How to Take Control of Your Credit Card Processing and Reduce Fees

Do You Accept Credit Card Payments?

This white paper provides CFO's, senior finance executives, controllers, and accounts payable teams with guidance on reducing the amount of fees spent each month on credit card processing. It explores the complexity of the credit card processing industry and provides concrete tips and solutions for reducing processing fees.

Executive **Summary**

Most businesses accept credit cards as a form of payment from their customers. In fact, the number has increased dramatically in recent years due to both the push from card issuing banks and the convenience it provides to consumers and businesses alike. Rewards offered to those using a credit card for personal or business purposes are substantial, making it an obvious choice for many.

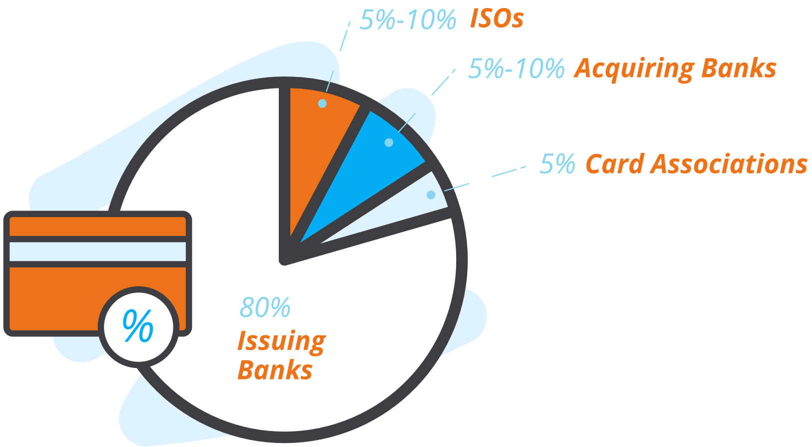
While the convenience and flexibility of accepting payment via credit card is a no-brainer for most businesses, the cost is often unnecessarily high. Many businesses simply accept fees associated with credit card processing as a “cost of doing business” with no attempt to understand and reduce them. Why is this the case? One reason is that we rely upon our merchant processors for information. Because merchant processors are not incentivized to optimize our payment processing, which may have the effect of reducing their profits, they do not bring opportunities to our attention. They may also be unaware of many savings opportunities that do not affect their profits. Another reason is that merchant statements are not transparent and confuse even the sharpest financial executives. With hundreds of card types and complex fee structures, it is easy to see how excessive and unnecessary fees can be hidden. And this industry is focused on spending rather than saving. Finally, it is very difficult to determine the market rate for merchant processing. **How would you ever determine what your competitors pay to process card payments?**

Fortunately for those seeking to take control of their credit card processing fees, there are actionable steps they may take which are outlined below.

Introduction **to the Players**

In order to take control, you must understand the fees you pay, to whom they are paid, what you can change and what you can't. Most financial executives we speak with do not truly understand their credit card statements and do not understand where their fees go. Very few of them believe they have any influence or control over their company's credit card fees. Interestingly, most of them believe they are receiving the best rate possible.

Let's start with a brief overview of the players in the credit card industry and the fees they charge:



Independent Sales Organizations (ISOs)

ISOs are individuals or organizations that represent the Acquiring Bank and sell the access to process credit card payments. Most businesses work with an ISO which is often synonymous with a merchant processor. ISOs cannot offer credit card processing without being sponsored by an Acquiring Bank. The Acquiring Bank, on the other hand, can make such an offer without an ISO. ISOs generally receive around **5%-10%** of the total transaction fees and are considered *traditional* merchant account service providers.

Acquiring Banks

Acquiring Banks are the financial institutions that process credit card payments on behalf of a merchant (i.e., the merchant's bank). They may or may not be associated with an ISO, either one of which may be referred to as a merchant processor. Acquiring Banks assume the risk associated with each transaction they process. If a business is unable to fund a reversal, refund, or chargeback, the Acquiring Bank must provide the funds to make the cardholder whole.

Examples of some large acquiring banks include Wells Fargo, Elavon, Chase and Bank of America. Acquiring Banks receive around **5%-10%** of the total transaction fees and up to 15% if there is not an ISO involved..

