Cost-management strategies

Your guide to managing the costs of accepting card payments
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The secret to better interchange rates

Our merchants have asked us to share ways to save money on card payment processing. This guide explains typical reasons for higher interchange rates and offers steps you can take to avoid them. You’ll also discover many situations where we can work with you to help you gain more control over your costs.

The cost of accepting card payments is driven primarily by interchange programs, which is set by the payment networks like Visa®, Mastercard®, Discover®, and American Express®.

Interchange rates vary from transaction to transaction. Many factors affect the interchange rate for a given transaction, and can range from the type of card that is presented, the way customers make a purchase, and how your point-of-sale (POS) equipment is configured, to how frequently you send your transactions for settlement. Depending on the factors in play within your business and for any specific transaction, you can pay either the best rate or face a higher rate because the transaction was downgraded.

What does downgrading a transaction mean?

The payment networks quote the lowest rate for a transaction, assuming that a number of requirements (which vary according to the card type, the type of business accepting the card payment, and the transaction channel) are met. If one or more of these requirements are not met, the transaction is downgraded to a more expensive interchange level.

1 American Express charges Program Pricing fees and not Interchange fees, and these are subject to change.
Why interchange rates vary

The payment networks and card issuers charge interchange fees to offset the costs associated with providing card payment processing. The rate you pay can be affected by factors you can control as well as those outside your control. While you can’t control the type of card presented or whether the cardholder earns miles or rewards for using the card, you can control the way your account is configured and the steps you take to complete each transaction.

Do these situations occur in your business?

If yes, read on to learn how you can work with us to correct or mitigate them to qualify for better rates:

- You make a significant number of transactions by keypad entry rather than inserting or swiping cards into a card reader.
- Your business model changed since setting up your merchant account, and now you offer different products and services, or provide your customers more ways to place and pay for orders.
- Your business operates in an industry where card payments were uncommon in the past but are growing.
- You request transaction authorizations over the telephone (“voice authorization”).
- You routinely settle transactions more than 24 hours after they are authorized.
- Transaction authorization and settlement amounts frequently differ.
- A significant portion of your customers pay with business, corporate or purchasing cards (cards issued in their business’ name), but you don’t capture Levels II and III data (detailed payment information) for these transactions.
- You have card-not-present transactions, such as online payments or payments by phone or mail.

Now that you know some of the common situations that can cause transactions to downgrade, read on to learn how to get the best rates available to you.
10 ways to save on processing costs

1. **Insert or swipe customer cards whenever possible**

Many merchants accept payments primarily when customers – and their payment cards – are physically present. In these cases, the payment networks set the price of different interchange levels to encourage merchants to collect and transmit cardholder and transaction data efficiently and securely, and to use procedures that help combat card fraud.

When accepting cards in a face-to-face situation, using a keypad to manually enter card information rather than inserting or swiping cards into your equipment is a common reason for transactions to be downgraded to a higher interchange rate. Hand-keyed information has a higher risk of error or fraud because physical security precautions embedded in the card’s chip or magnetic stripe are bypassed. Hand-keying is also less convenient and more time consuming for your employees, and you should be aware that hand-keyed transactions have a higher overall decline rate.

There may be times when it’s not possible to read the information on an chip card or a magnetic stripe, even in a face-to-face situation. When hand-keyed transactions are unavoidable, you can minimize the cost by ensuring that your sales personnel answer all questions prompted by the card equipment. Interchange rates can increase even more when proper key-entry steps are skipped, and it’s especially important to enter the customer’s zip code when prompted.

**What you can do**

- Train your employees to avoid unnecessarily entering transactions by hand and promptly report any ongoing equipment problems to the appropriate person in your business.
- Make sure your card readers are cleaned regularly so they capture all card information. Consult with your equipment provider.
- When hand-keying transactions, be sure to answer all questions prompted by the equipment, and do not skip or bypass prompts.
- Obtain a card reader if you don’t have one or replace malfunctioning equipment.

