

Understanding (and Optimizing) Credit Card Fees

Did you know Visa®, MasterCard®, and Discover® have their own interchange programs and combined there are over 300 levels of interchange?

While that may seem overwhelming, there are ways your processor can reduce interchange fees for your business. When payment cards are accepted in your business model, engaging a flexible and secure processor protects sensitive data and minimizes interchange rates and penalty fees.

Read on to learn why you may be overpaying in fees and how you can adjust your processes to minimize those fees and maximize your return.

Introducing Interchange Rates

In a credit card transaction the quality of the data transmitted between processors and banks controls the amount of the interchange rate. Your payment processor determines the quality of the data sent and the security surrounding it. This decides the rate you're charged and the level of data protection you and your customers receive.



The usual bank fee of **2.5%** on a **\$40** transaction results in a **\$1** processing fee.

Where Do the Fees Go?

When a customer pays by card, your business (whether it comes from a POS or ERP) connects with a card processor. The processor relays card data to the issuer (card brand) which communicates with the cardholder's bank to obtain an authorization and collect payment for deposit to the acquiring bank (your bank). In the midst of this process, fees are collected along the way:

On that **\$40** transaction, **\$1** went towards interchange fees. Here's how it's distributed:



\$0.70 goes to
Cardholder's Bank



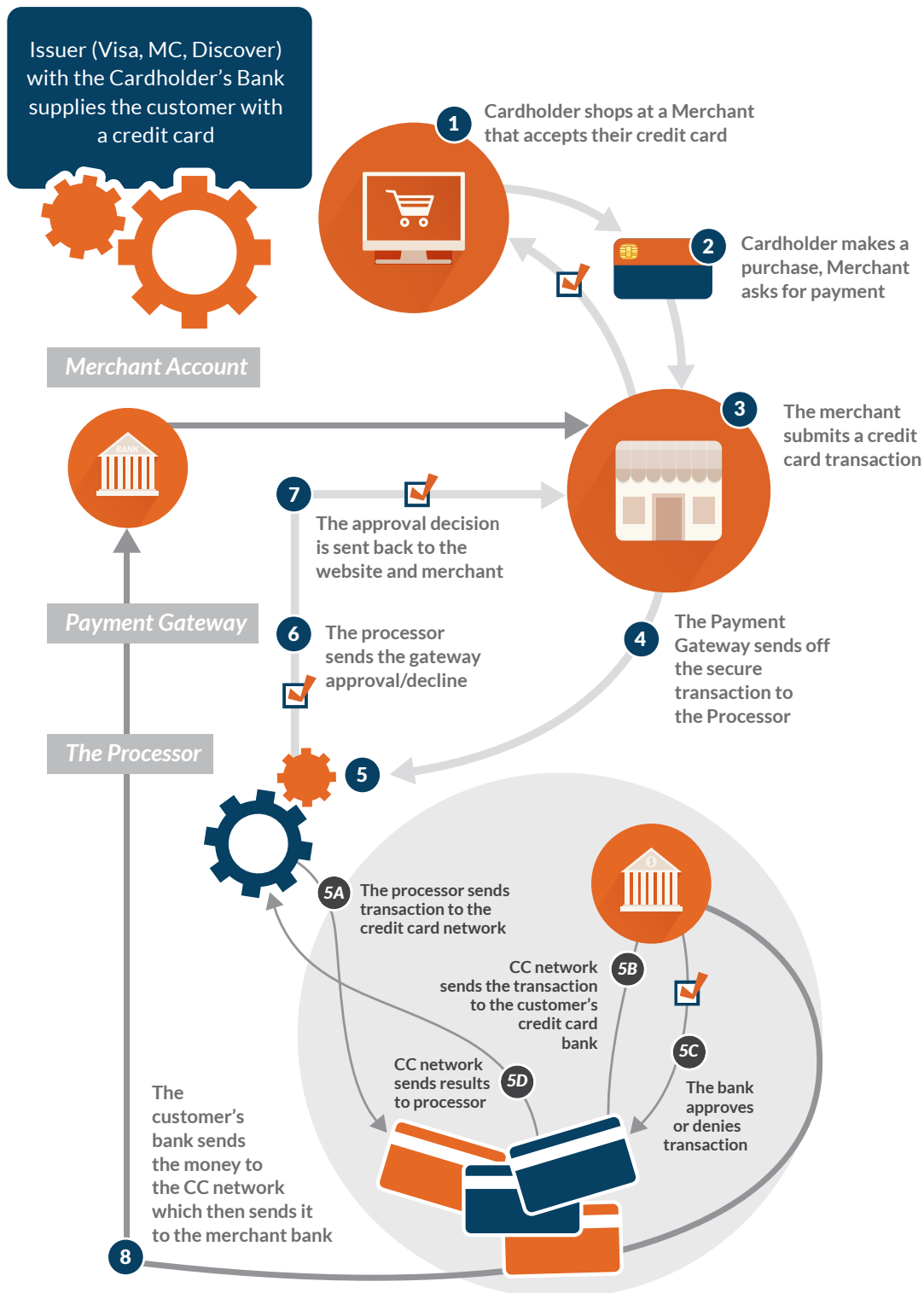
\$0.20 goes to
Acquiring Bank



\$0.10 goes to Issuer
(Visa/MasterCard)

The Transaction Process

To understand interchange rates and how they affect your business, it's important to understand the complex transaction process.



Fees Don't End There

Interchange rates aren't the only fees generated during a transaction. Depending on the nature of your business, settlement may occur days after authorization once the transaction is completed and the final amount is known (consider partial backorders, hotels, catering, or auto rentals). If the final amount varies from the initial authorization amount by 15% or more, extra fees apply.

