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Your source for payments education

Breaking Down the Cost of Payment Acceptance

Erika Curtis

W. Capra

Vice President – Payments Consulting

Frank Bruno

Crate & Barrel

Vice President, Treasurer

Key Takeaways

By the end of our time together you will be able to:

1. Understand the full cost stack
2. Identify your cost components and hidden drivers
3. Actively Manage your cost

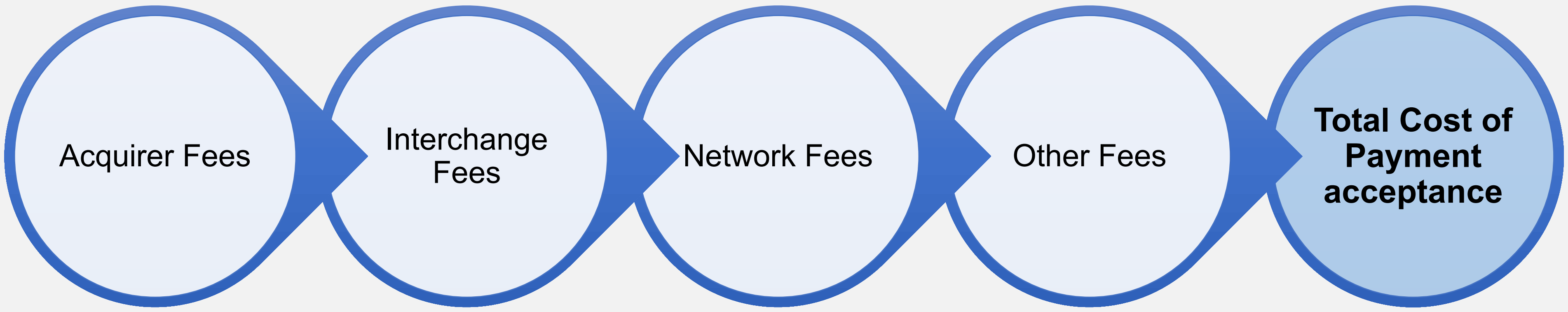
Cost of Payment Acceptance

Cost of Payment Acceptance is one of the leading expenses to a business today. Often the second highest cost behind employee salaries.

Payment costs are driven by:

Customer Experience	**Card Networks**	**Your Acquirer**	**Technology Components**

Components that need to be reviewed to understand your total cost of acceptance:



Acquirer Role

The **acquirer** is the “middleman” in the transaction flow.

- They ensure the data and funds are exchanged between the merchant and the card holder’s issuing bank
- The acquirer often assumes the financial risk for the transaction in this process.

Since the Acquirer is the entity responsible for the funds exchange, they will pass through the interchange and network fees

- Fees can be settled either net of the transaction amount, or at the end of the month

The acquirer will also be responsible for assessing: (which can lead to additional costs)

Chargebacks

PCI Compliance

Network Operating Regulations

Managing Acquirer Costs

Acquirer(s) should be *trusted, valued business partners* that contribute to a merchant's overall success.

BUT, the merchant is responsible for managing the acquirer(s) and their own costs.

Acquiring processing fee

- Typically charged per transaction
- Can be added to interchange for a single-transaction price

Managing Acquirer Cost

- Merchant can negotiate with acquirer to set their rate

Other acquirer fee considerations

- Tokenization/Encryption
- Cross border uplift
- Preferred routing
- Settlement and funding timing

On-going Cost Saving Measures

- Conduct QBRs
- Dig into Downgrades
- Monthly Fee Reviews
- Get ALL Fee data

Interchange Fees

Interchange makes up the largest portion of a merchant's Cost of Acceptance

- The rate paid per transaction by the merchant to the issuing bank of the credit/debit card used in the transaction.
- Interchange rate is set by the Card Networks (VISA, Mastercard, Discover, Amex, Debit Networks, etc.)

Why do we pay Interchange?

