

# The Merchant's Guide To Achieving Better Interchange Rates

## Wells Fargo Merchant Services



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## Manage Your Card Payment Process For Better Interchange Rates

Interchange is the fee captured by card issuers from merchants for each card payment transaction. It's a necessary expense when you offer customers the convenience of payment by card. Today's electronic payments system enables merchants to make more sales to a wider customer base with the speed and security demanded by the marketplace. Merchants can profit from a reduction in the incidence of bounced checks, counterfeit currency and theft at the cash register.

But did you know that many factors affect the interchange rate you pay? Factors range from the way customers make a purchase and how your point-of-sale (POS) terminal is configured, to how quickly you send your transactions for settlement.

Depending on the factors in play in your business and for any specific transaction, you can pay the

*From the account set-up to transaction settlement, there are opportunities to reduce downgrades and enjoy better rates.*

best rate or face a **downgrade** to a higher rate for that transaction. So understanding the factors affecting interchange rates can help you manage them to minimize downgrades and gain new control over your monthly costs.

As experts in the card payment business, Wells Fargo Merchant Services can help. This guide lists many of the reasons for higher interchange rates and suggests steps that you take with your payments processor to avoid them. We're confident you'll find ideas that can help your business reach even more financial success. Once you've taken a look at the pages that follow, contact a Wells Fargo Merchant Services representative to review your statement and identify possible actions to qualify for the best possible interchange rate.

**Downgrade** — Card associations will quote the lowest rate for a transaction assuming that a number of technical requirements (which vary according to the card type, the industry type of the merchant, and the transaction channel) are met. If one or more of these requirements is not met, the transaction will be categorized at another, more expensive, interchange level. This is referred to as a "downgrade."

## Why Interchange Rates Vary

Card associations and issuers charge interchange because of the costs associated with the card payments network.

The rate you pay can be affected by factors beyond the control of your business, such as what type of card that is presented for payment

(particularly if the cardholder earns miles or rewards for using the card). But it can also be affected by your payment processing account configuration and the steps you take to complete each transaction.

### **Do these situations occur in your business?**

***If they do, read on to learn how you can work with your payment processor to correct or mitigate them to qualify for better rates than you might be paying now:***

- Significant numbers of transactions are made by keypad entry rather than swiping cards through a card reader.
- Some of your customers pay in person with debit cards, but you don't offer them the ability to enter a PIN code.
- You have Card Not Present (CNP) transactions, such as payments taken over the Internet or by phone or mail.
- Your payments processor set up your account with an incorrect merchant category code.
- A significant portion of your customers are business customers and pay with business, commercial, or purchasing cards, but you don't capture Levels II and III data (detailed payment information) for these transactions.
- You routinely settle transactions more than 24 hours after they are authorized.
- Transaction authorization and settlement amounts differ.

***Now that you know why different rates exist, read on to learn how to get the best rates available to you.***

## Eight Ways To Save

### 1 Swipe Customer Cards Whenever Possible

#### Situation

Using a keypad to enter card information rather than swiping them through a magnetic card reader is a common reason for interchange downgrades. Hand-keyed information has a higher risk of error and/or fraud because only the card number and expiration date are used for a transaction, making possible the circumvention of some physical security precautions such as capturing the cardholder's name and information only available on the magnetic stripe of the card. 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.

#### What You Can Do

- Obtain a card reader or replace malfunctioning equipment.
- Make sure your readers are cleaned regularly so they capture all magnetic stripe information. Consult with your equipment provider.
- Train sales personnel to avoid unnecessary keypad transactions.

### 2 Accept PIN Debit

#### Situation

As consumer debit usage continues to expand, the opportunity to lower your interchange rates with PIN debit is growing. Generally speaking, the interchange rate for a credit transaction is usually higher than the rate for a debit transaction. By enabling your customers to enter their PINs when paying with debit cards, you can lower your interchange costs on these transactions.

#### What You Can Do

- Consider beginning to process PIN-based debit for your transactions where a card is physically present if you do not already do so.
- For PIN-based debit, make sure your terminal is properly set up and has a PIN pad. Consult with your equipment provider.

#### Compare

what a business might pay using card readers versus keypad entry transactions. Swiped cards can clear at rates more than **75 basis points lower** than hand-keyed transactions.\*

That's an additional cost of **\$7.50 for every \$1,000** you process in hand-keyed transactions.

*\*All Interchange examples in this paper are based on rates quoted in the April 2007 Visa & MasterCard Interchange Qualification Matrix. Based on specific details of their businesses, individual merchants' experiences may vary from the given examples.*

The chart below summarizes the differences between PIN Debit and Non-PIN Debit.

