of Visa Business Programs throughout the world. Specifically this guide should provide Issuing Members with information that they can use to assess and manage their risk management practices of their Visa Business portfolios. The guide covers four key Risk Management areas:

- Acquisition
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information for the vendors, are described in the appendices. Visa makes no representations nor warranties for any of the companies or services provided by Information Service vendors mentioned in this guide.

Benefits of Using this Guide

The Visa Business Global Guide to Best Practices for Risk Management is grounded in “real world” experience of Issuers of the Visa Business credit and charge card. The guide should be useful to all Visa Business Issuers, regardless of their stage in the product life cycle.

- Existing Visa Business Issuers can examine advanced strategies and techniques that can be used on an ongoing basis to reduce risk exposure and improve profitability as portfolios continue to grow.
- New Visa Business Issuers can learn about assisting young programs in establishing sound operating practices at the outset. Controlling risk in the early stages of a program is critical to setting the foundation for future growth.
- Financial institutions considering a Visa Business program will find the guide useful for identifying the key risk issues that must be addressed, together with organizational approaches and operational practices that can be used to effectively manage Visa Business risk.

Visa Business offers many new challenges and opportunities for Visa Members, even those with seasoned consumer card portfolios or significant commercial banking experience. Controlling risk is key to successfully managing a Visa Business program. This Global Guide to Best Practices for Risk Management will assist current and prospective Issuers in achieving that success.

Study Participant Characteristics

The participants in the Visa Business Risk Assessment studies were Visa Business credit and charge card Issuers located throughout the world and ranging in size from 10,000 to 80,000 cards outstanding. Their programs had the following characteristics:

- Located throughout Visa’s Regions
 - Asia-Pacific (A-P)

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- Central Europe, Middle East, and Africa (CEMEA)
- European Union (EU)
- Latin America and Caribbean (LAC)
- United States (USA)
- Doing business in markets with varying operating characteristics
 - Transaction authorization rate ranged from 70 to more than 95 percent.
 - Some markets had credit bureaus with extensive commercial and personal databases, while other markets had no credit bureau information.
 - Some markets allowed prescreening of bureau information; others did not.
 - Several Issuers had Visa Business programs that were 30-day pay-in-full charge cards; others were revolving credit.

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Acquisition Risk Management

Issuance Strategies

Visa Business Issuers employ a variety of tactics to acquire new customers and broaden existing customer relationships. There is an opportunity for many Issuers to increase their issuance and acquisition effectiveness. However, careful consideration of issuance tactics should be given to prevent significantly increasing risk exposure or operational expense.

Visa Business Acquisition Tactics

Visa Business Acquisition tactics used throughout the world include:

- Take-One Applications
 - Applications can be displayed in branches and distributed by lending officers or direct sales forces.
- Direct Marketing
 - “Invitation-to-apply” campaigns can range in scope from limited offers to Bank customers to national solicitations sent via direct mail or through customer lists provided to branch lending officers.
 - Pre-approved campaigns are limited primarily to Bank customers. More experienced Issuers have extended this strategy to non-customers and priced for risk.
- Telemarketing
 - Issuers in the U.S. leverage both in-bound and outbound telemarketing; in non-U.S. markets, there is limited testing of out-bound telemarketing.

Best Practices — Product Definition

- Ensure that the Visa Business product offering is appropriate for the target market and best meets the market’s needs.
 - Many of the Issuers with charge card programs had profitable consumer card programs with revolving credit, which may be an

indication of the receptiveness of small businesses to a revolving card product.

- Keeping in mind the geographic market characteristics, test a revolving Visa Business card to assess its profitability relative to the pay-in-full charge card product if your program is currently charge card-only.
 - Some businesses desire the ability to revolve and pay over time, which increases finance charge income to the Bank and assists in improving product profitability for Visa Business Issuers.
- Target Visa Business card marketing strategies toward smaller businesses.
 - Smaller businesses are the primary target for Visa Business worldwide and can be a highly profitable segment of the overall portfolio.
 - Larger corporate accounts within the business portfolio can be segregated into a separate Visa Corporate card product.

Best Practices — Issuance Strategies

- Fully utilize existing bank sales channels to target business customers. Make use of the existing branch network, relationship managers, and lending sales forces.
 - Utilize subsidiary companies to generate new account referrals — as was done by one Issuer in the study.
 - Cross-sell Visa Business at the time of any other business application.
 - Provide incentives to branches and sales officers based on approved applications. This helps improve the credit quality of the applicant pool.
 - Have sales officers identify candidates for Visa Business card solicitations and have them sign offer letters that go to customers to improve response rates.

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- Consider marketing a Visa Business Debit card to existing customers who do not meet credit criteria for the Visa Business card.
- Have the credit risk management function work jointly with marketing to establish and continually test policies to guide all marketing efforts.
 - Develop and continually test policies to specify:
 - * Minimum credit scores and unacceptable derogatory data on consumer credit bureau reports
 - * Minimum scores and unacceptable derogatory data on commercial credit reports
 - * Geographic restrictions
 - * Years-in-business criteria
 - * Restrictions regarding high-risk unacceptable types of businesses as identified by the Standard Industry Code (SIC)
 - * Guidelines for use of business credit reports and minimum acceptable financial or credit risk scores
 - Review approval rates and track decline reasons.
 - Analyze line assignment rates.
 - Discuss policies or objectives and how they can be rigorously tested.
 - * Additionally, identify tactics to test new, and currently identified as risky, segments.
 - * Note that risk and marketing need to work together to evaluate not only response and loss rates, but also profit per segment solicited.
- Use performance-based pricing to increase finance charges for accounts in early stages of collections. This tactic can encourage payment and offset losses and the cost to collect these accounts.

- Obtain the “right of set-off” or a security interest in deposits when extending offers to your own customers.
 - Include the right of set-off clause in the application or cardholder agreement.
 - The right of set-off is a valuable tool in assisting collections and recovery efforts.
- Develop and refine data mining to identify the most profitable characteristics of small business accounts for Visa Business. This information can be used to refine marketing and solicitation strategies.
- Conduct data analyses to identify business owners within the consumer portfolio to extend offers for the Visa Business card.
 - Match consumer portfolios to business databases to identify potential candidates.
 - Identify business owners through purchase patterns indicative of small businesses, such as copy shops and office supply stores.
- Implement credit loss tracking by source and segment to assist in evaluating risk performance of solicitations and various sales channels, including:
 - Direct-mail campaigns
 - Branches
 - Small business sales force
 - Merchant sales force
 - Lending officers
- Implement a branch incentive program for the Visa Business card.
 - Branch incentive programs with proper controls are an excellent method to acquire new accounts.
 - The Visa Commercial Card Products Financial Planner can help in evaluating how different acquisition methods impact program profitability.

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- For smaller programs, require a branch or relationship manager and the credit administration function to sign off on all Visa Business chargeoffs approved by the lending officer. This is an excellent technique to increase loss awareness and accountability for programs utilizing judgmental lending.

Best Practices – Application Process

- Request personal data of business employees in the application process to assist Customer Service in verifying cardholder identity and for card activation. Obtain data such as date of birth, mother’s maiden name, and national identification number.
- Avoid requesting financial information in application process that is not reviewed or does not factor into decisioning or modeling processes. Requesting unnecessary information can discourage applicants, reducing response rates.
- If personal guarantees are required, clearly indicate this on application. Failure to do so can hinder collections efforts.
- Request the applicant’s type of business on the Visa Business application.

Best Practices — Solicitations

- Modify Bank policy in cases where central Card Operations are required to receive branch approval before soliciting bank customers for Visa Business cards. Modifying this policy may create profitable opportunities and can significantly increase new account growth.
- Test all value propositions against a control product to understand the profitability dynamics in your market.
 - To assure accurate and readable results when testing, change only one variable (segment, offer, enhancements) per marketing cell within any one campaign.
 - Pilot new programs before roll-out to provide reasonable forecasts. Accurate response and approval rates may be particularly important when working with a co-branding partner or when soliciting existing bank or partner customers whose relationships could be jeopardized.

- Leverage a database management tool to identify the best customers and assist in identifying and quantifying top prospects.
 - Consider using the D&B/Visa Business Market Spectrum Program.
 - Alternatively, use internal data mining software to identify prospects with the highest expected profitability.
- Market to existing business customers first, followed by new prospects within geographic “footprints” or banking coverage.
 - Cross-selling to existing, qualified customers is likely to generate the highest response rates and can reduce both credit risk and application fraud risk.
 - Risk is lowered because existing customers provide more data to verify their identity and creditworthiness. In addition, customers with deposit relationships tend to be lower credit risks than prospects with comparable risk scores.
 - Customers with multiple products tend to be more loyal.
 - Use adequate screening criteria to minimize declines of bank customers.
 - Use a counteroffer with a lower-risk product, such as a Visa Business debit card for existing customers who fail to qualify for business credit or charge card.
- Consider an “invitation-to-apply” or “prequalified” offer using business data only (credit and demographics).
 - This strategy may avoid legal restrictions against using consumer data in a prescreen environment in some markets.
 - Perform thorough back-end application process screening.
 - Exercise caution when offering invitations to apply to existing customers as declining them may jeopardize the whole relationship.

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- Use sound editing criteria to screen out higher risk names, addresses, and merchant SIC categories in direct-mail lists. Visa Business Issuers performed some or all of the following editing steps:
 - Excluding bank customers with a history of delinquency.
 - Eliminating inappropriate names, such as “bankruptcy” or “trustee.”
 - Considering prospects with post office boxes only if the residential addresses of the principal(s) can be verified against consumer credit bureau information.
- While risk exposure is reduced by excluding high risk merchant SIC categories, avoid excluding a large number of merchant categories to avoid significantly decreasing the potential market.
 - For example, one Issuer excluded all retail, travel and entertainment, contractors, and personal services businesses, substantially reducing the scope of the target market.
 - By contrast, an Issuer identified through testing merchant SIC categories that resulted in high response rates, low approval rates, and higher than average risk. They prudently excluded them from future campaigns.
- Avoid excluding home-based businesses from solicitations.
 - Home-based businesses may offer a significant number of profitable opportunities.
 - Home office workers represent a sizable market that is one of the fastest growing segments of the small business market in many parts of the world.
- Consider requiring small businesses be in business for two to three years before being solicited for a card to significantly improve approval rates and decrease risk exposure. Consider making exceptions if an alternate product is available for this riskier segment or if they are existing customers.
- Schedule solicitation mailings to minimize operational backlogs. Be sure to stagger large mailings to ensure that responses do not exceed the capacity to process them.

- Establish appropriate levels of due diligence, risk controls, compliance checking, and back-end verifications when third-party telemarketing sources are used to solicit Visa Business customers.
- Note that using external telemarketing firms is a cost-efficient approach used by many Issuers but can increase risk exposure and require more diligence on the part of the Issuer to mitigate increased risk exposure.
- Test solicitation channels and segments to determine which are the most profitable based on response rate, approval rate, and account behavior.

- Consider a variety of solicitation methods:
 - * Preapproved solicitation to Bank customers identified by business sales officers
 - * Invitations-to-apply to Bank customers with business checking accounts
 - * Invitations-to-apply to banking customers, commercial card customers, and business prospects within the Issuer’s “footprint” or bank coverage
 - * Invitations-to-apply to non-bank customers, both within and outside of the “footprint”
 - * Outbound telemarketing
 - * Preapproved up-to offers and post-screening with a scorecard
- Use masterfile information for Bank exclusive offers and segmentation.
- Consider conducting non-responder interviews to learn how to improve future mailings.
- Track the following measures by account source and segment for Visa Business solicitations:
 - Response
 - Approval
 - Marketing expense
 - Underwriting (or credit review) expense
 - Activation
 - Line utilization
 - Delinquency
 - Loss
 - Retention
 - Profitability

Best Practices – Solicitations in Environment with Extensive Credit Bureau Data

- Use predictive marketing tools to optimize solicitation response and approval rates and reduce costs.
 - Visa offers a pooled response model in the U.S. Region to identify prospects most likely to respond to an offer. To limit adverse selection, the model should be used in conjunction with a credit model or score cutoffs.
 - Using custom response models is also extremely helpful in predicting responses to future campaigns.
- To reduce costs and assist the credit review process, “scrub” Visa Business solicitation files and append business credit data.
 - Append business data and scores when available for large solicitations to reduce risk exposure, adding company level information such as:
 - * Annual sales and/or number of employees
 - * SIC code
 - * Year in business and/or management control date
 - * Open suit, lien, judgment, or bankruptcy indicator
 - Eliminate duplicates in the file.
 - Make sure addresses are complete.
 - Ensure that offers are not duplicated with other concurrent offers.
 - Utilize services to update addresses if marketing to a less active file.

Credit Approval Process

Visa Business Issuers who participated in the study generally used conservative lending criteria and practices. Their approaches to organizing the credit function ranged from dedicating a small number of specific lenders to using central lending operations centers for decisioning a variety of applications. Issuers

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differed in approaches for assessing creditworthiness of the business versus the company guarantors.

