



Managing Interchange For Small Business

In the world of payment card acceptance, there's no doubt that interchange is a confusing topic; however, it's one you and your business should understand, especially if you don't want to overpay for transaction processing services. When you understand interchange, you have the basis to determine whether your processing account is priced fairly and competitively, and are able to review your monthly statements to identify areas of potential savings.

What is Interchange?

Think of interchange as the wholesale price charged to process all types of electronic transactions made with Visa[®] and MasterCard[®] – branded cards in a four-party system which encompasses cardholders, businesses, payment processors and card issuing banks.¹ The purpose of interchange is to incent banks to issue payment cards and for businesses to accept card payments.

Interchange is a percent of each of your sales transactions paid by your payment processor to the banks that issued your customers their cards. It compensates issuing banks for a portion of the risk and cost it incurs to maintain cardholder accounts.

For credit cards, this includes finance costs for the interest-free period between the time a consumer makes a purchase and pays their bill, credit losses, fraud protection and processing costs. For debit and prepaid cards, this primarily covers fraud protection and processing costs.

To recap, interchange is the amount of an electronic transaction that your payment processor pays or reimburses an issuing bank. It makes up the majority of the fees you pay for your processing account.

Depending on whether a Visa or MasterCard card is being used to make a purchase, the percent is dictated by an interchange reimbursement fee set by each card brand. Interchange reimbursement fees are publically disclosed and the fee schedules can be found on Visa's and MasterCard's Web sites.

You'll find categories for specific business types such as supermarkets, petroleum, retail, restaurant, lodging, government, utilities and more. You'll also notice tiers for business sizes (I - IV with I representing the world's largest retailers and IV typically covering small retailers, and categories for small to large average sale amounts as well as various rewards cards.

Interchange fees change so you should download current Interchange Reimbursement Schedules each April and October.

Who Pays Interchange?

While interchange is the wholesale price charged to process various types of electronic transactions, discount is the retail price you pay to your payment processor for card processing.

Discount includes interchange plus card brand dues, network access charges and fees for operational overhead and profit. Check your processing account agreement for a detailed breakdown of discount fees and note that discount, unlike interchange, can be negotiated.

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While you pay discount, which encompasses interchange, your payment processor is the one who pays interchange reimbursement fees to the issuing bank with funds collected from discount. As a reminder, interchange is set by the Visa and MasterCard and is not negotiable by your payment processor.

Tips for Managing Interchange

1. There's more to it than getting the lowest rate. The base discount rate typically quoted is for processing a swiped transaction using a general purpose credit card. The rate for affinity, rewards, business, fleet and international cards is significantly higher. Take note of the cards your customers use and make sure the rates for these cards in your contract is competitive. Take a look at mail order/telephone order (MOTO) and e-Commerce rates as these are priced higher than normal, swiped transactions. Remember, discount can be negotiated.
2. Review your statements to understand how many of your transactions downgrade and do not qualify for the lowest processing rates. A series of requirements specified by your payment processor and the card brands must be satisfied for a transaction to qualify for a particular rate. The requirements include factors such as business type, presence or absence of magnetic stripe data and address verification service (AVS) data, submission of enhanced transaction data, and your sales and transaction volume. Monitor your check-out staff and provide ongoing training to eliminate procedural and human errors.
3. How often do you "batch" your electronic transactions? Do you send them off to be processed and settled from your point-of-sale terminal infrequently or whenever it's convenient?

Batching on a daily basis can significantly increase funds availability. Both Visa and MasterCard have strict timelines for settling transactions through their systems. In most cases, transactions need to clear through the card companies within two days to qualify for the most favorable rates. Batching even one day late can significantly increase the rate you're charged, and if you don't settle your batch within three business days and consistently send in transactions late, you may face hefty Visa and MasterCard fines.

4. Check your point-of-sale application to make sure it is the most up-to-date version in terms of capabilities, security and compliance. Make sure its prompting your checkout staff to enter the information required to qualify transactions at the best rates.
5. Work with your payment processor to review the business type (SIC code) assigned to your processing account. You may be able to qualify your transactions for lower rates by changing the business code in your merchant profile or by specifying more than one code using the multi-merchant capabilities of your point-of-sale equipment.

When you understand interchange, you can create real advantage for your business by paying the lowest possible fees for card acceptance. The sooner you get up-to-speed on interchange, the quicker your business will be able to reap the benefits.

SOURCES

1 Three-party players like American Express® and Discover® do not charge interchange since they are both the card issuer and the payment processing provider. However, they do charge processing fees that are consistently higher than the total fees, including interchange, typically assessed in the four-party systems in which Visa and MasterCard participate.



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