



Understanding Your Merchant Fees

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Agenda

- How merchant fees are determined?
- What is Interchange?
- How can you ensure the best interchange qualification?
- What laws/regulations control merchant processing?
- Should you use Convenience Fees or not?
 - What does this mean and what are the pros and cons?
- Factors to consider when doing a merchant RFP

How Merchant Fees Are Determined?

- The merchant processors base their pricing on the following criteria:
 - General Risk of the industry (i.e. Retail sales vs. travel industry)
 - Is the card present or not present at the time of purchase?
 - How is the card processed? Internet, terminals, etc
 - What are the annual Credit Card sales volumes?
 - *Dollar amount*
 - *Number of transactions*

What is Interchange?

Interchange is a fee set and charged by the Associations (Visa/MC) to all processors and passed through to Merchants for the service of accepting card transactions.

Credit Card Transaction: Process Flow

Consumer
(Cardholder)



Merchant:
Terminals \ Gateways \
Point of Sale



Issuing
Bank



Acquiring
Processor \
Sponsor-Fed
Bank



Interchange Management

There are three main ways a processor charges merchants.

- **Bundled**
 - One rate plus downgrade fees
- **Tiered or Blended Rates**
 - Usually 3 tiers
 - ❖ *Qualified*
 - ❖ *Mid-Qualified*
 - ❖ *Non-Qualified*
- **Unbundled (Interchange Plus)**
 - The best!

Bundled Rate Pricing


- A “**downgrade**” is when the merchant has to pay a higher interchange rate on a transaction, as compared to the “best” rate. The “best” interchange rate is the lowest cost interchange rate that the merchant would typically pay based on how they process the transaction, their industry, and how timely the transaction is submitted for clearing. Example:
 - The “best” rates for Direct Marketing are either CPS Card Not Present or CPS e-Commerce Basic for Visa and Merit 1 for MasterCard.
- A downgrade occurs when a transaction does not qualify for the “best” interchange rates. Reasons for this include:
 - Transaction was key entered instead of swiped, transaction was not submitted for clearing within 1 or 2 days, or could be driven by the type of card (e.g. a rewards cards and commercial cards have higher interchange rates).

Tiered Pricing for a Bundled Rate

- There are usually three tiers that a merchant processor charges. A tiered rate must be high enough to cover the highest interchange qualification.
 - Qualified
 - This rate is for all transactions processed either as a card present or card not present, dependent on how the account was set up
 - Mid-Qualified
 - Occurs when a transaction is downgraded for one or more reasons
 - Non-Qualified
 - Occurs when a transaction is downgraded for one or more reasons


Unbundled Pricing = Interchange Plus


There are four (4) components in a merchant processing rate. There is the Visa/MasterCard/Discover Interchange cost, the per item fee, the dues and Assessment fee, and the “discount fee”.

 **The Interchange fee** – The Interchange rate is a fee that is established by the Card Associations for each type of card transaction. This the largest portion of the fees. These fees go back to the Card Issuing bank, as they are taking on most of the risk for the credit card transactions. (i.e. if a cardholder is delinquent with their payment, or the card is used fraudulently.) The Merchant also receives the settled funds before the Card Issuer is paid for the charge.

Interchange Components

 **Per Item Fee** – This fee is also established by Visa and MasterCard, and goes back to the Card Issuing Bank.

 **Dues and Assessments** – This is a small percentage (.11% or .12% for MC transactions over \$1,000) this fee supports the Visa, MasterCard, and Discover associations.

 **Discount rate** – This rate/or per item fee (can be priced both ways), goes to the merchant processor (Bank of America Merchant Services, Chase, Citi, etc.). This fee is the only negotiable fee. It is based on three items:

- Average ticket size
- Annual Volume
- Transmission method (terminal, internet, etc)

Assessment Fees

Visa Assessments is 0.11% - Fee assessed on the gross dollar amount of all Visa transactions.

MasterCard Assessment

- 0.11% Fee assessed on the gross dollar amount of all MasterCard transactions.
- Assessments that are $\geq \$1,000$ is .12% - Fee assessed on the gross dollar amount of MasterCard Consumer and Commercial credit transactions that are \$1,000 or greater.

Discover Assessments is 0.105% - Fee assessed on the gross dollar amount of all Discover, JCB, China UnionPay, Diners Club International, and Korea BCcard transactions.

What Can Make Up Your Other Fees?