	Non-PIN Debit	PIN Debit
Also known as	Offline Debit, Signature Debit	Online Debit
PIN entry required	No	Yes
Processing network	Visa® or MasterCard® network	Dedicated debit network (i.e., Maestro, Interlink)
Interchange rate	Varies based on transaction type	Typically lower than Non-PIN
Additional equipment required	None	PIN pad
Signature required	Usually required for transactions greater than \$25	No signature required
Card required to be present	No	Yes

*There are two types of debit transactions, each with different requirements and interchange rates.*

## 3 Review Your Card Not Present (CNP) Operations

### Situation

Card Not Present (CNP) transactions carry higher interchange rates because of their inherent risk of fraud. Merchants who act to manage this risk by following specific procedures can lower the interchange rate.

### What You Can Do

**Ensure that your business phone number is part of the identifying information passed to the card processor.**

For CNP transactions, your merchant processor should 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, incidentally, may help you avoid chargebacks as well).

**Reverse amounts authorized for items not shipped that are paid for with a Visa card.**

A settlement amount that is less than the authorized amount causes a downgrade. This can occur as a result of partial shipments: the amount charged is different from the total order amount requested for authorization.

*If your customer has easy access to your phone number on their bill, they may contact you directly rather than disputing a transaction.*

Visa supports partial authorization reversals, so when these transactions are paid for with a Visa card you have some additional control to help avoid a mismatch between authorization and settlement amounts. For partial shipment/split transactions paid for with a Visa card:

- Reverse authorization for the specific amount of item(s) not shipped.
- Then, settle only for amount shipped.
- Once the remainder of the order is available for shipping, request a new and separate authorization for the items to be shipped.
- Plan to settle for this newly authorized amount.

### **Make sure your payment processor has turned on the CNP Indicator field for your account for your operations in CNP channels.**

An active CNP Indicator field informs the card processor of a CNP transaction. If not active, a CNP transaction will be processed incorrectly as a Card Present (CP) transaction. This is often a problem for businesses that have multi-channel sales operations and for those who handled CP transactions exclusively at one time but later added CNPs. Such transactions are subject to interchange downgrades of 45 basis points or more — a cost of \$4.50 for every \$1,000 in transactions.

### **Be aware of the costs of telephone authorization**

Some CNP merchants have their staff methodically call the card associations to get authorizations on transactions that were electronically declined. Such voice authorizations do not capture electronic authorization codes required by the card associations to qualify for the lowest transaction rates. Therefore, these transactions are subject to the cost of interchange downgrades of up to 45 basis points, or \$4.50 for every \$1,000 processed with a telephone authorization.

### **What You Can Do**

- When fulfilling and settling for partial orders, follow the authorization reversal procedures above to avoid paying a higher rate than is necessary.
- Call your payments processor or Wells Fargo Merchant Services to make sure that the CNP indicator has been turned on for CNP payment channels on your account where appropriate.

*Settling for an amount different than authorized can result in a downgrade of 45 basis points for card not present transactions (\$4.50 for every \$1,000 processed).*

*Phone authorizations do not capture the information necessary for lower interchange rates, and can generate downgrade costs of \$4.50 per \$1,000.*

## 4 Make Sure Your Account Is Set up with the Right Merchant Category Code (MCC)

### Situation

Certain industries qualify for special incentive programs that mean better rates. For instance, card associations may feel these industries have noteworthy growth potential due to particular business practices and want to encourage card use. Or the special rate may be a Visa or MasterCard incentive to promote card acceptance. Some examples of these industries are:

- charitable organizations
- insurance providers
- supermarkets
- gas/service stations

Unfortunately, some businesses that qualify for a better interchange rate do not receive it because their accounts have not been categorized correctly by their payments processors' systems.

### What You Can Do

Talk to your payments processor to be sure that they understand:

- what industry your business operates in
- whether your industry classification is correct
- whether that classification qualifies you for a special interchange program.

*Interchange rates for these industries can be 10 to 30 basis points lower than standard retail rates, saving these merchants between \$1.00 and \$3.00 on every \$1,000 processed.*

## 5 Use The Address Verification Service (AVS) Correctly for Card Not Present Transactions

### Situation

AVS uses the billing information associated with a card to verify the cardholder's address. It is particularly important in Card Not Present (CNP) environments, or where transactions are keyed by hand. Merchants in these situations who don't use AVS—or who use it incorrectly—can be subject to interchange downgrades.

### What You Can Do

- Confirm that the check-out form on your website includes a requirement for your shoppers to input their complete billing address.
- If your business accepts orders by phone, ensure that phone order personnel request the billing address and billing zip code of telephone shoppers.

*To qualify for the lower interchange rate, you need to submit the billing address and zip code for card not present transactions.*

*Downgrades resulting from not using AVS can be around 75 basis points, costing merchants \$7.50 for every \$1,000 in transactions processed.*

## Capture Levels II and III Data If You Have Substantial Commercial Card Volume

### Situation

Visa and MasterCard business, commercial, and purchasing cards are used just like personal credit and debit cards. However, these cards carry higher interchange rates because they offer companies high value (and costly) features such as enhanced reporting, consolidated billing for multiple cards and statement enhancements.