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**When accepting cards in a face-to-face situation, insert or swipe cards whenever possible, to avoid higher interchange rates.**
10 ways to save on processing costs

2. Take advantage of periodic special money-saving programs

The payment acceptance industry is constantly changing in response to the ways your customers pay you. Cardholders’ preferences for payment options change in response to economic shifts. Small ticket transactions are becoming more popular, while new technologies offer more options like unattended payment stations. As a result, the payment networks often offer cost-saving programs to help merchants adapt to these changing circumstances.

For example, specific business types may experience strong growth in card acceptance. To ease the transition for merchants in these emerging payment markets, the payment networks may create lower interchange rates for merchants based on their business type as defined by their Merchant Category Code (MCC).

Examples of these industries are:

- Charitable organizations
- Supermarkets
- Monthly billers, like utilities or satellite TV subscription services
- Childcare providers

Some merchants may qualify for small ticket or “convenience” merchant programs. For merchants in specific categories (like fast food, movie theaters, quick copy shops, parking lots and more), many transactions are under $15. The payment networks now have special interchange programs offering a reduced per-transaction fee in favor of a slightly higher percentage of the transaction. For small tickets, this equation can work out in the merchant’s favor.

What you can do

- Check with us periodically to review your merchant classification and discuss whether your business qualifies for the payment networks’ special interchange programs.
- Let us know if you make substantial changes to your business, such as changes in the types of products or services you offer.
- If you change or add new point-of-sale technologies (for instance, if you add unattended checkouts or payment stations) through a third party, contact us in advance and ask if this change will affect your interchange transaction levels.

Certain industries may qualify for interchange programs with rates that are lower than standard retail interchange rates.
10 ways to save on processing costs

3 Be aware of voice authorization costs

The payment networks encourage merchants to conduct efficient and secure electronic transaction authorizations. When a transaction authorization is electronically declined the merchant should ask for another form of payment. Sometimes merchants or clerks choose to request an authorization by phoning a call center, but this is not recommended.

The cost of unnecessary voice authorizations can add up a number of ways:

- **Fees.** You will be charged a fee for dialing the service – whether or not you obtain a positive authorization.
- **Downgraded transactions.** Voice authorizations that provide a positive result do not capture electronic authorization information required by the payment networks to qualify for the lowest transaction rates. Therefore, these transactions will be downgraded to a higher interchange rate.

What you can do

- Voice authorizations do not capture electronic authorization codes required to qualify for the lowest transaction rates. Only utilize voice authorizations when prompted by your point-of-sale device.
- Avoid unprompted voice authorizations when possible.

Voice authorizations do not capture the information necessary for lower interchange rates and can lead to transactions that are downgraded.
10 ways to save on processing costs

4 Send settlements on time

In most businesses, transaction settlements are transmitted in a separate step from the authorization; typically, multiple settlements are sent at once or “batched.” Settlements should follow matching authorizations within a specific amount of time to avoid transactions that are downgraded to a higher interchange cost. For most businesses where payment is made face to face, settlements must be sent within one day to qualify for the most favorable rates. In contrast, in card-not-present operations where goods may be shipped several days after the order date, merchants have seven days from the date of authorization to submit settlements before higher interchange rates apply.

Even if your equipment can hold several days of transactions, batching infrequently is generally not beneficial since it may lead to higher interchange cost and a delay in your funding. If you are batching on a regular basis you should also be aware that if the data connectivity of your equipment is not reliable (whether broadband, phone line or wireless), it can interfere with timely settlement and also trigger transactions that are downgraded to a higher cost.

What you can do

- Ask one of our customer service representatives to help you understand the cutoffs for the most cost-effective settlement periods for your transactions.
- Make it a standard operating procedure to batch and send transactions as soon as possible after authorization. Wells Fargo Merchant Services recommends daily settlement of all completed transactions at a specific time of day (usually at night).
- If you would prefer to have your processing device programmed for automatic settlement at a specific time each day, please contact our customer service team at 1-800-541-5817.
- Periodically test phone/data lines on your equipment to verify that they’re working correctly. Malfunctioning data lines can sometimes result in settlements being held up beyond the expected settlement window.