Card Associations

A Card Association is a network of Issuing and Acquiring Banks that processes credit or debit cards of a specific brand such as Visa. The most common networks in the United States are built upon Visa and MasterCard. Networks like these allow the authorizations and transfer of funds to be transmitted back and forth. Card Associations generally receive around 5% of the total transaction fees.

Cards like American Express, Discover and Diner’s Club are different in that they do not rely upon a network of Issuing and Acquiring Banks. They issue their own cards, authorize transactions and settle with both cardholders and merchants. Hence, they collect 100% of the fees that generally equate to as much as **3%** of the total transaction.

Issuing Banks

An Issuing Bank is a bank that offers Card Association branded credit or debit cards to consumers (i.e., the cardholder’s bank). Your local bank, or any bank, is considered the issuer of credit cards. Generally, **80%** of merchant processing fees go to the Issuing Bank.

Most financial executives we speak with do not truly understand their credit card statements and do not understand where their fees go.

A Closer Look at the **Rates and Fees**

On average, most businesses pay 2% - 3% in total processing fees to accept payment via credit or debit card. These processing fees are illustrated in one form or another on your merchant statement each month. Although there are a long list of fees that may appear on your merchant statement, some of the most common are listed below.

Discount Rate

The Discount Rate is the rate charged to merchants by the Acquiring Bank for processing a credit or debit card transaction. It includes all mark-ups, assessments, dues, fees and network charges (e.g., interchange) and usually amounts to 2% - 3% of the total transaction.

Interchange

Interchange is the fee that a merchant's bank pays to a cardholder's bank in a credit card transaction. This fee is set by the Card Associations and is based upon a complex pricing structure tied to the type of transaction (i.e., whether the card was processed online, over the phone, inserted, swiped or keyed in, etc.), the jurisdiction, card brand, card type and characteristics of the accepting merchant. Interchange fees are typically a flat fee plus a percentage of the total purchase price. Interchange averages around 2% in the United States.

Annual Fee

This is a fee charged by some providers to cover costs associated with maintaining the merchant's account and often contains a Payment Card Industry (PCI) Compliance fee.

Authorization Fee

This fee is charged each time a transaction is sent to the Issuing Bank to be authorized regardless of whether the request is approved and averages around $.10 - $.25 per authorization attempt.

Batch Fee

Completed transactions are often “batched” or held in a group and sent to the Acquiring Bank for payment at a later time. Merchants are often charged a Batch Fee each time the batched transactions are sent. If a batch is not closed every 24 hours, a higher Discount Rate will be charged for all transactions in that batch.

Chargeback fee

A “chargeback” is the return of funds to a cardholder, initiated by the Issuing Bank to settle a debt. It is a reversal of a transaction usually associated with an unauthorized transaction or fraud. This should not to be confused with a refund initiated by the merchant. A chargeback will typically cost the merchant a chargeback fee of $15 - $30 along with the cost of the transaction and the amount processed.

Customer Service Fee

This fee may be charged by some providers to pay for the cost of customer service or support. This is typically a flat, monthly fee in the range of $20 - $50.

Early Termination Fee

If the merchant has entered in to an agreement with a provider that includes a fee for early termination, the provider may charge this fee for terminating prior to the expiration of the agreement. This may be a flat or variable fee and is generally determined using a formula based upon the number of months remaining in the contract multiplied by a percentage of the anticipated volume.

Monthly Gross Pay Fee

This fee is charged by American Express to merchants that choose to pay their fees monthly instead of daily.

Monthly Minimum Fee

This fee is charged when the merchant does not process a minimum dollar amount in a given month sufficient to cover the provider’s costs associated with maintaining the account.

PCI Compliance and Non-compliance fees

PCI Compliance fees may be charged by your processor to cover their cost of ensuring that your processing is PCI Compliant. These fees typically range from $60 to $120 per year. PCI Non-compliance fees are charged by a card brand when a merchant account is not compliant. These fees are typically around $20 - $60 per month.

Statement Fee

This is a monthly fee related to the monthly statement produced for the merchant detailing the amount of processing and the associated fees.

Transaction Fee

This fee may be charged for each authorized transaction. The typical range for this fee is $.10 to $.25 per transaction.