Best Practices

- Allow existing customers with credit facilities to reallocate an unused portion to Visa Business if desired, thereby providing excellent customer service.
- Pursue sharing delinquency information with other banks to assist in approving Visa Business card applications when credit bureau data is not available.
- Base credit approval on the individual with the best credit risk in a partnership to increase card approval rates without significantly increasing risk.
 - Ensure that the partner signing the application is liable for his/her own card as well as the debt of the entire company.
 - Ensure that a process is in place to re-underwrite the loan in the event the partner leaves the company.
- To improve response rates and reduce credit processing expense, establish a credit limit below which the Bank will not require financial statements. For example, Issuers in markets with extensive credit bureau data may not require financial statements for credit lines less than US\$35,000.
- Establish clear and consistent lending guidelines that reduce risk exposure for the Visa Business program. Consider the following:
 - Establish a minimum number of years in business, such as two years, or at most three years.
 - Test performance of using fewer years in business as an approval criteria.
 - Consider approving accounts based upon length of time in a related business for otherwise low credit risks.
 - Ensure the Visa Business credit policies clearly specify excluded merchant SIC types, if any.

- Decline applicants with severe derogatory credit information, such as bankruptcy, tax liens, judgments, chargeoffs, and significant delinquencies.
- Evaluate banking relationship, if applicable.
- Note whether principal(s) or primary guarantor(s) have a consumer credit bureau score that exceeds a minimum standard.
- Set a limit of personal revolving debt of no more than a set percentage of annual income.
- Require principals or owners of the business to guarantee the account and clearly state this on the Visa Business application.
 - Rely on the credit of the business, as well as the principals listed on the application, to approve the Visa Business application.
 - Hold the company's principals listed on the application, as well as the company itself, individually and jointly liable (joint and several liability) for any charges on the account.
 - Joint and several liability is a critical element to reduce Visa Business portfolio credit risk because it enables collection efforts to be pursued against the business principals in addition to the business itself.
- Obtain personal guarantees if unable to enforce joint and several liability. In some countries, joint and several liability does not apply to certain business structures.
- Ask applicants to supply the number of other credit cards already held in the name of the business since in most cases information about these relationships will not be available.
 - Many countries lack commercial credit bureaus that would include this information.
 - Many Issuers do not report to commercial credit bureaus when available. Hence, requesting applicants to self-report may aid in credit review and line assignment.

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- Ensure that underwriting criteria and documentation requirements are established for the Visa Business program. These guidelines should be formally documented as Visa Business credit policies.
- Use a scorecard for decisioning Visa Business applications to promote consistency, improve processing efficiency and capacity, and reduce risk.
 - In environments with extensive credit bureau databases, scorecards rely on application data, consumer credit reports for up to two principals, and a business credit report.
 - Scorecards in other environments rely on application data and other relationships with the Bank.
 - Utilizing a scorecard-based lending system should increase an Issuer's capacity to process applications in a timely manner.
 - Scorecard-based credit processing promotes consistency in credit decisioning and enables the Bank to quantitatively re-evaluate credit criteria.
- Minimize “gray area” decisions, or use of judgmental lending, when using scorecards to:
 - Optimize the scoring model
 - Facilitate evaluation of model effectiveness
 - Optimize gains in processing efficiency
- Track commercial credit analyst delinquency and credit loss performance.
- For judgmental lending, track the delinquency and loss performance of accounts approved in the past 36 months.
- Implement a cost-effective approach toward processing Visa Business applications. For example, check for application or bank relationship data that would result in declining the application without incurring the cost of obtaining credit bureau reports.
- Require applicants to meet additional business-related criteria for higher lines of credit to reduce risk exposure.

- One Issuer required company financial statements for at least two years for credit lines of US\$35,000 or greater.

- Lenders also review business financial ratios as well as the credit worthiness of the guarantors. Factors included:
 - * Profitable results over past three years
 - * Debt leverage and coverage
 - * Current ratio standard
 - * Receivables and payables within acceptable tolerances of terms
- Request additional information and require more scrutiny for higher credit lines. For example, one Issuer collected and verified supplier references to help ensure the legitimacy of the business and identify companies with poor payment histories.
- Establish a central group to decision all or nearly all Visa Business applications. Decisioning applications centrally assists in:
 - Making consistent decisions
 - Gaining processing efficiencies
 - Adjusting policies
 - Monitoring compliance with Bank credit policies
- Track the performance of scorecards to better understand their predictiveness; this enables reliance on scorecards as the primary decision tool.
 - Ask scorecard vendors for suggested tracking and monitoring procedures.
 - Review performance and identify areas where opportunities are being lost and restrictions can be removed without negatively impacting profitability.
- Perform a back-end verification of critical information provided on applications.
 - Verify address, telephone number, and business name are accurate and match information on the credit bureau.

- Note that without automated techniques, this back-end verification can be a time-consuming manual process.
- Compare incoming respondent data to the solicitation files to determine whether the applicants were actually solicited.
- Either disallow branch overrides or establish criteria and a process to limit branch overrides of declined Visa Business applications to a reasonable percentage.
 - Allow branch managers to override a scoring system decline, but require approval from a senior officer.
 - Implement reporting to track number of override approvals compared with total applications at the branch level to identify branches with excessive overrides.
 - For example, an Issuer limited decline overrides to:
 - * no more than 5 percent of applications rejected by the model and
 - * less than 5 percent of the total approved applications.
 - Restrict branches with excessive overrides from continuing to provide them.
 - Track losses and loss rates on all overrides.
- Require branches to be fully liable for losses that occur as a result of branch overrides of credit decline decisions.
- Avoid providing incentives to lending officers making approval decisions, unless officers are held accountable for losses.
- Require loan administration or senior credit officer sign-off on all judgmentally approved Visa Business applications.
- Conduct a monthly review of a sample of judgmentally approved applications for compliance with Bank credit policies.
- Track delinquencies and losses by vintage, which is a good practice to assist in determining the level of risk of different approval criteria used over time.

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Credit Limit Assignment

Visa Business Issuers frequently use a judgmental process for setting credit limits, while some utilize score matrices. Many of the Issuers expressed a desire to utilize a score or credit criteria matrix to set credit lines. Their practices in setting company limits and assigning shadow limits varied significantly.

Best Practices

- Design the Visa Business application to request the credit line desired by business customers.
- Have business owners select desired employee limits.
 - Businesses may prefer lower lines than the amount for which they qualify. Assigning the preferred lower amount helps limit contingent liability.
 - Asking applicants to indicate desired line also enables Issuers to identify customer service issues up front when applicants want lines greater than the amount for which they qualify.
- Establish a credit line assignment process that considers the ability to repay as well as credit risk factors.
 - Consider personal income and assets of the guarantors in determining whether a business is qualified for the requested credit limit.
 - One Issuer used an asset-based formula to assign credit lines that considers the amount of various personal assets, however, the Issuer would like to move to a credit limit assignment matrix based on income and risk score.
 - Another Issuer used years in business as a factor to determine the amount of the credit limit — limiting the line assignments of businesses with less than two years in business.
 - Avoid requesting too much data on the application. Lengthy applications depress response rates.
- Make counteroffers to applicants who do not qualify for the credit limit they request.

- One Issuer would call bank customers who did not qualify and offer them a lower credit limit to retain customer relationships. In some cases the Issuer would offer a limit with security attached.
- Develop matrix criteria to set credit limits as part of an automated, scorecard-based approval. Consider a matrix of score versus simple measure of ability-to-repay, such as net assets.
- Do not assign a higher credit limit than requested, even though the applicant may qualify for a higher limit.
 - This practice helps limit contingent liability, but note that it may limit growth in outstandings and finance charge revenue.
- Assign a company credit line less than or equal to the sum of the individual cardholder credit limits to avoid confusion over individual cardholder open-to-buy.
 - Some Issuers did not follow this practice and assigned the full company limit to individual cardholders. One cardholder could use up to the full availability, resulting in other cardholders being declined at levels well below their individual limits.
- Attempt to set a “shadow limit” that exceeds the desired credit line, if the applicant qualifies.
 - Qualifying a company for a higher line than requested also allows a cardholder to be added without additional underwriting.
 - Over-approving the credit line allows Customer Service flexibility in quickly approving line increase requests.
- Establish a separate, smaller cash limit for Visa Business cards. This serves to reduce credit risk.
 - Cash typically represents a disproportionately higher percentage of losses than purchases.
 - Issuers with reduced limits typically established cash credit limits at 25 to 50 percent of the overall credit limit, which is a sound measure to reduce risk.

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- Restricting cash access can reduce credit risk, but can also limit cash advance finance charge income.
- Ensure that the option to specify cash limits or restrictions is clearly indicated on the application.
- Consider charging a higher interest rate for cash transactions than for purchases to reflect the higher risk.

Account Customization

Account customization practices varied widely among Visa Business Issuers. Issuers offered a variety of options to their business customers, including features such as cash access restrictions, reduced cash limits, and non-revolving card products. Also, Issuers' practices to control risk from credit card cash and convenience check access varied widely.

Best Practices

- Allow the business to select which cardholders should receive cash, ATM and convenience check access. This is an excellent way to assist a company in limiting its risk exposure.
 - Offer cash and ATM access restrictions to Visa Business customers at the individual cardholder level.
 - Provide the option on the application to not allow cash for specified cardholders.
 - Consider the observed best practice of providing a check-box for ATM/cash access for each cardholder on the application.
 - Cash transactions can be highly profitable and can also be a leading indicator of risk. Visa studies have shown consumer credit card accounts that are charged off for credit reasons are eight times more likely to access cash in the 12 months prior to chargeoff than "good" accounts.
- As a customer service benefit to the business, contact newly approved accounts with three or more cards that did not specify any cash restrictions to see if they wish to do so.

- Ensure that authorization and billing systems consider quasi-cash as cash; this is a good approach to control risk exposure and to enhance finance charge revenue.

- Limit convenience check issuance to lower risk customers and carefully monitor the use of checks because of the higher-risk nature of checks.
 - Convenience checks can generate significant finance charge and fee revenue.
 - Like cash, convenience checks present the opportunity for higher risk and higher finance revenues. In a recent study of Visa Members' consumer card portfolios, convenience checks comprised nearly 22 percent of credit losses and carried nearly twice the risk of other transactions.
 - Visa Business Issuers may wish to consider another option of selling the business owner a line of credit for larger revolving purchases accessible by check or card.
- Emboss all cards with the cardholder and company name. Cards embossed with a company name but no individual's name have a higher risk of fraud and abuse.

Application Fraud Screening

Most of the Visa Business Issuers had implemented application screening procedures for fraud. Notably, however, several Issuers with well-designed detection processes failed to prevent a number of fraudulent applications. Suspicious applications were identified, but they were not thoroughly investigated and were subsequently approved. In addition, Issuers struggled with integrating internal fraud database screening into their Visa Business application processing, which increased fraud risk exposure.

Best Practices

- Collect and verify supplier references for Visa Business applicants to reduce credit and fraud application risk for requested high credit limits and markets with limited consumer or commercial bureau data. By verifying supplier references, Issuers can help ensure the legitimacy of the business and identify companies that have a poor payment history.
- Match the name, address, and company information on the application from bank clients with information on existing Bank customers to identify discrepancies.

- Do not accept direct-mail application responses that have been substantially altered or submitted by other than the intended party.
 - Do not accept changes in company names.
 - Out-sort address changes for review to verify whether the applicant is the intended party.
 - Accept minor corrections to address or company names after independent verification.
- Implement application fraud screening to include practices that reduce risk. Ensure that the process is well suited to high-volume processing and is performed on all applications, regardless of source.
 - Review physical applications for suspicious handwriting characteristics.
 - Check for mismatches between occupations and salary and other suspicious characteristics related to housing status, age, and assets.
 - Verify application data with names and addresses shown on credit bureau reports, if available.
 - Verify the person that signed the application is listed as an authorized signatory on a commercial credit bureau report, if available.
 - Screen applications against an integrated commercial and retail fraud file in addition to a separate commercial fraud database.
 - Review credit bureau fraud alerts.
 - Screen for fraud using third-party databases.
 - Verify addresses and phone numbers.
- Develop training materials for application fraud screening and provide them to the credit processing group.
 - Compare the information on the credit bureau with the information on the application to ensure consistency. Conduct further investigation for mismatches.

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- Investigate and resolve credit bureau fraud alerts.
- Review fraudulent applications and other fraud cases with other lenders to assist in screening out similar applications in the future.
- Develop a thorough investigation process for applications that have been identified as “suspicious,” including developing policies to review fraud alerts and actions that must be taken to determine whether the application is legitimate or fraudulent.
- Develop a “closed-loop” feedback process to evaluate and provide characteristics of fraudulent application cases to the credit processing group to assist in developing preventative measures.
- Meet at least monthly to review recent fraudulent application activity and fraud trends and patterns.

