

# 8 Essential Elements of Payment Card Processing Costs

Most Americans rely on credit, debit, and gift cards for restaurant purchases, so it is critical that you understand how you are being charged each time you accept a card for payment. To help educate you and others in the restaurant industry, the National Restaurant Association offers our “8 Essential Elements of Payment Card Processing Costs.” Use this information to navigate the tricky waters of card processing. Be informed. Know your rights. Keep every penny you deserve. And help your business grow.

## 1. Understand the fee for every card transaction — and who’s charging it

You deserve competitive pricing and the best value for payment processing. Because card processing is complex, monthly statements can be confusing and riddled with undisclosed markups. Despite the many fees you may find on your statement, there are only three fees that every card-accepting restaurateur must pay each month:

- 1) Interchange to card issuers,
- 2) Dues/Assessments and Direct Fees to card brands
- 3) Processing and Service Fees to your card processor and their third parties.

## 2. Demand full disclosure on all fee increases

Most *card brands* adjust interchange rate categories and fees twice a year. When rates go up, *card processors* often take this opportunity to increase your rates, too, explaining it away on the card brands. Undisclosed fee markups like these are only a small portion of the increases some processors and middlemen impose.

## 3. Make sure all rate decreases are passed on to you

Annual fee adjustments, reductions in card transaction categories, and incentive programs can significantly affect your profitability — just as increases can. Is your card processor passing along those reductions and incentives to you? It’s not right to pay for increases, then be excluded from decreases and incentives. It starts with awareness. Negotiate terms that ensure your processor passes the savings on to you.

## 4. Identify the middlemen — understand what they do — and pay them only if they provide value

There are four essential entities needed to process a transaction: a bank, a card brand, a telephone or Internet connection and a card processor. Though the process is simple and doesn’t change, it becomes more expensive when non-essential middlemen are involved. There can be as many as 12 additional entities that can take a cut from your transactions, which makes it hard for you to control costs. To remain competitive, make sure you understand who is charging for what and determine if you should pay these fees.



Learn what you’re *really* paying in card processing fees. Use our Card Processing Rate Calculator at [www.knowyourcardrates.com](http://www.knowyourcardrates.com)

## 5. Eliminate surcharges and bill-backs, and beware of pricing “tiers”

Many processors and their middlemen include undisclosed charges called “surcharges.” These are arbitrary charges that make transactions more expensive and are documented in a manner that is very difficult to understand. To make matters worse, these charges, along with other related fees, often appear on bills issued the month after the transaction, with limited or no explanation. These markups, known as “bill-backs” or “enhancements,” make rates appear lower than they actually are. The NRA does not think you should pay these extra markups. Also, beware of pricing “tiers” created by card processors. Tiers are often used to aggregate and complicate the actual cost of interchange, creating hidden costs that are virtually impossible to discern.

## 6. Insist on secure transactions

In just a few brief seconds — from the time you or your customer swipes a credit or debit card to pay for a purchase until the transaction is complete — sensitive cardholder data can be vulnerable. Ensuring it is protected is mission critical and can reduce your cost of PCI compliance and the risk of being non-compliant. Demand robust security and data encryption from your payments processor or data security provider — and don’t pay unnecessary monthly or transaction fees for it.

## 7. Expect real-time protection against fraud

Credit and debit card fraud costs American businesses billions of dollars each year. Real-time fraud and transaction monitoring are critical to your business’ success. You might rely on your processor to provide these services, yet many of them don’t, leaving you exposed and vulnerable. You must recognize this risk and protect yourself against it.

## 8. Demand 24/7/365 customer support

“Minor” problems that prevent or delay card processing of transactions at the point of sale can have devastating effects. Regardless of how big or small the problem, you become a powerless victim during an emergency if all you can reach is an automated phone system. A simple phone call or on-site visit from a support professional can make the difference between a good day and a disastrous one.

## The 3 components of card processing fees

### 1. Interchange Fee

The passing of financial transactional information among your business, your payments processor, the card brands (such as Visa®, MasterCard®, Discover® Network and others) and the banks that issue credit, debit, and prepaid cards. This fee is imposed by card brands. You pay this fee on every card transaction. The brands charge as many as 250 interchange rates, depending on the type of card and how it's used. For example, a card swiped through a reader is charged at a different rate than one in which numbers are keyed in by hand. Though the rates for different transactions and cards vary, they are set by card brands and cannot be changed by processors. Yet, many processors choose to mark up interchange rates to generate extra revenue. What many restaurant owners don't realize is that they often pay significantly more per transaction because these markups aren't always disclosed.