Payment Platform Fees

A Payment Platform is a mechanism by which a terminal machine or virtual terminal gateway can access the networks to receive authorization codes so transactions may be approved or rejected. Payment Platforms are used when the merchant’s Point of Sale (POS) system cannot directly connect to the processor. Merchants pay additional fees to use Payment Platforms. Additionally, merchants can also expect to pay for the necessary software or hardware to accommodate the use of a Payment Platform.

On average, most businesses pay 2% - 3% in total processing fees to accept payment via credit or debit card.

Reducing **fees**

We have found that businesses that engage an auditing firm generally pay 25% lower fees than their industry counterparts and save significantly more per month than do those who go about it alone.

Although most financial executives believe their rates are competitive, they do not really understand their merchant statements or the fees they pay. In fact, we have found that eight out of ten financial executives believe they have very little influence or control over their credit card fees. It's a cost of doing business, right? Yes, to some degree, but it costs the uneducated much more than it should.

So why do most business executives remain in the dark with a belief that their rates are competitive when they may be paying far too much? First, most businesses do not staff a merchant processing expert and they simply do not have the knowledge or access to the data they need. Merchant statements are complicated. There are literally hundreds of different card types (consumer cards, debit cards, prepaid cards, business cards, purchasing cards, etc.) that all have an impact on fees. Second, most business executives believe that, because they are dealing with large Card Associations and banks, their fees are fixed and there is no way to reduce them. Finally, most businesses work with an ISO that may not give them a clear picture of their options as discussed above. This may be because the ISO is not incentivized to bring a savings opportunity to their attention, may actually lose profit if a savings opportunity is brought to their attention, or may simply be unaware of a savings opportunity.

There are several ways you can reduce your merchant processing fees.

1. Use an Auditing Firm

Why you should consider engaging an auditing firm

Most people would not consider performing a medical procedure on a friend or representing themselves in a court of law but they often attempt to navigate unfamiliar territory in business without the assistance of an expert. Using an unbiased expert to advise and assist you in merchant processing can be very worthwhile. We have found that businesses that engage an auditing firm generally pay 25% lower fees than their industry counterparts and save significantly more per month than do those who go about it alone.

Qualified auditors have knowledge and expertise that you don't. In fact, auditors often have extensive industry knowledge in areas many processors do not. Qualified auditors should have experience working with the various platforms processors use and will know the strengths and weaknesses of each. This can directly affect savings. Common platforms include TSYS, First Data, Elavon, Chase Paymentech, Worldpay, Vantiv and others.

Qualified auditors will also know the back-end cost structure of an ISO or processor allowing them to measure their profit margins. They should also understand the strengths and weaknesses of each gateway and terminal machine that directly affect your savings. Given that most businesses do not have this information, it is easy to see why they may settle for higher fees. This knowledge is critical to achieving maximum savings.

Through years spent working in the credit card industry, qualified auditors will collect invaluable data which they will use to create benchmarks based upon business size, volume and industry that they will rely upon to identify excess fees and processing inefficiencies.

How to select the right auditing firm

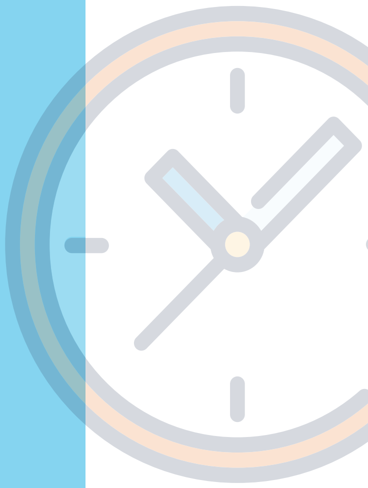
It is important to find an auditing firm with your best interest in mind that is committed to maximizing savings for your company. The key to maximizing your potential savings is ensuring that the incentives of you and your representative are properly aligned. Auditing firms should be unbiased, independent third-parties and not merchant processors.