Portfolio Risk Management

Authorization Strategies

Visa Business Issuers have had limited focus on the authorizations process. Some Issuers had several misconceptions about the process; others were unaware of key authorizations parameters. In many cases, authorizations parameters that had been established for the consumer credit side years ago were simply followed by the business card operations without modification.

Best Practices – Host Processing

- Approve authorizations based on the smaller of the card or billing account available balance to avoid exceeding the credit limit.
 - For central billed accounts, individual balances are transferred at cycle end to the billing account and receive full availability. If the billing account available balance were not considered, individual cardholders could spend up to twice their limit, even if no payment were made to the central account.
 - Some Issuers accounted for system inability to authorize based on the billing account balance by underwriting accounts for twice the nominal credit limit.
- Differentiate authorization referral criteria by merchant category.
 - Establish lower referral amount thresholds for higher-risk categories such as electronic goods and cash.
 - Establish referral amounts based upon fraud experience compared with legitimate transactions.
 - In the longer term, use real-time fraud scoring for authorization referral decisions.
- Do not allow cardholders to be approved for a single transaction greater than the credit limit to reduce risk exposure from payment checks that subsequently are dishonored.
 - Consider establishing a maximum single cash and single purchase limit no greater than the credit limit.

- Alternatively, modify the authorization system to exclude credit balances in calculating the open-to-buy.
- Only use authorization referrals when it is necessary to speak to the cardholder. Furthermore, do not refer transactions that have a very high likelihood of being declined.
 - Referral calls placed by merchants typically cost US\$5 to US\$15 in fees and processing expense. Referrals may provide a better level of customer service than a decline.
 - Note, however, that merchants often treat referrals like declines because of the delays referrals cause in completing a transaction. Merchants respond to referrals and call their Acquirer on only 30 to 50 percent of the accounts that receive referral responses.
 - Do not refer transactions that exceed the credit limit because these authorizations will be declined by the Bank, unless there is a processing error.
- Establish effective authorization matching and hold polices to help balance customer service and risk.
 - Evaluate the number of days transaction posting is delayed in your market.
 - * Evaluate domestic versus international transaction posting delays.
 - * Note significant differences among merchant categories and cash.
 - Target a three- to five-day authorization hold for unmatched domestic authorizations.
 - * This time period is typically reasonable to ensure that most transactions will have cleared in environments with a large percentage of merchants with magnetic stripe reading terminals.

- * Adopt longer time periods as warranted for international transactions and selected merchant categories, such as cash.
- Ensure that the matching criteria are simple and effective to maximize matches between posting transactions and pending authorizations. Note that matching criteria typically consider a number of transaction elements, such as:
 - * Authorization code
 - * Transaction ID number
 - * Cardholder account number
 - * Transaction date plus or minus one day to allow for Acquirer inaccuracy
 - * Transaction amount
 - * Transaction amount tolerance – allow a 15 to 20 percent variance for restaurants, car rentals, and hotels, and a flat small amount for other merchant categories
- Develop adequate expertise to effectively manage host system and Visa authorization system parameters.
 - Assign responsibility for tracking authorizations system performance, maintaining records of all authorizations system parameter setting, and coordinate input from all major functional areas when parameter changes are required.
 - Match dollar amounts for authorizations without a transaction ID.
- Monitor and track authorizations system performance.
 - Report system up-time percentage versus a standard.
 - Track the top five decline reasons.

Best Practices ¾ Stand-In

- Track the percentage of transactions authorized under stand-in processing on a daily basis to identify problems and make corrective changes.

- Through this practice, one of the study participants identified a problem with authorization routings that created excessive authorization time-outs. The problem was fixed earlier than it would have been without the monitoring process in place.
- Issuers are offered selected stand-in authorization services (Visa PCAS/PACM) and also Issuer unavailable stand-in services during host computer or network downtime.
 - * Both forms of stand-in processing should be monitored.
 - * Issuers are also offered Visa APR5100 reports, which provide valuable information on a monthly basis on authorization performance.
- Establish reasonable stand-in parameters for times when your system is unavailable to balance customer service against risk.
 - Establish Visa Issuer Unavailable activity purchase limits of US\$1,750.
 - * This amount is the mandatory minimum limit for international authorizations.
 - * This is the amount that Visa would approve in a one-day period if your system is unavailable or times out. Note, however, that Visa checks its negative file but does not have a record of the available balance on the account, creating risk exposure.
 - * In the future, consider lowering this amount should Visa decrease the mandatory minimum level or change the amount for domestic authorizations.
 - Consider establishing Visa Issuer Unavailable cash limits of US\$300 to US\$750 per day. Visa does not mandate cash minimums.
- Post Visa stand-in authorization advices and include in the calculation of the available balance. These are good practices to ensure that the open-to-buy is current and reflects all approved authorizations.

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- Evaluate whether Visa Positive Cardholder Authorization Service (PCAS) Issuer limits that allow stand-in for low dollar authorization requests during normal processing are set at appropriate levels.
 - Keep in mind that higher PCAS Issuer limits increase approval rates and card volume but also increase risk exposure. Visa International offers a Visa Authorizations Risk Model (ARM) that can assist in determining appropriate levels.

Credit Line Management

An opportunity exists for many Visa Business Issuers to improve the effectiveness of their strategies and systems tools to manage credit lines. Many of the lessons learned by Visa Issuers regarding account behavior and techniques used to manage consumer card portfolio risk had not yet been carried over to the Issuers' Visa Business portfolios.

Best Practices

- At a minimum, consider time-on-books and delinquency history in assigning and managing overlimit “pads” (the percentage by which Issuers allow cardholders to exceed their stated credit limit).
- Longer term, establish overlimit pads based on transaction and account risk.
 - Do not provide overlimit pads for cash because of its high-risk nature.
 - Do not provide overlimit pads for purchases for higher risk accounts that are five or more days past due. Many Issuers have found that accounts that are delinquent – or sloppy payers – can be a very profitable portion of their portfolio.
 - Vary overlimit pads for purchases by time on books and risk score, if available.
- Establish delinquency declines based on transaction and account risk.
 - Decline at five days past due (one missed payment) for higher-risk transactions — for example, cash transactions for a new account.

- Decline at 30 days delinquent for purchase transactions for the majority of the portfolio.
- Decline as late as 60 days delinquent for lower risk — for example, low-risk credit score, seasoned account, purchase transaction.
- Provide overlimit pads that are larger for travel-and-entertainment (T&E) transactions. This is a good practice to recognize the relatively lower-risk nature of these transactions.
 - For example, one Issuer in the study established a 25 percent overlimit pad for T&E transactions and 5 percent overlimit pad for other purchases.

Credit Limit Increases

Several of the Visa Business Issuers had implemented effective approaches for granting immediate credit line increases that balanced risk management issues against the need for meeting customers' needs. Overall, Issuers used conservative lending practices in their reviews and decisions regarding credit line increase requests.

Best Practices –Credit Line Increases

- Develop and test an ongoing program to increase the credit lines of small business customers who merit a credit extension.
 - Ensure that a review of account performance is conducted before establishing periodic credit limit increase programs.
 - Restrict limit increases to accounts that are current, have acceptable risk scores, have a strong history of utilization of current line, and have a good payment history.
 - Limit automated increases to authorized principals because many businesses would not want employee cardholders to have higher limits implemented automatically.
- Consider reducing the credit lines of accounts that have not activated their lines or have very low utilization to limit contingent liability and risk of becoming the credit of last resort.

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- Require line increase requests to be submitted in writing from an authorized officer of the company.
 - Confirm that the name of the person requesting the increase is an authorized officer.
 - One Issuer called companies to confirm line increase requests were legitimate.
- Establish higher “shadow limits” when the account is approved so that minor credit limit increases can be approved automatically within the shadow limit without re-evaluating the account.
- Allow Customer Service representatives to reallocate existing credit limits among the cardholders within a company to improve customer service.
 - Permit Customer Service representatives to reallocate credit limits within the company total credit line provided the request is submitted in writing.
 - Some Issuers authorized Customer Service representatives to reallocate the total approved credit limit among company cardholders.
 - Representatives were not authorized to increase limits that would raise the company approved credit limit.
- Implement a rigorous process for reviewing and approving credit line increase requests.
 - For example, one Issuer used the following guidelines for decisioning line increase requests:
 - * For all line increase requests, the guarantor’s bureau score must exceed a minimum consumer bureau score and the account must not exceed delinquency standards.
 - * Line increase requests greater than US\$15,000 require commercial bureau reports and full credit re-underwriting.
 - Another Issuer implemented procedures regarding credit line increases to reduce credit risk exposure. The Issuer reviews

account history, banking relationships, and company income in making its decision.

- Track approval and decline rate trends for credit line increases or approval rates by lender. Tracking information could assist in identifying differences in line increase decisions among lenders that warrant further investigation.

Best Practices – Emergency Credit Line Increases

- Establish guidelines on the amount of emergency credit line increase that can be approved by customer service or credit personnel considering employee level of responsibility. Consider the following factors in developing the guidelines:
 - Amount of the increase compared with current credit limit
 - Circumstances requiring the increase
 - Duration of the temporary increase — automatic removal enabled when the period expires
 - Current account status
 - Company personnel authorized to request increases
- Permit Customer Service to grant temporary, emergency line increases within guidelines.
 - Have a policy in place that specifies the amount of increase that can be approved by personnel that varies according to position and responsibility.
 - For example, one Issuer allowed customer service personnel to grant emergency line increases for up to US\$2,000. The additional credit had to be repaid within 30 days.
 - At the same Issuer, customer service personnel were permitted to grant emergency line increases for up to US\$7,000 provided that there was a payment-related issue.
 - * Payment-related issues included payments in transit in cases where the business could identify the date, amount, and check number.

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- * The additional credit had to be repaid within 10 days.
- To provide excellent customer service, have the ability to respond to emergency line increases 24 hours per day. Establish guidelines for after-hours staff to approve small emergency line increases under well-defined circumstances.

Ongoing Risk Assessment

Visa Business Issuers throughout the world frequently have an opportunity to improve their monitoring of Visa Business portfolios to reduce credit exposure. In many markets, the lack of behavior scores and the inability to obtain consumer credit bureau scores for all cardholders hinders ongoing risk assessment. Nevertheless, several Issuers implemented innovative techniques to identify and work higher-risk accounts.

Best Practices

- Develop an ongoing, formal periodic review process to identify higher-risk accounts and take action to reduce risk.
 - Incorporate information from a number of sources to identify and control risk, such as:
 - * Account history — overlimit and delinquency
 - * Other bank relationships — account performance
 - * Weighted selection criteria — credit lines and line utilization
 - * External data — credit bureau data and litigation filings
 - As higher-risk accounts are identified, take action to reduce risk, such as:
 - * Eliminating overlimit pads
 - * Decreasing shadow limits that exceed credit limits
 - * Reducing credit lines
 - * Closing very high-risk accounts
 - While many Issuers review Visa Business accounts annually, Issuers with best practices monitor accounts more frequently.
- When relationship managers retain credit review responsibility, they should be required to perform a review of accounts at least annually.

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- While Issuers can be commended for requiring individual lenders to perform annual account reviews to determine whether accounts should be closed or credit lines reduced, this process is manually intensive and would not withstand higher volumes of large portfolios.
- Report derogatory account behavior to consumer and business credit bureaus, as applicable. Assure that consumers and business are given sufficient warning before commencing reporting as legislated by law.
 - Only report account guarantors and companies.
 - The threat of reporting can result in strong recoveries. It encourages payment on delinquent accounts and strengthens collector discussions with accounts.
- Develop an internal and proprietary behavior score to enhance ongoing risk management of the portfolio.
 - Identify and test transaction characteristics combined with payment patterns that indicate high risk.
 - During the behavior score development process, take steps to better understand existing risk of the portfolio by obtaining business scores and consumer bureau scores for guarantors, if available.
- To be effective in focusing the retention effort on the most profitable customers, implement retention efforts that include profitability measures.

Collections

Challenges to many Visa Business Issuers' collections efforts include small portfolios, multiple billing methods, lack of credit bureau delinquency reporting, lack of employee liability, and antiquated collections systems. Nonetheless, several Issuers implemented excellent practices to enable effective collection efforts.

Best Practices – Payment Processing

- Ensure that payment processing systems correctly age accounts that have payments returned for insufficient funds. Some Issuers' systems did not reflect returned payments when determining account delinquency status, which significantly increases risk.

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- Make additional attempts to debit an account used for card payment when the first is rejected for insufficient funds.
 - Reprocess insufficient funds checks a second time before returning. A number of Issuers have found a significant percentage of NSF checks clear upon a second presentment.
 - In markets where allowed, attempt a debit for a smaller amount to try to obtain some of the past due balance.
 - Contact the bank to determine availability of funds and attempt to collect the remaining balance due.