- Interchange Access Fee
- Misc Fees: i.e. Cross Border Fees, Zero Limit Fee, etc.
- Chargebacks
- Gateway and Point of Sale Fees
- Monthly Statement fees
- PCI compliance fees

Sample of Interchange Fee and Cost

Card Type	Description	Trans Count	Volume	IC Rate	IC PIF	Interchange Cost	IC Per Item Cost
MC	M009-Mc-domestic merit iii	383	\$27,159.36	1.58%	\$0.10	\$429.12	\$38.30
MC	M011-Mc-domestic merit i	264	\$36,606.66	1.89%	\$0.10	\$691.87	\$26.40
MC	M020-Mc-public sector	37,940	\$1,751,028.23	1.55%	\$0.10	\$27,140.94	\$3,794.00
MC	M077-Mc-world mc public sector	34,342	\$1,581,586.83	1.55%	\$0.10	\$24,514.60	\$3,434.20
MC	M089-Mc-merit 1 electronic commerce	5,821	\$1,269,765.55	1.89%	\$0.10	\$23,998.57	\$582.10
VISA	V038-Vi-cps retail 2 (emerging markets)	165,115	\$12,450,884.25	1.43%	\$0.05	\$178,047.64	\$8,255.75
VISA	V047-Vi-cps/small ticket	297	\$1,828.10	1.65%	\$0.04	\$30.16	\$11.88
VISA	V050-Vi-cps/rewards 1	875	\$58,287.11	1.65%	\$0.10	\$961.74	\$87.50
VISA	V051-Vi-cps/rewards 2	42	\$1,647.52	1.95%	\$0.10	\$32.13	\$4.20
VISA	V055-Intl Bus/Sig.Bus/Corp/Purch	3	\$156.00	2.25%	\$0.00	\$3.51	\$0.00
VISA	V055-Intl Bus/Sig.Bus/Corp/Purch	177	\$7,762.32	2.45%	\$0.00	\$190.18	\$0.00

Where Do These Rates Come From?



The Interchange Fees are determined by the Associations based on a specific set of rules published by each entity

Visa Interchange Rates

http://usa.visa.com/merchants/operations/interchange_rates.html

MasterCard Interchange Rates

http://www.mastercard.com/us/merchant/how_works/interchange_rates.html

What Laws / Regulations Control Merchant Processing?

- The Card Associations
 - Visa (70% market share)
 - MasterCard
 - Discover
- PCI Security Standards Council
 - www.pcisecuritystandards.org
 - The PCI Security Standards Council Board of Advisors is composed of representatives from across the payment chain -- merchants, financial institutions, processors and more -- as well as from around the world.
- State laws and statutes

Convenience Fees

- What are they?
- Managed vs unmanaged
- Statutes in MO about the fees

Convenience Fees – Definition

- Visa is the ‘enforcer’ of when Convenience Fees are allowed or not.
- Traditional definition: Can charge a fee for convenience if Credit Cards are the only payment option for a convenient channel of payment such as internet or over the phone?
- Cannot discriminate against card payments if there are other payment options in the same channel.
- Exception: Tax Payments was exempted only.
- Other brands have allowed fees no matter what.
- Visa is now allowing third party collection.

Convenience Fees – Managed Structure

- Managed means a “submitter” (third party provider) collects the convenience fee and pays all merchant fees from these funds
- Government Agency receives 100% of funds for their payments only
- The “submitter” separates the convenience fees from the payments.
- Government Agency does not pay merchant fees their constituents do so with the convenience fees they pay.

Convenience Fees – Managed Structure

- The submitter establishes the convenience fees in accordance with the Card Associations rules.
- The submitter makes money on difference between interchange costs and convenience fee collected
- Puts all costs on consumers

Convenience Fees – Unmanaged Structure

- Convenience Fees are deposited with Government Agency – can be separate account
- Government Agency pays merchant fees from these funds and keeps the difference
- Still keeps funds separate for accounting
- Allows government to set and possibly reduce convenience fees closer to improve usage.

Convenience Fees in Missouri

- What's allowable in Missouri by State Statute?
 - On the Missouri Tax collectors site they reference convenience fees at 3.6%
- Does this matter considering Visa's restrictions?
 - Debit cards now have a cap as to the amount that can be charged for PINless debit transactions of \$3.95 for convenience fees.

What Changed in the New Release From the Card Associations?

- Debit card now have two Interchange rates:
 - Regulated- these are debit cards issued by Financial Institutions are over \$10Billion in assets
 - Non-regulated- for Financial Institutions under \$10Billion
- The April release Visa had some changes in the “Retail 2” interchange category.
 - Signature Debit and prepaid transactions in a face to face environment will no longer get the Retail 2 rate
 - Merchants must ensure they perform Address Verification (AVS) on key entered transactions.

The Retail 2 rate is not being eliminated, it is just the qualification for this rate.

Factors To Consider For a Merchant RFP

- Do not be shy, give us your “wish list” of products and services. Pretend like money is no object!
 - Do you want any sort of check conversion?
 - What about check acceptance on line?
- Be sure to state clearly how you want the processor to price your business.
 - Interchange plus
 - *Per item fee or Authorization fee*
 - *Percentage rate or cents per item rate – depends on variability of transaction size*
- To compare all of the fees, you might want to put the pricing on a excel spreadsheet for ease of comparison.

Factors to consider when doing a merchant RFP

- Be sure to include all of your processing volume by card type & number of transactions.
- List all of your equipment and processing methods
 - Terminals make and model
 - Software
 - Internet gateway/interfaces
- Keep the RFP simple. Allow for short succinct answers.

Any Questions?

Thank You!