Attributes of a Properly Incentivized Auditing Firm

- Their compensation should be based solely upon a percentage of the actual, realized savings they generate
- Savings opportunities should not require switching processors, although this may be necessary in some cases to maximize the savings
- The service should include periodic monitoring to ensure the savings remain in place
- They should be able to develop and customize personal strategies for lowering your monthly merchant fees
- They should have the ability to collect refunds on your merchant account when applicable
- They should be able to provide a savings estimate before fully engaging to help you determine whether the potential savings are worth pursuing
- They should establish a transparent baseline rate from which they will illustrate savings by comparing it to the newly adjusted rates

Things to Consider

- If switching processors is in your best interest and you choose to go this direction, will you receive unbiased advice in your selection of a new processor?
- Can this auditor help you fine-tune your processing to eliminate inefficiencies and unnecessary fees?
- How much time is required of your staff? Is it minimal?
- Do you have ultimate control over their recommended savings initiatives and whether they will be implemented?
- Do they offer references?
- Do they include Visa/Mastercard/Discover interchange fees and American Express fees as a part of their savings methodology?



2. Make sure your merchant account is PCI Compliant

Ensure that your merchant account is PCI Compliant to avoid PCI penalty fees and protect your customers' data. PCI Compliance means conforming to a set of security standards designed to ensure that all companies that accept, process, store or transmit credit card information maintain a secure environment. These standards are established by the Payment Card Industry Security Standards Council (PCI SSC) and apply to every organization, regardless of size or number of transactions.

This council was created by the major payment card brands that have the ability to charge fees for non-compliance. At their discretion, they may fine an Acquiring Bank $5,000 to $100,000 per month for PCI Compliance violations. These banks will most likely pass this fine along to the processor and merchant and either terminate the relationship or increase transaction fees.

PCI Compliance for your business is determined by the way you process transactions, your industry and the annual number and dollar amount of transactions processed. For example, small to medium sized businesses must satisfy the compliance requirements by completing a questionnaire, a vulnerability scan, an attestation of compliance and then must submit this information to their acquirer. A responsible merchant processor should assist you to ensure that you are PCI compliant. If you do not take these steps to maintain compliance you will receive a fee on your merchant statement called "PCI Non-Compliance Fee" as discussed above. This monthly fee comes directly from the card brands like Visa or Mastercard and not your merchant processor, although a processor will often include a markup on this fee to put more money in its own pocket.
PCI Compliance Fees, as outlined above, are often charged by a merchant processor in exchange for maintaining PCI Compliance on your account. See **https://www.pcicomplianceguide.org** and **https://www.pcisecuritystandards.org** for more information on PCI Compliance.

3. Use Your ERP to Efficiently Process Credit Card Payments

Payment processing integration allows for data taken from credit card payments to be automatically uploaded into a business's accounting or Enterprise Resource Planning (ERP) system once a sale is made. This increases profitability in several ways. First, it reduces the need to have employees dedicated to manually entering transaction data and reconciling accounts. Second, it reduces the human error and resulting cost associated with manual data entry. Finally, it provides real-time cash flow data to the business that can be vital to daily decision making. Consider payment processing integration to increase profitability and reduce headaches.

4. Speak with Your Merchant Processor About Reducing Fees

Reducing the Discount Rate even a few basis points can have a major impact on your company's year-end totals. Speak with your processor to request a "rate review." Processors profit from higher rates and are unlikely to let you know when your current rate is above the industry benchmark. If they are encouraged to perform a rate review, they may end up offering a more competitive rate to maintain your business. Keep in mind that they understand their markup and you don't. This means that even if they reduce your rate you might still be paying too much. Consider involving a qualified auditing firm to ensure that you receive the best rate possible.

5. Send Out a Request for Proposal to Multiple Credit Card Processors

Once you have spoken with your current processor and know your Discount Rate, send out a Request for Proposal ("RFP") to multiple credit card processors – including your current processor. This can often result in processing agencies bidding lower rates to secure your business. It should be noted that most processors will request a copy of your recent merchant statement in order to provide an accurate proposal based upon the details of your business. While this is a fair request, these proposals will be aimed at beating your current rate. Using your current rate as the benchmark may start the process unnecessarily high. Consider conducting the RFP after an audit or, at minimum, engage an auditor to advise you in the RFP process.

6. Evaluate Your Statement for "Junk Fees"

As discussed above, merchant account statements are notoriously difficult to navigate. This allows credit card companies to throw in extra charges like statement fees, monthly funding fees and monthly service fees. These fees can almost always be eliminated or, at minimum, drastically reduced. If a fee contains the word "monthly," speak with your processor about having it removed.