Best Practices – Collections Strategies

- Enhance or acquire collections systems as needed to support Visa Business collection efforts, including the following:
 - Queues based upon the age of delinquency
 - Collection strategies based upon the age of delinquency and account balance
 - Collection risk score-driven strategies
- Establish collections strategies based upon risk scores or high-risk account characteristics to make the most effective use of collector resources.
 - Begin calling high-risk accounts as early as one day past due.
 - Postpone efforts on lower-risk accounts to as late as 30 to 60 days past due.
 - Implement calling strategies and results tracking based on account risk.
 - Base strategies upon age of account if risk scores are unavailable.
- Establish dedicated Visa Business collections groups.

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- Avoid organizational approaches that require personnel to collect on multiple products because of difficulty in retaining focus on Visa Business.
- Use branch personnel and lending officers to assist in collections efforts on occasion, but do not rely on them as the primary means for collecting an account.
- Establish an automated letter strategy for delinquent cardholders.
 - Send increasingly severe letters as the accounts age further into delinquency.
 - Consider collections letters on third-party letterhead which can have more of an impact than standard Issuer collection notices.
- Develop pre-emptive strategies to avoid initiating high-impact collections activities against accounts that pose little risk, thereby retaining customer relations and preventing ill will.
- When Visa Business and Visa Corporate portfolios are mingled, some Issuers excluded low-risk organizations, such as employees of their own Bank, governmental agencies, and universities, which are handled through an exception process.

Best Practices – Collections Policies

- For credit platforms, evaluate minimum payment requirements considering finance charge income, collections leverage, and the impact on chargeoff balances that result from raising or lowering minimum payment percentages.
 - Avoid minimum payment percentages that are unreasonably high, which can adversely impact finance charge revenue and can also push good accounts into delinquency status unnecessarily.
- Utilize the right of set-off or security interest in all deposit relationships for Visa Business accounts.
- Ensure that adequate special payment plans, re-age policies, and settlements can be offered to cardholders. These programs can serve as incentives to pay and also provide options to cardholders who cannot make the full minimum payment.

- Issuers in the study would typically re-age an account to a current status if three consecutive minimum payments were received. Restrictions should be placed on the number of times this can be done, such as once over any 12-month rolling period.
- Reduced payment plans decrease the amount required to keep an account from aging further into delinquency by lowering the minimum payment to 2 to 3 percent of the balance due. Some Issuers may also decrease the finance charge rate.
- Settlements offer a reduced percentage of the balance to pay the obligation in full. Accounts that have assets but insufficient income are good candidates for settlement.
- Implement risk-based account closure policies to prevent seriously delinquent accounts from regaining charging privileges as soon as a payment is made.
 - Seriously delinquent accounts that make a minimum payment present risk exposure if the account continues to have open-to-buy.
 - In addition, many systems will automatically reinstate spending privileges when a payment is received, thereby incurring risk exposure if the funds are invalid.
 - Close high-risk accounts at 30 days (two cycles past due), such as newly opened accounts or accounts with poor performance history.
 - Allow low-risk accounts up to 60 (three cycles past due) days before closure.
 - Longer term, develop account closure policies based on collections risk scores.
- List collection-closed accounts on the Visa Exception File. Doing so protects Issuers from additional loss due to authorizations attempted under stand-in processing and recurring charges.

Best Practices – Collections Practices

- Strive to staff collections groups during evenings and weekends, in addition to normal business hours.

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- Note that evening and weekend hours often provide better contact rates, particularly when attempting to reach cardholders at home.
- Have collectors work at least two weekend days per month.
- Utilize part-time collectors to staff evening hours when possible.
- Track contact rates and adjust hours of staffing to obtain best results.
- Ensure that collectors pursue the company owner or account guarantor. For individually billed accounts, attempt initial contact with the cardholder first. If the cardholder is not the account guarantor, pursue the responsible party.
- Implement policies to report business owners and account guarantors to consumer and commercial credit bureaus.
 - Ensure that account owners are liable and that the option to report account owners to credit bureaus is included in cardholder disclosures.
 - Include reference to reporting owners or guarantors in collection calls with cardholders to increase collections leverage.
 - Review applicable laws and internal processes to assure that your processes comply with legal requirements, such as providing sufficient warning about bureau reporting.
- Implement a process to review overlimit and delinquent accounts with continued activity, and block those that present risk exposure.
- Review overlimit and delinquent accounts to determine whether the activity represents potential credit abuse, and block accounts to decline subsequent transactions where warranted.
- Review transaction activity on delinquent accounts to determine whether chargeback rights are available. Pursue recovery from the cardholder first, then charge back any applicable transactions if unable to obtain payment.
- Send difficult-to-collect accounts to attorneys or collections agencies for collections prior to chargeoffs (“early outs”).

- Using third parties enables earlier collections efforts on accounts that may otherwise receive little additional collections effort until chargeoff.
- The selective use of third parties can improve collections effectiveness for accounts that have refused to pay or cannot be located.
- Establish collector performance standards for the Visa Business program, such as:
 - Calls per hour
 - Quality review results
 - Minimum staffed time
- Establish a straightforward incentive system that is tied directly to the Bank's collections goals.
 - Consider establishing balances collected as the primary measure for incentive purposes in earlier stages of delinquency.
 - Move toward dollars collected on a cash flow basis in later stages.
 - Create an incentive to maximize collections by making larger payouts as performance improves and not setting a maximum payout (a "cap").
 - Ensure standards are reasonable, incentive goals are achievable, and the system is easy to administer.
- Implement use of silent monitoring to perform quality assurance reviews of the Visa Business collections staff.
 - Monitor at least ten calls per collector per month.
 - Review results with collectors for particularly good or bad performance on individual calls as soon after the call as possible.
 - Include the results of the monitoring in performance assessments and for incentive qualification.

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- Consider alternative or nontraditional approaches for accounts at risk of chargeoff.
 - One Visa Business Issuer hand-delivered collection letters to the cardholder's home at 60 days past due using a contract delivery service.
 - The contractor delivering the letter prepared a field report with descriptions of the debtor's house, furnishings, and car which could assist in later collections efforts.
- Design and develop effective collection performance measures.
 - Track the overall delinquency ratio in total and by age of delinquency for Visa Business accounts.
 - Measure and report the "roll rates" from one age to later ages.
- Develop a report on accounts that have not been worked, and have collections management review the report each month to ensure all accounts are worked.

Recovery

Most Visa Business Issuers examined used existing consumer credit card recovery groups for Visa Business recovery efforts.

- Using an established consumer credit card recovery group enables Issuers to use their institution's existing experience and economies of scale in pursuing accounts that were charged off.
- At this stage in the collections effort on an account, the issues regarding which party to contact for payment had been resolved and these accounts could be treated similarly to the consumer credit accounts.

Best Practices

- Review new chargeoffs and assign accounts for recovery action depending upon account history.
 - Immediately assign low-balance accounts and accounts that have shown no history of payments or recent contacts to agencies.

- Consider filing lawsuits on accounts that have adamantly refused to pay.
- Perform in-house recovery efforts of 30 to 60 days for the remainder of the accounts. Assign these accounts to agencies at the end of this collections period or earlier if initial efforts show limited likelihood of payment.
- Develop an effective recovery agency migration strategy to maximize recoveries.
 - Clearly identify primary, secondary and tertiary agencies to distinguish agencies that first receive accounts from those that perform collection efforts much later.
- Develop set timeframes for each level to encourage agencies to collect as soon as possible. Test timeframes up to 6 months.
 - Move accounts in groups from one level to the next to facilitate accounting and recovery performance measurement.
- Establish adequate reporting to monitor agency performance, including key metrics such as number and balances of accounts assigned, recoveries received, and recovery percentage, stratified by:
 - Type of account, for example, refusal-to-pay, no phone numbers, low balance
 - Chargeoff date
 - Previous agency assignments
- Conduct periodic agency audits to ensure that controls are in place to thoroughly work accounts and accurately report recoveries.
- Implement several steps to pursue recovery on bankrupt accounts, including:
 - Participating in Visa's Bankruptcy Reduction Service available in the U.S. Region
 - Reviewing bankruptcies for potential fraud or abuse
 - Attending creditor hearings

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- Implement use of silent monitoring to perform quality assurance reviews of the in-house recovery collectors.
- Implement an incentive plan that is tied to the company's goals, such as reducing net credit chargeoffs.
 - Establish amount recovered as a percentage of chargeoffs assigned as the primary measure of collector performance.

Operations Management

Cardholder Statements

Producing clear, accurate cardholder statements and distributing them in a timely manner is relatively straightforward for Visa Business Issuers. However, several opportunities exist for Issuers to improve statement design and more evenly distribute statement-related workflows.

Best Practices

- Obtain guarantees in processor contracts with appropriate penalties to ensure that statements are distributed in a timely manner. For example, some Issuers used a processor that had difficulties producing statements in a timely manner. As a result, these Issuers had to extend payment grace periods and delay initiation of collection efforts.
- Ensure that accounts are distributed throughout all billing cycles to even out the work required to distribute statements, respond to customer inquiries, and perform collections efforts.
- Truncate or eliminate the transaction reference number on the statement distributed to cardholders. The full number can be retained on online statement screens if necessary. Use the additional statement space to increase the font size and make the statement easier to read.
- Do not provide an option on the account application to request memo statements. Provide memo statements only if requested by the company. For example, one Issuer in the study that initially had memo statements eliminated them and had virtually no complaints.
- Encourage companies with two or more cardholders to use central billing to decrease operational expenses.
 - Consider using central billing as the default and provide individual billing upon request.
 - For existing individually billed companies that make single monthly payments, encourage or require them to transfer to central billing.
 - For centrally billed accounts, include a notice on individual cardholder statements that indicates balances have been

transferred to a company master account and no amount is due on their statements.

- Ensure that the primary sort of transactions for central billed accounts is by cardholder, not by transaction type.

Cardholder Disputes

Many Visa Business Issuers have established sound processes to handle cardholder disputes. Dispute processing was typically performed within the Customer Service units of the business card operations or dedicated units within a consumer card group. However, Visa Business processing requirements are the same as consumer credit cards and could easily be handled by the consumer side of the business if the systems were integrated.

Best Practices

- Implement a process to resolve cardholder disputes up-front, thereby providing better customer service and reducing operational expense.
 - Train Customer Service representatives to clarify transactions for the cardholder and prevent unnecessary disputes. Review merchant category and time and date of transaction to assist the cardholder in recalling the charge.
 - Ensure that cardholders have attempted to resolve the dispute directly with the merchant in cases of disputes over merchandise or services provided.
 - Have Issuer dispute personnel review claims with merchants or initiate calls between the customer and the merchant to resolve disputed items.
- Establish a reasonable amount below which charges are written off rather than pursuing the dispute.
 - Base the small-amount write-off amount on the cost of processing, customer service impact and potential recovery. Issuers in the study typically selected US\$15 to US\$25 as a reasonable amount.
 - Establish lower minimums for recurring charge problems, such as canceled Internet service providers.

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- Track small-amount write-offs to identify overall trends and instances of abuse.
 - Track small-amount write-offs separately from other operational losses.
 - Develop exception reporting to identify excessive small-amount write-offs by individual cardholder and by company to identify abuse.
- Use a “check-a-box” form on the back of the statement so cardholders can quickly provide required documentation in writing for straightforward disputes.
 - Several Issuers have begun using these types of forms and find them to be helpful and cost-effective in resolving simple disputes.
 - However, complicated dispute situations require more thorough documentation from the cardholder, rather than a check-a-box form.
- To offset operational costs and deter excessive draft requests, consider charging the cardholder a small research fee for draft requests when the cardholder was responsible for the charge.
- Exercise discretion to avoid being at a competitive disadvantage and to minimize adverse customer service impact for valuable customers.

Fraud Management

Fraud Prevention: Cardholder Education and Fraud Awareness

Improving cardholder awareness of fraud can be an important tool to reduce fraud losses. Issuers participating in the study had made a good start at making cardholders aware of the importance of safeguarding their cards and receipts and promptly reporting cards lost or stolen.

Best Practices

- Include a message and a toll free telephone number in bold print on the front of cardholder statements informing cardholders to immediately report a card that has been lost or stolen.
- Reinforce the lost or stolen reporting message by including it in bold print in existing materials that are sent to cardholders, such as welcome brochures, cardholder agreements, and card carriers.
- Periodically use statement messages and inserts to stress the importance of fraud prevention, including:
 - Safeguarding plastics, statements, and receipts
 - Not disclosing account numbers or PIN numbers
 - Immediately reporting lost or stolen cards
- Reinforce the message that PIN numbers should not be written on the back of the card or kept in a wallet or purse.

Fraud Prevention: Counterfeit

The Issuers had effective systems in place to prevent magnetic stripe counterfeit by using Visa's Card Verification Value (CVV). However, many of the Issuers lacked adequate measures to prevent key-entered counterfeit, which is one of the fastest growing fraud types.

Best Practices

- Verify Visa's Card Verification Value (CVV) in all magnetic stripe authorization requests; reject transactions with incorrect CVVs.