For transactions where the card is present, settling in two days versus one day can cost you money.

If the settlement time extends past two days, this can cost you even more.
10 ways to save on processing costs

5 Avoid authorization and settlement amount mismatches

Variations between authorization and settlement amounts are another common cause of increased interchange cost. In some cases, an additional fee also applies. The payment networks discourage using the authorization system to verify a card account independently from a transaction (for instance, processing a $1 authorization – but no settlement – to authenticate a card account). Mastercard and Visa charge an additional per item fee for each authorization that is not matched to a timely clearing transaction.

Merchants in specific industries are permitted limited tolerance to variations between authorization and settlement amounts. For example:

- **Industries where tipping is commonplace.** Because the cardholder may determine a tipping amount after authorization occurs, leeway is permitted.

These industries include restaurants, taxicabs and limousines, cocktail lounges, beauty and barber shops, and health and beauty spas.

- **Industries where authorization occurs before the customer’s final invoice is known.** In industries like hotels and car rentals, authorization typically takes place before all incidentals to the final invoice are known.

Authorization and settlement mismatches are also common for e-commerce (and catalogue) sales. Partial shipments often require partial settlements that will not match the original authorization. The payment networks do not grant special permission for mismatches in these situations.

**What you can do**

- Talk to us to confirm whether your industry classification exempts you from transactions downgraded because of a mismatch, and also make sure your account is properly coded to allow for this exemption.
- Let us help you understand any specific mismatch limitations for your industry.
- Avoid misusing the authorization system to check the status of a card account. It is best to do a proper authorization when the transaction amount is known. If that is not possible, talk to us about other options such as conducting “zero dollar” authorizations. While zero dollar authorizations are not free, they are less costly than transactions downgraded for mismatches or “misuse of authorization system” fees.
Isolate your card-not-present (CNP) payment operations

In certain types of sales, the card is not physically present for payment. Internet sales and mail or phone orders are the primary examples. CNP transactions carry higher interchange rates because of the inherent risk of fraud. Merchants who manage this risk by following the specific procedures outlined here can lower the interchange rate.

To qualify for more favorable CNP rates, you should make sure that these transactions are easily distinguishable from hand-keyed transactions where the card is present. Usually the best way to do this is to keep these payment operations separate and to use a specific account configuration for each.

What you can do

- Call us to make sure that your CNP payment operations are isolated from your card-present payment operations.
- Work with us to configure your CNP payment operations to take advantage of favorable interchange rates.
- For CNP sales, make sure your point-of-sale (POS) device can accurately identify card-present vs. card-not-present transactions when you key enter customer information.
- You must use Address Verification Service (AVS) to get the best possible rate. For CNP transactions, AVS will ask you for an address and zip code. CNP transactions won’t downgrade to a higher rate, even if the customer’s address or zip code doesn’t match AVS. However, if your POS device incorrectly identifies a CNP transaction as card-present, AVS will prompt you only for a zip code. This zip code must match AVS to receive the best possible rate.
10 ways to save on processing costs

7 Include your business phone number and unique order number for each card-not-present (CNP) transaction

We can set up your account to ensure that your phone number will appear as part of the transaction information on the cardholder’s statement. This provides your customers a means to inquire about the transaction if necessary (and may help you avoid chargebacks).

As with your phone number, a unique order number makes it easier for your customers to recognize a transaction when it appears on their statement. The software on your e-commerce site or your phone order point-of-sale system needs to be configured to capture and transmit this information correctly.

CNP transactions that do not have the phone number and a unique order number included not only carry a higher risk of costly chargebacks, they also automatically downgrade to a more expensive interchange rate.

What you can do

- For each transaction, Wells Fargo Merchant Services includes the business phone number provided to us by the merchant. To make sure your business phone number is posting correctly on customer credit card statements, please contact Customer Service at 1-800-451-5817.