7. Fine-Tune Your Merchant Account

Credit cards are processed in a number of ways, each with varying levels of risk based upon the likelihood that fraud or errors may occur in the process. The most common methods of processing include swiping or inserting the card at a retail terminal, entering the card information into an online portal or store, reading the card information to another person over the phone, sending the card information through email and through third-party payments (payments made to businesses that accept card payments on your behalf).

Follow These Tips to Avoid Unnecessary Fees:

- ***Swipe cards whenever possible:*** For business to consumer (B2C) transactions, swiped cards usually yield the lowest interchange rates. If you accept payments where the card is not present, be sure to enter the billing address to avoid being penalized.
- ***Avoid voice authorizations:*** Voice authorizations, even if positive, can be downgraded to a higher interchange rate (possibly 2.95%). The best and safest practice upon declined authorizations or transactions is to ask for a different credit card.
- ***Avoid authorization and settlement amount mismatches:*** Restaurants, hotels, car rental agencies, and a few other business types are given some leeway but unless you are categorized correctly, you will be penalized.
- ***Send settlements on time:*** Make it standard operating procedure to batch and send transactions as soon as possible after the authorization. Waiting more than one day could result in downgrades.
- ***Review your American Express statement (if you receive one directly) for unnecessary fees:*** Make sure you are not charged a Monthly Gross Pay Fee or a Statement Fee. You can ask for these to be removed.

8. Consider Surcharging

Credit Card Surcharging takes place when a merchant adds an additional fee to a customer's bill when he uses a credit card for payment. This shifts the expense associated with merchant processing from the merchant to the customer, immediately adding approximately 2%-3% to the bottom line. Before making this change, however, it is worth considering the negative impact it could have on your business. Will your customers be upset that they are now required to pay a fee to use their credit card? Are your competitors surcharging? Is surcharging legal in your state and have you complied with all associated rules and regulations?

There are certain steps your business must take in order to surcharge your customers. If these steps are not taken you may end up in violation of the surcharging requirements which could ultimately end up costing you the ability to process credit card payments entirely.

Surcharging Rules

- A merchant that operates, or is receiving payment from a customer, in one of the following 10 states cannot legally surcharge: California, Colorado, Connecticut, Florida, Kansas, Maine, Massachusetts, New York, Oklahoma and Texas (California and New York are currently reconsidering their surcharging laws)
- Merchants who wish to surcharge must register with Visa and MasterCard and notify their acquirer 30 days prior to surcharging
- A merchant must clearly display at the point of sale that they surcharge
- A merchant must disclose the surcharge dollar amount on every receipt which may require new processing equipment
- Surcharging is prohibited on debit or prepaid card payments including debit card charges that have been processed as credit card payments
- The surcharge cannot exceed the lesser of the actual processing fees or 4%
- Surcharges cannot be renamed (e.g., convenience fee)
- American Express payments may be surcharged only if Visa and MasterCard payments are also being surcharged

Conclusion

Credit cards are being used more and more frequently by individuals and businesses to pay for goods and services, but many businesses are not on top of their merchant processing and are being overcharged. Understanding the players in the industry and the fees they charge can help you make better decisions and reduce your fees. In order to optimize their merchant processing and maximize fee reduction, wise business executives should consider engaging an auditing firm. At minimum, they should understand and implement the savings strategies outlined above.

VERISAVE

About **Verisave**

Verisave is a seasoned auditing company that helps organizations identify and eliminate excess merchant processing fees. Since 2002, the Verisave team has served clients throughout the United States in a variety of industries by providing clarity and transparency in a complicated area of business. Our team of processing industry experts brings experience and knowledge to the table with one goal **–to identify and implement measurable savings for your business.**

Verisave is not a merchant processor or bank which means we are completely independent and unbiased. As an independent auditor, our single objective is to identify and implement savings for your business. Our compensation is based upon a percentage of the transparent, measurable savings we implement. You can rest assured that there are no upfront costs and you will never pay hidden commissions or fees.

Contact Verisave today for a free Audit Savings Analysis: 801.953.1515 or visit verisave.com