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Cutting Credit Card Processing Costs

Customers like the convenience and incentives (mileage points and cash-back rewards) of paying for purchases with their credit and debit cards. I know I like mine, and prefer to pay the majority of my purchases with it. In fact, VISA and MasterCard report that card payments at businesses in 2006 increased by \$204.54 billion to \$1.909 trillion, up 12 percent (The Nilson Report, February, 2007, Issue 874). It's no secret that it's important for businesses to be equipped to accept card payments to avoid missing out on sales and profits.

However, understanding the cost of accepting card payments, commonly called merchant services, can be difficult. The multipage merchant service statement is filled with unfamiliar terminology and mysterious jumbles of numbers. It can be a daunting task. But, if you can decipher it, you may discover sizable savings for bigger profits.

It begins with your discount rate. The discount rate is the portion taken out of every card transaction, and can be broken down into three main parts.

- Processing Fee
- VISA & MasterCard Assessment
- Interchange

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The Processing Fee is the fee charged by your processor. It may include a variety of different charges including authorization fees, per transaction fees, statement fees and notorious hidden costs. The Processing Fee is generally a very small portion of your discount rate; making up between 5 percent and 10 percent of the total discount rate.

VISA & MasterCard Assessment is a standard fee charged by the VISA and MasterCard Associations. This fee covers the cost of advertising and marketing by VISA and MasterCard. This fee is about 5 percent of the total discount rate.



This leads to our third piece – Interchange. Interchange is composed of more than 100 different categories, capturing every type of card issued and all methods of card processing. Each category has a special rate of its own, ranging from 1.03 percent + \$0.15 for VISA debit transactions to 2.75 percent + \$0.10 for MasterCard standard rate transactions. These rates are reviewed every six months by VISA and MasterCard, and they will notify card processors of any increases or decreases. Interchange makes up about 85 percent to 90 percent of the discount rate.

Since Interchange makes up the bulk of the discount rate, the secret here is to examine at what Interchange categories your card transactions are being processed and why. There is a sizable amount of savings between paying the VISA standard rate of 2.70 percent + \$0.10 versus the VISA CPS retail rate of 1.54 percent + \$0.10 for a retailer.

A knowledgeable merchant service processor should be able to help you analyze your Interchange categories and show you ways to improve your card processing. With some expert advice, you'll have an opportunity to qualify for the lowest Interchange rates allowable by Visa and MasterCard, and lower your overall merchant service cost. SB