Your business is liable to fees and downgrades if the following occurs during settlement and reconciliation:

- > Not settling within 2-3 days of authorization
- > Submitting transactions with missing data elements
- > Authorization amount varies from the settlement amount (except merchant types that grant a variance for tips)



Reconciling open items in your AR report (invoices or receipts) against a summary of daily transactions is time consuming and prone to error. Fees, penalties, and interchange are netted out of the bank deposit so it's unlikely that the bank deposit matches the transaction amount, creating difficulties for your back office staff and leaving your business susceptible to downgrades.

Once settled, there is still the risk of chargebacks. This happens when a customer disputes a charge with the issuer, usually on the grounds that the charge was unauthorized or fraudulent. Chargebacks may draw penalty fees and can even result in a higher standard interchange rate.

Top 5 Reasons for Overpayment

1. Submitting transactions with missing data elements
2. Not including data from authorization, i.e. CPS data and POS flags, in settlement
3. Settling transactions for an amount more than 15% different from authorization
4. Not reversing an authorization that was never settled
5. Not sending Level II and Level III data for Business, Corporate, and Purchase cards

Managing Fees

Level II and Level III Data for B2B Transactions

Remember, there are hundreds of rate categories your transactions can fall into as determined by card brands. Providing as much information as possible about the customer using the card and the products being purchased can change the rate category of a transaction and therefore, lower interchange fees while improving security.

- > **Customer's Billing Address:** Including a verified address substantially lowers the risk of card fraud.
- > **Security Code:** The card verification value (CVV) printed on the card never appears on sales receipts or account statements, nor is it stored in card databases. Providing a valid CVV helps to prove the customer is the person that owns the card, lowering risk.
- > **Items Purchased:** Level II and Level III data provide additional details about the customer and the items purchased, including item codes, unit volume, or itemized sales tax.



Interchange Cost Plus

Traditionally, interchange cost plus pricing was only available to businesses processing high volumes of credit card sales each month. Increased competition in the industry means interchange cost plus pricing is available to more businesses, including low volume or new businesses.

This type of pricing structure means merchants pay the exact interchange fee in addition to a flat markup to their merchant service provider, eliminating inconsistent and inflated tiers. While interchange cost plus may sound intimidating, it is in fact more transparent and less expensive than tiered accounts. Interchange cost plus accounts only have two rates, the interchange markup percentage and a transaction fee.

How It Works

A business with an interchange cost plus pricing structure pays the wholesale interchange processing rate plus a fee to their processor, **0.55% + \$0.15** per transaction. When an interchange rate is optimized with Level II or Level III data your business receives the benefit.

Transaction Level Requirements

Data Type	Level I	Level II	Level III
Merchant Name	Y	Y	Y
Transaction Amount (Total)	Y	Y	Y
Date	Y	Y	Y
Tax Amount		Y	Y
Customer Code		Y	Y
Merchant Postal Code		Y	Y
Tax Identification		Y	Y
Merchant Minority Code		Y	Y
Merchant State Code		Y	Y
Ship from Postal Code			Y
Destination Postal Code			Y
Invoice Number			Y
Order Number			Y
Item Product Code			Y
Item Commodity Code			Y
Item Description			Y
Item Quantity			Y
Item Unit of Measure			Y
Item Extended Amount			Y
Freight Amount			Y
Duty Amount			Y

Fixed Rate Pricing – The Small Print

Recently, many processors began offering a simple, fixed rate solution for customers. While the clean pricing format is appealing—2.75% + \$0.25 per transaction is a lot easier to understand on a statement than a different rate for every transaction—ultimately, the customer is overcharged. Your processor may optimize interchange rates but your business doesn't profit the difference.

What's the Solution?

Monitoring hundreds of varying interchange levels is overwhelming and impossible when you have a business to run. Alternatively, ignoring the opportunity to optimize interchange rates impacts your revenue.

There are solutions. Interchange cost plus pricing, including Level II and Level III data on B2B transactions, and appointing a high quality processor that actively monitors interchange rates make all the difference.

A few things to consider when choosing a processor:

Active Analysis - Visa, MasterCard and Discover alter interchange categories every six months, changing the qualifications for optimal rates. Quarterly interchange audits by your processor keeps your business up to date on interchange fees.

Security - Your processor transmits sensitive cardholder data. It's very important that they encrypt and tokenize that data before storing it in a secure vault, outside of your system.

B2B Experience - As explained, including Level II/Level III data in B2B transactions lowers the interchange rate charged. An experienced B2B processor automatically includes this information in the transaction, improving the rate category.

Automated Reconciliation - The complicated process of settlement and reconciliation tacks on avoidable fees. Integrating a processor that offers reconciliation services greatly reduces the open items left in your AR report and the risk of downgrades.

Expertise - Go with a company that has a history of excellent service, impenetrable security, and proven interchange management. You'll sleep better knowing your business is in experienced hands.

Processing by CardConnect

CardConnect offers high quality processing at very competitive rates. With a history of expertise in data security and over 50,000 clients including Fortune 500 companies like GE and The New York Times, CardConnect knows how to get the best interchange rates for your business.

Payments are processed through CardConnect's patented CardSecure technology so sensitive card data resides outside of your system. By aggressively managing rates with quarterly interchange audits, you'll receive the lowest possible rate on every transaction.

Trusted By



As Seen On

THE WALL STREET JOURNAL



USA
TODAY
A GANNETT COMPANY



REUTERS