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- Obtain Visa certification of CVV processing, which will ensure that the matching approach and authorization response processing work as intended.
- Obtain reports showing all CVV mis-matches. Contact cardholders as necessary to determine if the mis-match was due to Acquirer error, a bad magnetic stripe, or a counterfeit card.
- Note that Visa's Cardholder Risk Identification Service (CRIS) has excellent reporting that provides details on the nature of the error. (Please refer to the last section of this guide for more details on Visa services.)
- Use referral or decline messages depending on your ability to effectively handle referrals and the level of customer service you wish to provide.
 - Referral calls placed by merchants typically cost US\$5 to US\$15 in fees and processing expense. If the merchant does place the call, it may provide a better level of customer service than a decline, and a legitimate customer will usually be able to complete the transaction.
 - Merchants respond to referrals and call their Acquirer on only 30 to 50 percent of the transactions that receive referral responses.
- Modify Voice Response Unit (VRU) logic to make it difficult to search for valid account numbers. Require cardholder account number as well as postal code or some other identifier before responding that the number is invalid.
- Verify expiration dates from authorization requests and decline most requests with mis-matched expiration dates to reduce key-entered counterfeit.
 - This practice can help deter counterfeiters in cases where criminals have obtained a valid account number but have guessed at the expiration date.
 - Evaluate expected decline rates by merchant category prior to making this change and decide whether you wish to exclude low-risk categories such as mail order, telephone order, or hotels.

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- Ensure that CVV2 is printed on the signature panel of all newly issued Visa Business cards.
 - Visa International operating regulations state that CVV2 must be printed on all new and reissued cards as of January 1, 1998.
 - Note that the entire card base must be CVV2 imprinted by January 1, 2001.
- Verify CVV2 on telephone authorization requests and key-entered authorizations when it is supplied by the Acquirer.
 - For telephone authorization requests with a CVV2 mis-match, ask the merchant to repeat the CVV2 value and, if necessary, read the full account number plus CVV2.
 - * Do not approve telephone authorization requests with a CVV2 mis-match unless there is indication that the printed value may be illegible or an old card that has been replaced is being used.
 - * Have the merchant confiscate the card if the value is in error and there is no likelihood of a legitimate card being used by an authorized cardholder.
 - For key-entered transactions, use a decline or referral response when CVV2 verification fails, in the same manner as used in responding to CVV mis-matches.

Fraud Prevention: Card Distribution

There are several proven methods that can assist in preventing fraud losses from cards that are not received by the intended recipient. Card activation is one of the most effective ways to prevent usage by cards that are intercepted in route to the small business and is used by several Issuers in the study. In countries with low authorization rates, card activation is not fully effective and can be fairly expensive due to high telecommunications expense.

Several low-cost methods to prevent loss are identified below. Note that, in some cases, the following techniques will also reduce operational expenses.

Best Practices

- Evaluate the use of card activation to reduce losses.
 - Keep in mind that an effective card activation program can significantly reduce card distribution risk and minimize resulting losses.
 - Consider selective activation to reduce costs, targeting high-risk areas and accounts with large credit limits.
- Avoid over-reliance on card activation in markets with low authorization rates.
 - Remember that card activation provides protection only for transactions that are authorized.
 - Use additional card distribution controls such as branch pickup, express mail, or registered mail for higher-risk deliveries in low authorization markets.
- Use a card issuance period of three to four years to decrease distribution risk exposure and card issuance expense.
- Use a shorter card issuance period in markets with low authorization rates if it is difficult or expensive to stop transaction activity on closed or blocked accounts.
- Mix non-plastic mail with plastics to reduce the visibility of trays of plastics mailed through the postal service. Strive for a ratio of at least 10 non-card pieces to 1 card piece, and preferably 25-to-1 of like-kind, size, and color envelopes to plastics.
- Avoid sending plastics to cardholders with mailing addresses in foreign countries with low authorization rates.
 - If plastics must be sent to these countries, use a secure delivery method such as express mail delivery services.
 - Do not use standard, first-class mail because of the risk of cards being intercepted and used fraudulently for below floor-limit transactions.

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- Evaluate expected risk reduction benefits versus the cost of using registered mail or other services intended to reduce Not Received fraud exposure in low-risk delivery areas.
- Keep in mind that some Issuers found that the cost of more secure delivery, such as use of registered mail or express delivery, far exceeded the current amount of fraud per card mailed, except where the cards were being sent to areas with known high-fraud risk.
- Avoid issuing multiple cards with the same account number.
 - This practice creates risk exposure, particularly when cardholder names are not embossed on the card.
 - In addition, this practice creates operational problems, and it can inconvenience cardholders when a single card is lost or stolen and all cards with the same account number must be blocked and reissued.
- Screen out higher-risk, dormant, or inactive accounts prior to each card reissuance cycle.
 - Do not reissue to businesses that have not activated the card or have had no activity in the past 12-18 months.
 - Screen out higher-risk accounts for closure as part of a periodic review process.
- Minimize time between production of card reissuance registers and actual delivery of reissued plastics. Long lead times increase the likelihood of sending reissued plastics to closed or blocked accounts or to accounts with invalid addresses.

Fraud Prevention: Account Takeovers

Account takeover fraud occurs when an unauthorized person commits fraud by obtaining a card for an existing account, typically by changing address and requesting a replacement plastic. The primary means to prevent account takeovers is to establish effective controls to verify cardholder identities prior to changing addresses or issuing replacement plastics or PIN numbers. Most of the Issuers in the study were aware of account takeover issues and had implemented adequate controls.

Best Practices

- Establish a systematic flag to identify replacement plastic or PIN requests, and perform additional cardholder verification if there has been an address change within the previous 60 to 90 days.
 - Conduct additional verification such as calling the key company contact or using address search databases to confirm addresses before sending the replacement PIN or plastic.
- Allow individual cardholder address changes, plastic replacements, or PIN requests to be made over the telephone provided that the following data can be provided:
 - Company name, company address, cardholder name, cardholder phone number
 - Also, confirm at least two of the following for the individual cardholder: national identification number, mother's maiden name, date of birth, credit line, or recent transaction data
- Do not allow an address change to be processed simultaneously with either a replacement card request or replacement PIN request.
 - Requests for both an address change and a replacement plastic or PIN indicate high account takeover risk.
 - Require such requests to be submitted in writing on company letterhead or refer the customer to a branch location, unless the customer can be thoroughly identified.
- Allow an authorized officer or account guarantor of the company to make account maintenance requests for others via the telephone by verifying the following: company name, address, tax identification number, and credit line.
 - When suspicious of telephone requests, require changes in writing on company letterhead to be mailed or faxed.
 - Confirm that the phone number on the letterhead of written account maintenance requests matches the phone number for the company on file.

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- For faxed requests, compare the fax number in the “signature” line to the fax or telephone number on file for consistency. If the numbers do not match or there are other suspicions, call the company at the phone number on file to confirm they are making the request.
- Have the group that handles fraud cases meet periodically with Customer Service to review fraud occurrences and increase fraud awareness.

Fraud Prevention: Lost or Stolen Report Taking and Card Blocking

Visa Business Issuers successfully handled lost or stolen calls and blocking cards on their host files. However, most Issuers could improve their practices for listing accounts on the Visa Exception file and International Card Recovery Bulletins to decrease risk exposure and reduce costs.

Best Practices

- Provide customers with the ability to call and report a lost or stolen card 24 hours per day.
 - Ensure that customers can report lost or stolen cards from anywhere in the world.
 - Use a toll-free number domestically and a number to which cardholders may make collect calls if outside the country.
- Establish lost or stolen reporting as a primary menu selection when the Voice Response Unit (VRU) is used; this will avoid delays in lost or stolen report taking and account blocking. Be sure to establish these calls as the highest priority selection in first-level menu options to minimize the wait time for cardholders.
- Ensure that the first point of contact at Customer Service call centers is able to take lost or stolen card reports and block cards. Avoid live call transfers before the card has been blocked because of the risk of the call being lost during the transfer process.
- Monitor call abandonment rates and average wait times for groups taking lost or stolen calls and take corrective action as necessary when the rates are too high.

- Improve staff scheduling and increase staffing levels as necessary to achieve and maintain acceptable call performance levels.
- Outsource lost or stolen calls if problems with abandoned calls persist. Bring calls back in-house only when satisfactory service levels can be achieved and consistently maintained.
- Route after-hours “lost/stolen” calls directly to the appropriate group for handling the calls. If a different unit or processor handles lost/stolen calls after normal business hours, ensure that the calls are routed directly. Do not play recorded messages asking cardholders to call another number.
- After the card has been blocked, have telephone representatives probe to determine if fraud has already occurred and route the call to a trained fraud investigator.
 - This practice can assist in detecting fraud committed by the cardholder or family or friends and avoid the setting up of a fraud case.
 - Prepare scripting to challenge cardholder fraud claims in which family members or friends might be involved.
 - In addition, note that probing enables the Issuer to obtain key information during the first call that could be used in the investigation, avoiding the need to re-contact the cardholder.
- Establish a listing policy for cards reported lost or stolen in Region 0 of the Visa Exception File that varies depending upon the authorization environment in which the card was lost.
 - In countries with high authorization rates:
 - * List for a three-month period.
 - * Issuers with larger portfolios may decide to limit listing lost or stolen cards with no fraud to one month to reduce expense.
 - In countries with low-to-moderate authorization rates:

- * List until card expiration because of the risk of continued below floor-limit transaction activity and the desire to pickup the card if authorized.
- * List cards on any local or Regional negative files as well as Visa's Exception File to minimize risk exposure.
- List accounts with fraud activity, or that are lost or stolen under high-risk circumstances for one to three months in the International Card Recovery Bulletin.
 - List the account in the Region in which fraud occurred or the card was stolen.
 - Monitor all activity on these cards including authorizations, posted transactions, and Chargeback Reduction Service rejected items.
 - Remove the account by changing the listing Region to Region 0 if there has been no activity on the account for any two to four week period or if the card is recovered.
 - Extend the listing for an additional one to two months if activity occurs within two weeks of the bulletin expiration date.

Fraud Detection: Systems and Reporting

The majority of Issuers used sophisticated fraud detection systems that provided real-time or near real-time alerts of suspicious activity.

Best Practices

- Use real-time or near real-time fraud detection systems such as Visa's CRIS service; Experian's Hunter system; Fair, Isaac and Company's Fraud Intercept system; HNC Financial Solution's Falcon system; or Nestor/ACI Worldwide's PRISM system to provide the earliest possible detection of fraud. (Please see Appendix A for information on third-party risk management tools and services.)
- Prioritize fraud detection resources to focus on highest risk/highest opportunity reports, queues or strategies first.
- Ensure that fraud detection systems are reviewed and evaluate all authorizations.

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- In many markets, Visa's CRIS system is only effective for international transactions, because domestic authorizations are not routed through the Visa system.
- In these cases, evaluate host-based fraud detection systems in addition to the CRIS system.
- Implement review of fraud detection reports during evening and weekend hours, in addition to normal business hours. Some Issuers utilize after-hours customer service personnel to review the highest risk accounts when it is not feasible to expand the fraud detection group work hours.
- Generate declines or referrals at the point-of-sale for transactions that fraud detection models indicate have a high probability of being fraudulent.
 - This feature is available from some fraud detection systems and can produce significant fraud risk reduction compared with approving the transaction first, then generating an alert.
 - Use decline responses only in severe case with a high likelihood of being fraudulent; otherwise use referrals.
 - Recognize that the use of declines and referrals can jeopardize valuable customer relationships and encourage customers to use alternative plastic.
 - Ensure that a process to effectively handle referrals is in place.
- Utilize the customized queuing capability of fraud detection systems to address special situations.
 - Issuers used these queues to model characteristics similar to the latest fraud scams or special account characteristics such as newly issued cards, accounts with credit balances, or new accounts with recent large payments.
 - Ensure that the highest-risk queues with the greatest potential for savings are worked first.
- Track false positive rates of fraud detection queues, strategies, and reports. Refine review strategies and timing based on false-positive

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rates and trends. Strive to reduce false-positive rates, while maintaining or improving overall fraud detection and loss prevention effectiveness.

- Block accounts for referral or decline when unable to reach cardholders in highly suspicious cases.
 - Use referral responses if an effective process is in place to handle referral calls. A referral response is preferable because it provides the opportunity to speak with the cardholder to determine whether fraud has occurred.
 - Use decline responses if referrals cannot be effectively handled or are not cost-effective.
 - * A decline response provides similar risk protection but may require continued call backs to the cardholder to determine if the activity is legitimate.
 - * This response will inconvenience cardholders, perhaps jeopardizing multiple relationships with the bank, particularly those traveling away from home.
 - Do not use pick-up blocks when the cardholder cannot be contacted, because of the risk of embarrassing legitimate customers who attempt to use their card.
 - As noted above, recognize that there is a trade-off in customer satisfaction (and even retention) if referrals and declines are not used judiciously.
- Develop specialized exception reports to identify high-risk transaction activity that will not be addressed by authorization-based fraud detection systems or reports. One such exception report is excessive posted activity that does not have an authorization code or is likely to be below applicable floor limits.