- Interchange covers the cost to convert the charge on an account holder's card to a cash deposit paid to the merchant
- The interchange amount covers issuer costs for:

Billing Services	Credit Risk	Fraud Risk	Float	Other card issuance costs

Interchange Management

- **Qualify at best possible rates**
  - Include all required data (e.g., AVS, CV2, Network Tokens)
  - Level 2 and Level 3 data as required
  - Timely submission of settlement
- **Frequent reviews of interchange statements**
  - Ensure data is available from Acquirer(s)
  - Multiple Acquirers require multiple analyses
  - Automate where possible
  - Focus on downgrades
- **Periodic audits of interchange and network fees**

Cost Saving Measures

Review Interchange Qualifications & Examine Downgrades	Pass All Required Data in Authorization Message
Capture & Support Data for Purchasing, Corporate, & Fleet	Periodic Audits

Brands typically update interchange rates twice a year; April and October.
Watch and monitor proposed rate changes to assess how they might affect your business.

Network Fees

Network fees are paid to the card brand often on a per transaction or percentage of sale basis by the merchant to the card network represented on the card.

While some fees are mandatory for processing the card transactions, others could be avoided by the merchant by managing transaction integrity in payment flows.

Network fee rates are set by the Card Networks (VISA, Mastercard, Discover, Debit Networks)

Why do we pay Network Assessment Fees?

- Network fees cover a merchant's usage of the network rails for their card transactions
  - These fees cover the card networks operating cost and attempt to ensure transaction processing integrity
- Examples of Network fees we pay:

Network access & brand usage fee	Fixed acquirer network fee	Digital Enablement	International Service Assessments

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Card Brand & Network Fees

Expect continued growth in digital channel and increased focus on interchange regulation leading to new / higher network fees

- Fees (in addition to interchange) are often built on top of each other depending on how transactions are processed
  - Data Integrity, Authorization Misuse
  - Account Authentication / Zero Balance Authorization
  - Retry, Decline Reason
  - Continuity
  - Foreign Card Fees
- Order management flow and customer behavior can impact fees assessed
- Avoid these fees entirely with Alternate Payments:
  - Merchant-branded payments
  - ACH

Cost Saving Measures

- Examine Order Management Flow
- Comply with Brand Rules for Authorization
- Update Payment Credentials
- Explore APMs (e.g. ACH, BNPL, Faster payments rails)

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A Look at Total Cost of Acceptance

You can determine your effective rate for your cost of payment acceptance:

Total Amount of Fees ÷ Total Amount of Sales = Effective Rate

Hypothetical Average Cost of a Transaction

	VISA	Mastercard
Average Ticket	$40.00	$40.00
Acquirer Fee	$0.01	$0.01
Assessments	$0.0838	$0.09
Interchange	$0.704	$0.692
Total Cost	**$0.7978**	**$0.792**
Effective Rate	**1.99%**	**1.98%**

Managing Cost of Acceptance

The Cost of Acceptance includes complex and interrelated components.

Decisions made in one area impact costs and business processes in other parts of the payment value chain.

Customer Experience	Payment Networks	Acquirers	Technology
Purchase Experience	Interchange	Transaction Routing	Gateways / Orchestration
Payment Type	Network Fees	Qualification Management	Customer Present
Frequency	Disputes / Exceptions	Merchant Support	Customer Not Present
Loyalty / Partnerships	Preferred Partnerships	Funding / Reconciliation	Security

Summary & Key Takeaways

- Understand the full cost stack
  - Interchange is only part of the story
- Identify your cost components and hidden drivers

  Action Plan:

  1. Map your full payment cost stack
  2. Identify the 3 main areas you want to focus efforts
  3. Looks for those “silent” cost drivers
- Actively Manage Your Cost

  Action Plan: Assign ownership of managing the cost

Thank you!

Don’t forget to submit your session evaluation!

Erika Curtis
W. Capra Consulting Group
Vice President – Payments Consulting

Frank Bruno
Crate & Barrel
Vice President, Treasurer