If your customer has easy access to your phone number and the order number on their bill, they may contact you directly rather than disputing a transaction, which may help you avoid costly chargeback fees.
10 ways to save on processing costs

8 Reverse the amounts authorized for items not shipped

A settlement amount that is less than the authorized amount causes a transaction to downgrade. This can occur as a result of partial shipments: the amount charged is different from the total order amount in the original authorization when the customer’s order was placed. You have some special options to help avoid a mismatch between authorization and settlement amounts.

What you can do

- When fulfilling and settling for partial shipments, follow these procedures to avoid paying a higher rate than is necessary.
  - Reverse the authorization for the amount of the item(s) not shipped (this is known as a partial authorization reversal).
  - Settle only for the amount shipped.
  - Once the remainder of the order is available for shipping, submit a new and separate authorization.
  - Settle for this newly authorized amount.

Settling for an amount different than authorized can result in increased interchange costs for card-not-present (CNP) transactions.
10 ways to save on processing costs

9 Capture additional security information

To reduce card fraud in card-not-present (CNP) transactions, the payment networks encourage merchants to capture additional security information in order to qualify for the best interchange rates.

The most important piece of security information to capture is the cardholder’s billing address (which may be different from the customer’s delivery address). Capturing this information and passing it via the Address Verification Service (AVS) is an important way for you to control the cost of accepting payments over the phone or on the Internet.

AVS uses the billing information associated with a card to verify the cardholder’s address. This will help more of your CNP transactions qualify for better rates and help prevent costly chargebacks. Merchants in these situations who don’t use AVS – or who use it incorrectly – can pay more in interchange expense.

What you can do

• For online sales, confirm that the check-out form on your website includes a requirement for your shoppers to input their complete billing address.

• For phone orders, make sure your point-of-sale solution is programmed to prompt your employees to request and enter this information.

To qualify for the lower interchange rate, you need to submit the billing address and zip code for CNP transactions. Using AVS can help reduce interchange cost.
10 ways to save on processing costs

Capture Levels II and III data when accepting commercial cards

Business, corporate, and purchasing cards are used just like personal credit and debit cards. However, these cards carry higher interchange rates because they offer employers high value (and costly) features such as enhanced reporting and statements. Many merchants can qualify for lower commercial rates (especially in card-not-present environments) by collecting the more in-depth Level II and Level III data with each commercial card transaction.

Capturing this information requires greater effort and some cost. It’s wise to verify that your sales volume from commercial cards justifies collecting this data. In other words, if the cost of higher interchange rates for commercial card transactions is greater than what you’d incur for modifying your procedures and systems, take action.

Level II data includes:
- A tax indicator denoting the presence of sales tax.
- Itemized sales tax amount (To qualify for the reduced interchange rate, the amount must be greater than zero. For Visa the tax amount must be between 0.1% and 22% and for Mastercard the tax amount must be between 0.1% and 30%).
- A customer code (for transaction tracing) if provided by the cardholder. Required for Mastercard and Visa Purchasing Large Ticket transactions only.

Level III data includes:
Only Corporate and Purchasing cards on Visa can qualify; any commercial card on Mastercard can qualify.
- All Level II data.
- Line item detail (e.g., item description, product code, quantity, unit cost).
- For Level III data field descriptions and instructions on how the data must be entered, please go to wells Fargo.com/level3.

What you can do
- Work with us to conduct a cost/benefit analysis to determine if your commercial card volume warrants an investment in upgrading your processing solution.
Achieve the best rates possible

Accepting card payments helps you meet the needs of your customers. Interchange rates are a fact of accepting card payments. We want to work closely with you to ensure that your payment operations are set up to help more of your transactions qualify at favorable rates. Our goal is to establish a closer relationship with you to help you control costs.

Wells Fargo Merchant Services can help explain the steps you can take to get the best interchange rates available to merchants like you.

If you have any questions or would like to discuss your account, please call us today at 1-800-451-5817.