Fraud Detection: Payment Review

Most Issuers who incurred risk of returned payments had developed controls to review for suspicious payments.

Best Practices

- Place extended authorization holds on foreign checks submitted for payment to ensure that funds clear.
 - Place extended authorization holds on foreign checks submitted for payment above a designated threshold amount.
 - Ensure that the funds are valid before releasing the hold.
- Place one-to-two day authorization holds on large-amount domestic checks made for payment to selected accounts.
- Limit the authorization hold to large payments on newer accounts that present fraudulent application risk.

Fraud Case Management and Loss Recovery

Carefully managing fraud cases and pursuing recoveries through chargeback and directly from cardholders can produce sizable benefits. Well-run fraud operations can recover as much as 25 to 35 percent of the initial fraud amounts set-up.

Best Practices

- Evaluate competitors' fraud liability practices when determining whether to assign liability to the cardholder or to absorb as an Issuer loss.
 - In many markets, businesses can be held liable for fraud losses, but Issuers often choose to waive cardholder liability for competitive, marketing or business reasons. It may make good business sense to assume the losses from one cardholder to retain the relationship with the business.
 - Assigning liability to the cardholder minimizes fraud risk, but may inhibit new account growth depending upon operating practices used by competitors.
- Reassign fraudulent transactions to the cardholder account if an affidavit or other written documentation is not received from the cardholder confirming that the charges were not made by the cardholder or authorized user.

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- Require written documentation detailing the nature of the fraud claim to preserve eligibility for certain chargeback rights and to discourage frivolous or non-legitimate fraud claims.
- Ensure that the cardholder agreement includes language asserting the Issuer's right to require written documentation be provided for fraud claims.

- Establish transaction amount thresholds above which all fraud drafts will be requested with the exception of transactions where drafts are not required for chargeback rights, such as mail or telephone order and automated fuel dispenser transactions.
 - Consider a dollar level of US\$50 to US\$75 for most transaction types where the chargeback probability is unknown.
 - Consider a lower dollar amount, such as US\$25, for transactions where there is a higher probability of chargeback such as key-entered transactions.
 - In both cases, establish thresholds such that the expected value of recoveries from chargeback exceeds the overall cost to request drafts and review for chargeback rights.
- Establish a policy to avoid expending effort on low-amount fraud cases.
 - Do not request affidavits below US\$100 unless they are necessary for chargeback purposes.
 - Limit investigation and chargeback recovery efforts for low-amount fraud cases to a simple review for straightforward chargeback rights.
- Consider not reissuing replacement plastics to cardholders with a history of frequent card loss. Declining to issue a replacement card to customers who have had three or more lost or stolen cards in the past two years is a reasonable practice to minimize risk from customers who do not carefully safeguard their cards.
- Track and report fraud losses, loss rates, and recoveries as a percentage of initial fraud set-up to monitor performance and identify potential operational issues.
 - Track fraud losses and loss rates by fraud case type and in total.
 - Develop trend reporting to identify emerging fraud risk categories.
 - Track recoveries by fraud type.

- Track trends in recovery percentages over time to identify declining recovery rates signifying potential problem areas.

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APPENDIX A

Third Party Risk Management Tools

Five global Information Services vendors provided the following reference information along with information on their risk management products and services. The five vendors were:

- Dun & Bradstreet
- Experian
- Fair, Isaac and Company, Inc.
- HNC Financial Solutions
- Nestor, Inc./ACI Worldwide

Important Note

Please note that all information offered in this section was provided by the Information Services vendors. Visa cannot confirm or guarantee the accuracy of the product descriptions and service availability in global markets. In addition, please note that inclusion of these vendors and their services does not imply an endorsement by Visa. Visa makes no representations nor warranties for any of the companies or services provided by Information Service vendors mentioned in this guide.

Risk Management Tools by Vendor

Brief descriptions on the vendors' various risk management products or services that are offered in countries with the largest penetration of Visa Business cards are provided. Vendor contact information is also provided. Risk management products and services are organized as follows:

- Direct marketing list development
- List respondent profiling
- Business verification
- Credit bureau scores and reports
- Credit scoring models and systems

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-
- Bankruptcy prediction models
 - Application fraud screening
 - Fraud detection systems

Availability Of Risk Management Tools

Products and services referenced in this section are available in the following countries unless otherwise noted:

- Argentina
- Australia
- Brazil
- Canada
- France
- Germany
- Hong Kong
- Italy
- Japan
- Korea
- Mexico
- New Zealand
- Poland
- Singapore
- South Africa
- Spain
- Sweden
- United Kingdom
- United States

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Dun & Bradstreet

Contact Information

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Argentina	(54) (1) 318-3100	www.dnbarg.com.ar
Australia	(61) (3) 9828-3000	www.dnb.com.au
Brazil	(55) (11) 888-6800	www.dnb.com.br
Canada	(905) 568-6000	www.dnb.ca
France	(33) (1) 41 35 1700	www.dbfrance.com
Germany	(49) (69) 6609-0	www.dbgermany.com
Hong Kong	(852) 2516-1111	www.dnb.com.hk
Italy	(39) (2) 284-551	www.dbk.it
Japan	(81) (3) 3740-5400	www.dnbjpn.co.jp
Korea	(82) (2) 761-1070	www.dnb.com.hk
Mexico	(525) 208-5066	www.dnbmex.com.mx
New Zealand	(64) (9) 359-8000	www.dnb.co.nz
Poland	(48) (22) 625-7202	www.dnb.com.pl
Singapore	(65) 333-6388	www.dnb.com.sg
South Africa	(27) 11-488-2911	Not available
Spain	(34) (1) 377-9100	www.dun.es
Sweden	(46) 8 705 1000	www.dbsverige.se
United Kingdom	(44) (1494) 42-2000	www.dunandbrad.co.uk
United States	(800) 234-3867	www.dnb.com

Dun & Bradstreet Overview

Dun & Bradstreet's products and services are based on a global database that now covers more than 55 million businesses, including 30 million outside the U.S. D&B gathers business information in 209 countries around the world, in 95 languages or dialects, covering 186 monetary currencies.

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Dun & Bradstreet, D&B, D-U-N-S and all other D&B product or service names referenced herein are trademarks, registered trademarks, or service marks of The Dun & Bradstreet's extensive suite of reports and information services gives customers many options to select the information that is needed for marketing, credit, and purchasing applications. D&B offers software designed for these applications. D&B provides information access and management services that strengthen the implementation of advanced information warehouses and enterprise resource planning systems. And D&B provides professional consulting services that can help clients design and manage more successful and profitable marketing, credit, and purchasing functions.

A sampling of D&B's product line is presented below. Please note that not all products are available in every country.

Summary of Risk Management Tools and Services

Direct Marketing List Development

- ***Direct Marketing Information*** -- Available in all markets except South Africa
Whether you are involved in market research, direct marketing, or telemarketing, D&B can help you to locate the companies you want around the world. D&B's business marketing services offer a wide range of products and services for business-to-business direct marketing activities in various formats.
- ***D&B WorldBase®*** -- Available in all markets except South Africa
D&B WorldBase provides information on more than 55 million businesses worldwide. You can use D&B WorldBase to quickly and easily integrate, organize, and evaluate information on a global scale, allowing you to reach out to new markets and customers.
- ***D&B Market Spectrum™*** – Available in Canada, the United Kingdom, and the United States
D&B Market Spectrum consists of a suite of products and services for database marketing. These products integrate your customer data with D&B information about both your customers and the marketplace. D&B Market Spectrum solutions are accessible through desktop workstations as well as on an enterprise-wide database marketing system.

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List Respondent Profiling

- **Response Modeling** – Available in United Kingdom and United States
D&B's analytical and modeling capabilities can help focus marketing resources on the prospects that are most likely to need your products. D&B's response modeling, demand estimation, and credit scoring solutions can generate answers to questions that are vital to the performance of direct marketing and mail campaigns.
- **D&B Business Card Response Model from Visa** – Available in U.S.
The Response Model predicts which small business prospects have the highest likelihood of responding to a Visa Business card offer. A number of Visa Business Issuers have tested and proven the validity of the model in their small business solicitations. The model was derived from a rich data sample contributed by leading regional and national Visa Business Issuers.

Business Verification

- **D&B GlobalSeek™** – Available in all markets (Internet)
D&B GlobalSeek provides the opportunity on the Internet to access business information on more than 26 million companies located around the world. Issuers can gain further insight with critical facts about current or prospective global business partners. You will receive concise, compact, and easy-to-read profiles on individual companies located anywhere in the world.
- **D&B Business Background Report** – Available in the United States
- **D&B Business Check** – Available in Australia, Hong Kong, Korea, Singapore
- **D&B Credit Check** – Available in Canada
D&B's most basic reports, D&B Business Background Report, D&B Credit Check, and D&B Business Check provide identification information on a business in a report form. In addition, information such as History & Operations, Principals of the business, or Public Records may be included, depending on the country.
- **D&B Business Identification text section** – Available in France, Germany, Italy, Spain and the United Kingdom
D&B Ala Carte provides you the choice among nine "Ala Carte"

information modules taken from the D&B Comprehensive Report, one of which is the “Identification” text section. This module provides information such as the D&B D-U-N-S® Number, company name, address, telephone number, legal registration number, and legal entity type.

Compact Discs & Books

- ***D&B Reference Book*** – Available in Canada and the United States
- ***D&B France 500,000 CD*** – Available in France
- ***D&B Dmark CD*** – Available in Germany
- ***D&B Japan 250,000 CD*** – Available in Japan
- ***D&B UK Executives*** – Available in the United Kingdom
- ***D&B Business Locator CD*** – Available in the United States
- ***D&B Million Dollar Directory®*** – Available in the United States
- ***The Business Who’s Who of Australia*** – Available in Australia

D&B’s CD’s and books may be an economical way to identify multiple businesses. They are also an excellent source for prospecting.

Credit Bureau Scores/Reports

- ***D&B Compact Report*** – Available in France, Germany, Italy, New Zealand, Spain, Sweden and the United Kingdom
- ***D&B Risk Guide/Predictor*** – Available in Singapore, Hong Kong and Korea
D&B’s reports for your medium risk decisions provide essential local background and knowledge, helping you to assess a business, its financial strength and your likelihood of getting paid.
- ***D&B Business Information Report*** – Available in all markets
When you need extensive background information on a company, its trade and banking experiences, and financial and public record information, turn to the D&B Business Information Report. The easy-to-read format lets you assess key components

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of a company quickly and easily. This report includes basic information such as address, phone number, line of business and year started, plus information on the firm's financial strength, payment experiences, corporate structure, and suits, liens and judgments, when available to D&B.

- ***The D&B Comprehensive Report*** – Available in France, Germany, Italy, Spain, Sweden, the United Kingdom, and the United States
This report combines all the information found in the D&B Business Information Report with professional analytical data and graphics. It combines the power of predictive scoring with historical business information to help you make more effective risk-management decisions. The Comprehensive Report is the definitive guide for a complete picture of your existing or potential trading partners. For a complete assessment of both the current profile and future outlook for a business, choose D&B's Comprehensive Report.
- ***D&B Monitoring Services*** – Available in Australia, France, Germany, Italy, Spain, Sweden, the United Kingdom, and the United States
D&B Monitoring Services help keep you informed of business activity, as reported to D&B, which can affect your bottom line. The early warning system alerts you to changes in the D&B database so that you can:
 - Adjust credit limits for existing and problem accounts
 - Prioritize collection efforts
 - Track supplier performance to avoid service interruptions
 - Maintain up-to-date customer files

Credit Scoring Models/Systems

- ***D&B Business Card Response Model from Visa*** – Available in the United States
The Response Model predicts which small business prospects have the highest likelihood of responding to a Visa Business card offer. A number of Visa Business Issuers have tested and proven the validity of the model in their small business solicitations. The model was derived from a rich data sample contributed by leading regional and national Visa Business

Issuers.

- ***D&B Business Card Prescreen Model from Visa*** – Available in the United States
The new Prescreen Model is designed to assist banks in identifying small business prospects with an acceptable risk profile before directly marketing to them. It is based on a scoring system that predicts the likelihood of severe Business card delinquency in the next 12 months. Used independently, the model effectively narrows the prospect universe; however, it becomes even more powerful when combined with the Response Model. Sophisticated direct marketers can use both models in tandem to tailor offers to the unique risk and response characteristics of the prospect universe. Scores are available in batch, with D&B performing the required file processing
- ***D&B Business Card Underwriting Scorecard from Visa*** – Available in the United States
The new Underwriting Scorecard assists Visa Business Issuers in making credit decisions on Visa Business applications. Similar to the Prescreen Model, it was built using a robust data sample contributed by a representative group of Visa Business Issuers. It will score applicants using D&B commercial data, consumer bureau data (from the bureau of your choice), and card applicant information. D&B supports access to the underwriting model through either a turnkey solution or a solution customized to fit your existing system.
- ***D&B Predictive Scoring Services*** – Available in Australia, Canada, France, Germany, Italy, Japan, South Africa, Spain, Sweden, the United Kingdom, and the United States
Use D&B Predictive Scoring Services to help estimate a company's future performance – so you can make faster, better decisions today. By using a scoring system, you remain in control and set the rules while D&B provides you with the data and statistical models that enable you to make informed risk assessments. D&B offers a wide variety of scoring solutions, and can also work with you to create customized models based on your specific needs.
- ***D&B Risk Assessment Manager™*** – Available in Australia, Canada, and the United States
Make fast, consistent, low-cost decisions with Risk Assessment Manager (RAM), a decision-support software tool that integrates your information with third-party data and information from the D&B

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database to give you a more complete view of your customer database. Work in an automated environment and customize credit-decision rules in the software to meet your company's specific needs and better manage your business risk.