Many merchants can qualify for a lower commercial rate by collecting the more in-depth Level II and Level III data with each commercial card transaction.

But because the procedure can be expensive to set up in some merchant environments (particularly for Level III data) and it involves greater effort from sales personnel, it's wise to verify that your sales volume from commercial cards justifies collecting these data. In other words, if the cost of higher interchange rates for commercial card transactions is greater than what you'd incur for a new system, then 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).
- A customer code (for transaction tracing) for MasterCard Purchasing Card transactions only.

#### *Level III data includes:*

- All Level II data
- Transaction summary (e.g., order date, invoice number).
- Line item detail (e.g., item description, product code, quantity, unit cost).

### What You Can Do

- Work with your payments processor or Wells Fargo Merchant Services to conduct a cost/benefit analysis to determine if your commercial business volume warrants an investment in a different payment processing solution and extra effort from personnel.
- Be ready to handle any unexpected surge in commercial card transactions. For example, the vast majority of a chain of convenience stores' business may be consumer. But opening a new outlet in a business park or urban commercial district could spark a sudden upswing in higher interchange costs for that location. Working with a partner like Wells Fargo Merchant Services, you have the peace of mind of knowing that we can help you accept these card types with the lowest possible impact to your interchange costs.

*Capturing Level II data on Visa commercial cards can save merchants 20 basis points (\$2 in fees from every \$1,000 processed); capturing Level III data saves an additional 20 basis points for a total of 40 basis points (\$4 in fees from every \$1,000 processed). Savings for MasterCard commercial cards are even higher.*

## 7 Send Settlements On Time

### Situation

Many merchants are unaware that they have to settle transactions within a specific amount of time after authorization to avoid downgrades. The maximum period varies for everyone and is determined by industry, transaction type, channel used, and more. For instance, merchants conducting Card Not Present (CNP) transactions involving the shipment of goods have seven days from the date of authorization to submit settlements before downgrades begin.

Because they're unaware that downgrade costs increase as time passes, some merchants batch transactions infrequently, often waiting until a terminal has reached capacity, sending them out for settlement only then. And typically, this happens outside their particular settlement window.

### What You Can Do

- Ask your payments processor or Wells Fargo Merchant Services to help you understand the cutoffs for the most inexpensive settlement periods for your various types of transactions.
- Because settlement periods can vary, make it a habit and a standard operating procedure to batch and send transactions as soon as possible after authorization. In fact, Wells Fargo Merchant Services recommends daily settlement of all transactions conducted.
- Periodically verify that the phone/data lines on your terminals work correctly. Malfunctioning data lines can sometimes result in settlements being held up beyond the expected settlement window.

*For card present transactions, the difference between settling in two days versus one day can cost merchants over 75 basis points, or \$7.50 for every \$1,000 processed.*

*If the settlement time extends past two days, the total increase is over 115 basis points: that's \$11.50 for every \$1,000 in transaction volume!*

## 8 Obtain Authorization/Settlement Mismatch Exemptions

### Situation

In general, any variation between authorization and settlement amounts causes a downgrade for merchants. However, certain industries are allowed some authorization/settlement leeway due to the nature of their payment structures. These industries include restaurants, and (as of the Spring of 2007), taxicabs and limousines, bars, taverns, and cocktail lounges, beauty and barber shops and health and beauty spas.

Because an authorization amount won't include a figure for a tip, this amount typically differs from the settlement amount for industries where tipping is commonplace. For merchants whose accounts are setup with an suitable Merchant Category Code, card associations can recognize this and forgive mismatches up to a specific limit (which can vary by industry).

### What You Can Do

- Talk to your payments processor or Wells Fargo Merchant Services to confirm that your industry classification exempts you from mismatch downgrade, and ask them to make sure that your account is properly coded to allow for this exemption. Also, make sure your payments processor helps you understand any mismatch limitations for your industry.

## Reach Your Next Stage<sup>®</sup> with the Best Rates Possible

Interchange rates are a fact of merchant life. Yet, you may be paying more than you have to. To find out, call Wells Fargo Merchant Services today. We can help you determine where you're overpaying unnecessarily. Then we can explain the steps you can take to get the best interchange rates available to merchants like you.

We can also help you determine whether your transaction process and equipment are capable of handling these steps or need upgrading, and whether the cost/reward equation works in your favor. Together, we'll create a custom interchange rate reduction plan for your business.

We'll also demonstrate the special tools—like our best-in-class reporting tools—that we offer merchants seeking to simplify the way they monitor for transaction inefficiencies.

*Call Wells Fargo  
Merchant Services at  
800-823-4722  
or visit us online at  
[wellsfargo.com/biz/  
merchant](http://wellsfargo.com/biz/merchant).*