- ***D&B DecisionMaker™*** – Available in France, Germany, Italy, Spain, and the United Kingdom

D&B DecisionMaker is a revolutionary customized decision support tool, developed especially to complement D&B Access for the Windows operating system. Fast and efficient, it is capable of combining your company's data with D&B's own to construct your own credit policy. By enabling credit managers to develop a set of rules that reflect internal credit procedures, D&B DecisionMaker enables faster processing of credit applications with fewer resources.

Bankruptcy Prediction Model

- ***D&B Dynamic Risk Score Report*** – Available in Australia
- ***D&B Business Performance Score Report*** – Available in Canada
- ***D&B Recovery Score Report*** – Available in Canada
- ***D&B Risk Predictor*** – Available in Hong Kong and Korea
- ***D&B Risk Score Report*** – Available in Japan
- ***D&B Financial Stress Score Report*** – Available in the United States

Each of these reports provides a score that predicts the likelihood of a negative business failure for a given company. Exact dynamics of score may differ slightly from country to country.

- ***D&B Ala Carte*** – Available in France, Germany, Italy, Spain, and the United Kingdom

D&B Ala Carte allows you to pinpoint your needs by providing you the choice among nine "Ala Carte" information modules taken from the D&B Comprehensive Report. By selecting the "Evaluation" module, you will receive a score that predicts the likelihood of a negative business failure.

Application Fraud Screening

- ***D&B Alert Services®*** – Available in the United States
D&B Alert Services is D&B's premier monitoring service and a flexible account management tool that works as an "early

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warning detection system" for customers. Customers can choose from 13 different elements to monitor their registered accounts.

Experian

Company Contact Information

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Summary of Risk Management Tools and Services

Credit Bureau Scores/Reports

Experian provides both business and consumer credit bureau information, with business information available in all markets and consumer information only available in certain markets.

- Business Credit Bureau Information**

Experian provides access to information on the legal and financial status of legally incorporated bodies as well as small, non incorporated bodies. Such information would include the company's registered address, its stakeholders, details of any financial judgments, as well as other legal notices such as bankruptcy orders. Dependent upon local market legislation, the database may also contain accounting information and payment profile data. In countries where Experian does not own the data itself, data can be provided through the BIGNet partnership, of which Experian is a leading member.
- Consumer Credit Bureau Information – Available in Argentina, Germany, Italy, Poland, South Africa, Spain, the United Kingdom, and the United States**

Experian provides access to information on private consumers over the age of majority. Dependent upon local market legislation, this may include confirmation of address, details of any other credit agreements, details of any other inquiries made against the database by other lenders, and details of any credit defaults.

Credit Scoring Models/Systems

Experian provides a variety of credit scoring models, primarily geared toward the consumer market, which are summarized below:

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- ***Application Scorecards***
Statistical models are used to predict the likely probability of a given outcome when a new applicant applies for a credit product. Possible outcomes include credit risk, attrition, profit, and bankruptcy.
- ***Strategy Management***
This software enables lending organization to parameterize all aspects of the credit decision process for both new and existing customers; implement scorecards; set customer management strategies; define Champion/Challenger test groups; and simulate alternative strategies using “what if” methodologies.
- ***Database Manager/Scope***
Database management software allows lending organizations to monitor the effectiveness of their lending and customer management strategies and track the performance of lending tools, such as scorecards.

Bankruptcy Prediction Models

- ***Behavior Scorecards***
Experian provides statistical models that can be used to predict the ongoing probability of a given outcome for existing credit customers. Possible outcomes include risk propensity, attrition, bankruptcy, and so on.

Application Fraud Screening

- ***Hunter***
Hunter is a software tool used to screen potential application fraud. This solution works off-line in batch mode and uses a series of algorithms to identify potential fraudulent applications that require more detailed investigation by an experienced credit officer.

Fair, Isaac & Company

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Mexico	Carlos Allende Macias	525-488-0801 (Mexico)	CAllende@FairIsaac.com
United States, Canada	Anna Solberg	1-415-492-5324 (United States)	AnnaSolberg@FairIsaac.com

Summary of Risk Management Tools and Services

Direct Marketing List Development

- Venture** – Available in the United States
 Venture combines Fair, Isaac’s leading predictive technology and Experian’s extensive consumer and business databases to help commercial credit grantors target direct marketing programs. Venture delivers scores and data that can help Issuers find the right business owner for a specific credit offer — and the right offer for every business. Venture enables Issuers to maximize ROI by lowering acquisition and cross-sell costs, reducing credit losses, and improving customer retention.

Credit Bureau Scores/Reports

- Small Business/Commercial Credit Bureau Scores** – Currently Available in Canada; In Development for the United Kingdom and Brazil
 Fair, Isaac currently provides small business credit bureau risk scores in Canada, and is developing the capability of providing commercial credit bureau risk scores in the United Kingdom and Brazil.

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- **Consumer Credit Bureau Scores** – Available in the United States
Fair, Isaac can provide consumer-only credit bureau scores in the United States.

Credit Scoring Models/Systems

Fair, Isaac provides a variety of credit scoring models, which are summarized below:

- **CreditDesk**
CreditDesk® underwriting and origination software is a comprehensive, Windows-based point-and-click approach to credit evaluation and processing that offers the power of a mainframe in an economical PC desktop solution. CreditDesk boosts processing efficiency by capitalizing on specific opportunities at every stage of origination and underwriting. CreditDesk is designed to move applications rapidly through processing — automating many standard procedures — so Issuers can quickly make their customers the most suitable credit offer. Issuers can easily improve the quality of their work by prioritizing their tasks and by putting the right level of control directly in their hands. Credit managers can use CreditDesk to shape, track, and modify strategy without disrupting operations.
- **SBSS-CreditDesk** – Available in the United States and Canada
SBSS-CreditDesk allows Issuers to process more credit approvals for small business in less time and focus underwriting resources on the critical decisions. This Microsoft® Windows®-based, Y2K compliant software uses the Small Business Scoring Service empirically derived pooled-data models to help increase approval rates and reduce expenses.
- **CrediTable**
Delivered in a fraction of time required for traditional model development, these cost-containing scoring models make it possible to apply application scoring to new, small, or niche portfolios that lack the extensive history required for custom empirical model development. CrediTable models are developed in one of two ways: through analysis of industry-specific data or judgmentally. Models are available for direct, indirect, and revolving credit; credit unions; home equity; auto leasing; and retail.

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- ***StrategyWare***

Fair, Isaac's StrategyWare decision support system for account origination allows users to design, test, and execute multilayered decision scenarios without relying on programming support. Patterned after Fair, Isaac's TRIAD® adaptive control system for account management, StrategyWare provides TRIAD's champion/challenger strategy testing technology with new Path™ steps structure technology, giving the user the ability to test and implement a far greater number of actions.

StrategyWare's path structure follows a sequence of user-defined steps, including character generation steps; rule steps; credit scoring steps; decision tree steps; and user-defined logic steps. Each path can contain as many as 999 steps, providing abundant flexibility when establishing decision criteria.

In contrast to conventional hard-wired processing systems that can take up to six months to implement or modify, StrategyWare's PC graphical user interface allows credit management personnel to directly and quickly implement or redesign paths and strategies.

The software also includes a score generation and scorecard management software component; an estimator that runs "what If" decision strategies prior to implementation; and easy-to-read strategy performance reports that track the performance and risk of each approach at every step.

- ***Application ScoreWare International***

Application ScoreWare is a sophisticated model management system that not only scores credit applications, but automatically installs, audits, maintains, and updates scoring models. The software's easy-to-use decision screens speed the implementation of credit decision strategies. Application ScoreWare users save money on model installations and updates, while being able to monitor and respond quickly to market changes.

- ***TRIAD Adaptive Control System*** – Available in all markets, but only in North America for Visa Business portfolios
TRIAD is a powerful, automated strategic account/customer management system combining behavior scoring, adaptive control software, and strategy consulting. Through the use of its champion/challenger testing capabilities, TRIAD has helped companies worldwide reduce losses, improve customer service, and increase revenue from their revolving credit, retail, installment lending, current account, telecommunications, and mail order portfolios.
- ***Custom Scoring Models***
Fair, Isaac can develop custom models for risk, response, profitability, and other outcomes directly related to marketing business objectives. These custom predictive models — developed from a variety of data sources and modeling technologies — provide insight that can help shrink marketing costs while boosting response rates and revenues.
- ***Small Business Scoring Service*** – Available in the United States
Fair, Isaac’s Small Business Scoring Services (SBSS) can help put the formidable power of automated processing and empirically derived models to work. With the SBSS models, Issuers have the flexibility to evaluate applicants for low or high credit amounts, with or without financial data, and with or without business bureau data. By using SBSS models, Issuers can increase approval rates while holding delinquency rates constant.
- ***SBSS ScoreWare*** – Available in the United States
Small Business Scoring ServiceSM - ScoreWare[®] combines Fair, Isaac’s empirically derived small business pooled-data predictive scoring software to create a powerful scoring system for small business credit granting.
- ***Vista Account Management Risk Score***
Vista helps small business credit grantors to better manage the risk of their accounts. By combining the sophistication of Fair, Isaac’s predictive models and Experian’s extensive databases, Vista provides a comprehensive solution that helps control credit quality, minimize expenses, and increase customer retention.

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- **CreditFYI** – Available in the United States
CreditFYI is an Internet-based trade credit evaluation service for the small business market. Financial service providers can offer this co-branded service through their Web site and improve their small business customers' profitability and cash flow.

Bankruptcy Prediction Models

Fair Isaac provides two alternatives for bankruptcy prediction models, summarized below:

- **CrediTable Bankruptcy Models**
Through the CrediTable product, Fair, Isaac can develop cost-containing scoring models to predict bankruptcy with enough advance warning to enable positive corrective action. Scoring identifies which account segments are likely to generate the highest bankruptcy losses relative to revenues. CrediTable models are developed in one of two ways: through analysis of industry-specific data or judgmentally.
- **Custom Bankruptcy Scoring Models**
Fair, Isaac can develop custom, empirical models to predict bankruptcy with enough advance warning to enable positive corrective action. Fair, Isaac bankruptcy prediction tools go beyond basic bankruptcy identification to focus more precisely on revenue. By making a laser-like distinction between the customers most likely to cause significant bankruptcy losses and those likely to contribute most to revenue, these tools help reduce the impact of bankruptcy on the bottom line.

Fraud Detection Systems

- **Fraud Intercept**
Fraud Intercept is an integrated, complete system solution for credit and debit card transaction fraud control. This solution effectively combines predictive models such as neural networks, software, and strategies against fraud by permitting Issuers to detect fraud and take appropriate actions. The combination of post-authorization and in-authorization implementation improves the ability to verify that the card use is genuine and allows fraud loss mitigation without delaying the authorization process.

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HNC Financial Solutions

Company Contact Information

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Summary of Risk Management Tools and Services

Business Verification

- Gemini Verify Score** – Available in the United States and Canada
 A collaboration of Equifax and HNC Financial Solutions, Gemini Verify Score is an identity authentication tool that can significantly reduce the costs of application fraud. It combines the strengths of Equifax’s comprehensive credit data with HNC’s extensive fraud control experience to offer an identity authentication score that is unparalleled in the marketplace. A predictive tool to assist in identifying suspicious behavior at the point of application, Gemini Verify Score helps reduce application fraud risk, lower costs, and improve customer relationships. Initial test results show that 50 percent or more of suspicious applications can be detected by inspecting just 5 percent of the lowest scoring applicants. Performance improvements over other scoring solutions range from 150 percent to more than 500 percent. Buying the score directly from Equifax saves the time and money it costs to install a scoring system in-house. Plus, Gemini Verify Score’s broad range of development data provides a measurement tool, which will aid in exploring markets and customer segments that may not have been considered in the past.

Application Fraud Screening

- Gemini Verify Score** – Available in the United States and Canada
 The Gemini Verify Score system described above for business verification can also be used to perform application fraud screening.

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Fraud Detection Systems

- ***Falcon Fraud Detection System***

Falcon™ is a patented neural network-based system that examines transaction, cardholder, and merchant data to detect a wide range of credit or debit card fraud. Using predictive software techniques, Falcon captures relationships and patterns that often are missed by traditional methods of detecting suspicious transactions. In actual use, Falcon has improved the fraud detection rate by 20 to 60 percent while significantly lowering the rate of false positives. The Falcon Expert subsystem lets fraud managers easily define and deploy rules to automate various fraud prevention procedures, creating or re-opening cases based on Falcon transaction fields and/or the Falcon score. Falcon is currently used by 16 of the top 25 card issuing banks in the world and monitors over 260 million payment card accounts worldwide. Falcon is furthermore generally credited with helping to slow the rise in bank card fraud losses in recent years.

Nestor Inc. / ACI Worldwide

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Nestor	Tom Spillane	1-401-331-9640 (United States)	TSpillane@Nestor.com

Summary of Risk Management Tools and Services

Direct Marketing List Development

- CampaignOne**
 CampaignOne provides flexible Windows NT decision support software in a server environment. CampaignOne can be utilized with Nestor modeling technology to provide effective solutions to address account attrition, bankruptcy, profitability, risk, cross-selling, up-selling, and acquisition. CampaignOne allows targeting and communicating to individual customers with one-to-one messages.

List Respondent Profiling

- CampaignOne**
 The CampaignOne system described above for direct marketing list verification can also be used to perform list respondent profiling.

Bankruptcy Prediction Models

- PRISM Bankruptcy**
 PRISM Bankruptcy provides early and accurate detection of personal bankruptcies. PRISM Bankruptcy augments the traditional approaches to detecting personal bankruptcies — behavior score cards and bureau score cards. Traditional score

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cards are issued in 30-day cycles, and do not provide detailed analysis of the cardholder's credit history. PRISM Bankruptcy analyzes each transaction in the individual's credit history as frequently as desired, allowing Issuers to reduce the credit limit to match the balance of the card, call the customer to investigate the situation, or obtain current credit bureau information.

Application Fraud Screening

- ***PRISM Application***

PRISM Application detects and prevents fraud before credit is issued. PRISM Application uses neural network technology to predict the credit-worthiness of an applicant. In addition, the system automates the credit risk assessment and application review process by putting information resources, such as credit bureau reports, at the fingertips of investigators. By basing credit decisions more on scientific data rather than purely judgmental policies, PRISM Application increases profits by increasing the number of approvals and reducing the number of unqualified candidates. This allows Issuers to lower their labor costs as well as the costs associated with purchasing credit bureau reports.

Fraud Detection Systems

- ***PRISM Credit***

PRISM Credit is a predictive credit card fraud detection and case management solution. PRISM Credit monitors fraud accounts accurately in a near real-time environment, and provides immediate management response capability. Utilizing a patented neural network technology and easy-to-use graphical interface, PRISM Credit reduces losses due to lost, stolen, counterfeit, card not received, and other credit card fraud by up to 58 percent – a major improvement over rules-based activity checks, statistical scorecards, and nonoptimized neural networks.

Visa Risk Management Services

Brief descriptions of products and services available through Visa that can assist in managing credit and fraud risk for Visa Business portfolios are provided below.

International Services

- ***Authorization Risk Model (ARM)***
The ARM is a stand-alone, workstation application developed to assist Issuing Members in making effective use of the VisaNet BASE I authorization services. This financial model can help Issuers evaluate the impact of various Issuer and Advice limits on their authorization processing costs, cardholder revenue, and fraud and credit losses, as well as providing a bottom-line, net benefit. The model uses system tables or can be customized by the Member, and displays the results either in table form or by graphic illustration, on-screen or in print.
- ***Automated Referral Service (ARS)***
ARS is an electronic call-transfer system designed by Visa to reduce the amount of time it takes to process calls from merchants or Members responding to a referral message. ARS cuts processing time for these calls by switching them directly to the Issuer.
- ***Automatic Cardholder Database Update (Auto-CDB)***
Auto-CDB is an online system that automatically updates information on the Visa Exception File. The system monitors Issuers' authorization responses and compares them with data currently on the Exception File. If an account designated by an Issuer for pickup is not on the Exception File, Auto-CDB immediately adds it to the file.
- ***Card Recovery Bulletin***
This is an international printed list of lost, stolen, counterfeit, and other cards that Issuers have listed for pickup. The Card Recovery Bulletin is only printed in countries outside the United States.
- ***Card Verification Value (CVV)***
CVV is a unique three-digit code included on the magnetic stripe of all valid Visa cards. The CVV is electronically checked during the authorization process for card-present sales to ensure that the card is valid.

- ***Card Verification Value 2 (CVV 2)***

CVV2 is a unique three-digit code that appears on the signature panel of all Visa bankcards and is used to confirm the validity of the card during card-not-present sales. Card-not-present merchants may ask customers for the code as part of the order-taking process and submit it for verification with other authorization information.
- ***Cardholder Risk Identification Service (CRIS)***

This transaction scoring and reporting service employs neural network technologies to develop risk-scoring models that identify fraudulent transaction patterns. CRIS is available by subscription through Visa, and can be used by Issuers as a stand-alone fraud detection system or as a complement to their internal fraud detection methods.
- ***Exception File***

The Exception File is Visa’s worldwide database of account numbers of lost/stolen or other cards Issuers that have been listed for pickup, referral, or other special handling. The account numbers for all transactions routed to Visa’s stand-in processing system are checked against the Exception File.
- ***Fraud Awareness Education***

Visa makes training programs, materials, and manuals available to assist Members, law enforcement, and merchants in their fraud awareness and reduction efforts.
- ***Fraud Reporting Program***

Visa developed this computerized data gathering and processing system for Members to collect, compile, and analyze information on confirmed fraudulent transactions.
- ***Global Customer Assistance Service (GCAS)***

The Global Customer Assistance Service provides a vast array of services to Visa cardholders worldwide, including emergency card replacement, cash disbursement, and other cardholder services. Issuers can select the extent of support Visa offers their cardholders, depending upon the Issuer’s needs and abilities to provide these services within mandatory time frames.

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- ***Global Fraud Information Service (GFIS)***

The Global Fraud Information Service is a fraud prevention and detection and risk management resource available to Issuers through Visa OnLine. GFIS provides a delivery mechanism for CRIS reports, and also provides a quick and easy method to electronically communicate fraud-related information between Visa, Visa Members, and law enforcement. GFIS provides a secure Web site with a wide range of fraud control tools and information, and provides analysis and statistical data on fraud losses and loss rates. GFIS also provides a secure e-mail facility and Member directory, enabling protected communications between all GFIS participants.
- ***Member Fraud Control Support***

Visa supports Members in their investigative efforts by coordinating with law enforcement and other Members.
- ***Positive Authorization Capacity Management (PACM)***

PACM is an electronic authorization management system that monitors the volume of authorization requests for individual Issuers. When the authorization volume being received by an Issuer meets or exceeds its capacity to respond, the system routes low-risk transactions to Visa Stand-in Processing (STIP).
- ***Positive Cardholder Authorization Service (PCAS)***

PCAS is an electronic authorization system that uses Issuer-specified limits to determine which transactions are switched to for authorization and which are routed directly to Issuers.
- ***Recovered Account Analysis***

Visa assists law enforcement by notifying Issuers of recovered, compromised account numbers and requesting that the Issuers contact the investigating agency.
- ***Risk Identification Service (RIS)***

RIS is a Visa loss control program for Acquirers that compiles fraud data and identifies merchant locations where fraud or other risk-related activity exceeds parameters set by Visa. Acquirers receive identification reports on merchants with excessive fraud activity and are required to take remedial action to help the merchant reduce losses.

- ***Stand-in Processing (STIP)***
Visa's online authorization processing system is STIP. It responds to merchants' requests for transaction authorization either when Issuers are unable to respond or when they have chosen to let Visa process certain transactions.
- ***VisaLine***
VisaLine is a subscription service providing current fraud trends and statistics, and also best practices for fraud avoidance to be used in Members' planning and program development processes.
- ***VisaNet***
These are the systems and services, including BASE II, through which Visa delivers authorization and transaction processing services to its Members.

U.S. Services

The following services are available in the United States Region only.

- ***Address Verification Service (AVS)***
AVS is an automated fraud prevention system that allows card-not-present merchants to confirm a cardholder's billing address while authorizing a transaction. The ability to confirm the billing address is a key indicator of whether or not a card-not-present transaction is valid.
- ***Authorization Strategy Assessment Model (ASAM)***
The ASAM is a stand-alone, PC-based spreadsheet that enables credit card Issuers to assess their authorization strategy and system parameter settings as well as their performance and operating practices. The model then generates "best practice" suggestions or recommendations for enhancing authorization-related operating practices. The model also generates graphs demonstrating the Member's performance against the Member peer group, and an overall average for the specific product (Gold, Classic, and Business), and a VisaNet system average.
- ***Bankruptcy Best Practices***
This is a service within the Visa Bankruptcy Recovery Program that allows Visa personnel and an outside consulting firm to review the operational procedures for bankruptcy loss prevention, bankruptcy operations, and bankruptcy recovery processes to increase efficiency and recovery and to reduce losses.
- ***Bankruptcy Criminal Pursuit Program***
Also within the Visa Bankruptcy Recovery Program, this program investigates and promotes federal prosecution in cases of bankruptcy fraud where patterns of repeated and premeditated abuse have resulted in substantial losses.
- ***Bankruptcy Notification Service (BNS)***
BNS is a service jointly developed by Visa and MasterCard to monitor bankruptcy filings in U.S. courts and notify Issuers of any current cardholders who have filed for debt relief and have outstanding charges on their accounts. BNS is a mandated service and uses the Issuers' Clearinghouse Service to provide Issuers with daily notifications of bankruptcy filings, dismissals, and discharges.

- ***D&B/Visa Business Market Spectrum Program***

Through an alliance between Visa and Dun & Bradstreet, Visa Business Issuers can now access a customized version of Dun & Bradstreet's turnkey desktop database marketing solution, D&B® Market Spectrum™. The D&B/Visa Business Market Spectrum Program is an advanced analytical resource that can help Issuers increase Visa Business response rates and target new markets while reducing risk and acquisition costs.
- ***Experian/Visa Business Direct Marketing Solution***

Through a strategic alliance between Visa and Experian (formerly TRW Information Systems and Services), Visa Business Issuers can access the Experian/Visa Business Direct Marketing Solution, offering Visa Business Issuers cost-effective access to Experian's business information database and tools. Through this alliance, Visa Issuers can achieve preferential pricing, with savings that range from 15 to 74 percent off the standard prices.
- ***Fair, Isaac/Visa Business Scorecard***

This scorecard is a credit approval scoring system based on pooled results of several Visa Business Issuers in the United States. The model develops a score based upon application data, consumer bureau scores for up to two account guarantors, and business credit bureau reports.
- ***Fraud Reduction Committees (FRCs)***

These are regional forums held in high-fraud-loss cities for Visa Members to discuss all aspects of fraud and awareness training. FRCs enable Members to work together to combat common fraud problems.
- ***Issuer Risk Key Indicators Program***

Visa programs provides critical benchmark information that Members actively use for risk assessment, loss prevention, and marketing strategy initiatives. This program's focus is to assist Issuers in identifying the risks and profitability opportunities associated with their Visa Credit, Check, and Commercial card products.
- ***Issuers' Clearinghouse Service (ICS)***

ICS is a bank card application verification system cosponsored by Visa and MasterCard. ICS verifies an applicant's address, phone number, and Social Security number, and whether he or she has provided any questionable data on the application, or has a history of excessive application activity, bankruptcy filings, credit card fraud, or abuse. ICS

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is a mandated service for U.S. Members for consumer credit cards. Members can also use the service for address changes, credit line increases, and card reissues. The ICS Prescreen Service is also available for direct-mail programs.

- ***NRI (Not-received cards) Reporting***

The NRI program was developed by Visa for completing and processing loss reports to the U.S. Postal Service. Visa staff analyzes NRI reports monthly by ZIP code and makes the data available to Members via VisaLine.

- ***Visa Bankruptcy Recovery Program (VBRP)***

VBRP is a coordinated program of services and resources aimed at helping Members reduce losses due to bankruptcy fraud. VBRP services are open to all Members and include the Collective Pursuit Program, the Bankruptcy Criminal Pursuit Program, and the VBRP Computer Bulletin Board. The VBRP supports legislative change and provides Members a cost-effective means of challenging fraud and abuse.

- ***VBRP Computer Bulletin Board***

The VBRP Computer Bulletin Board is a nationwide board sponsored by the VBRP to alert Members to current bankruptcy fraud activity, to share information on recovery strategies, and to facilitate communication between Members and law firms handling cases for the Collective Pursuit Program.

- ***Visa Business Pooled Response Model***

Visa Business Issuers can increase their chances of targeting the best Visa Business prospects with the new Visa Business Pooled Response Model. Using response data from a representative group of Visa Business card Issuers, the model ranks prospective customers on their likelihood of responding to a Visa Business card offer.

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