### 2. Dues/Assessments and Direct Fees to Card Brands

Also called acquirer brand volume fees (ABVF), these are imposed by card brands to cover operating costs and are determined by the purchase price of a product or service. Currently Visa's assessment fee is .0925 percent (but will increase to .11 percent on July 1, 2010), MasterCard's is .11 percent, and Discover Network's is .0925.

### 3. Processing and Service Fees

Authorizing and/or settling credit/debit/prepaid cards and routing money and data to complete transactions incur this fee. Charges vary among processors, and often what may appear to be a "good deal" is not. Your quote may be based on a low rate for a specific kind of transaction, yet neglect to point out that only a small percentage of your transactions actually qualify for that low rate. The remaining transactions are charged at a fee that could be as much as double or triple that low rate. Know what you are paying to your card processor above what is being paid to the issuing bank and card brands. Recognizing these interchange markups and avoiding them is critical to your profitability.

## Card Processing Details Every Restaurateur Must Know

### Interchange rate increases vs. undisclosed fee markups

Card brands typically adjust interchange rate categories and fees in April and October (Visa is raising its fees in July, 2010). When rates go up, many processors often use this opportunity to increase your rate above the increase — and explain the increase as based on the card brands. Undisclosed fee markups like these are only a portion of the increases some processors and other middlemen impose. Some restaurateurs pay these fees, and some don't. Once you recognize these additional markups, you can discuss them with your processor and negotiate from a position of knowledge.

### Interchange fees are sometimes reduced, but not always passed on to you

It is not unusual for fees, when adjusted by card brands, to also include reductions in some card transaction categories. While many processors and their middlemen pass fee decreases on to some companies, not all restaurateurs receive these reductions. Large restaurant chains, for example, typically negotiate to receive all reductions. Make sure you understand these opportunities to have your processors pass these reductions directly to you. Fee reductions and incentive programs can significantly affect your profitability — just as increases can. If it is right to have to pay for increases, then it is wrong to be excluded from decreases and incentives. Negotiate terms to ensure that your processor passes savings on to you.

### Middlemen often add cost, but you should determine if there is equivalent value

The chain of events that begins when you swipe a customer's card is fairly straightforward. As

many as 12 additional entities can take a cut from one transaction. These middlemen include: independent contractor, sub-ISO, ISO that represents a bank or processor, referral group, accounting firm, non-processing bank, enterprise software company, software salesperson, dealer who sold the equipment, IP gateway provider, the person who sold it, and the network software provider. Some restaurateurs don't allow middlemen to be involved because they understand the drain on revenue and do not believe these middlemen add equivalent value. Don't allow unnecessary costs to affect your profitability.

### Surcharges, bill-backs, and tiers are often inexplicable and are potentially pure expense with no value

Many processors and middlemen include undisclosed charges, often classified as "surcharges." These charges are pure profit to processors and their middlemen, making transactions more difficult to understand — and more expensive. To make matters worse, these markups — along with other related fees — appear on bills well after the transaction, with limited or no explanation, and, as with other fees, are debited from your account. These markups — known as "bill-backs" or "enhancements" — make rates appear lower than they really are. Pricing tiers are created by some card processors simply to enhance their profits — at your expense.

### Ensure your customers' cardholder data is protected

Your customers' data needs to be encrypted from the moment of swipe ... through the processing network ... and, ultimately, to the card brands. Without this protection, your business — and your customers' data — is at risk. Insist on state-of-the-

art security technology, and don't pay unnecessary fees for it, such as extra transaction fees, monthly encryption fees, key management fees, activation fees, and insurance fees. Understand the fees you are being charged, ensure they correlate to a service that is actually being provided and have your provider eliminate those fees that add no real value. Additionally, be sure to adhere to PCI Data Security Standards and complete an appropriate self-assessment questionnaire. This will reduce your cost of PCI compliance and the risk of being non-compliant.

### Real-time fraud and transaction monitoring

Credit- and debit-card fraud costs American businesses billions of dollars every year. Thieves work overtime to find ways to steal from restaurateurs and other merchants. Thus real-time fraud and transaction monitoring is critical to your business' success. That's why some restaurant companies have departments and controls devoted to detecting and preventing fraud. They analyze patterns and transaction types in real time, identify suspicious activity, and act quickly to counter it. You must assess your risks and protect yourself and your customers. Payment processors can help.

### Customer support 24/7/365

Because most Americans use credit and debit cards for purchases, any 'minor' problem that prevents or delays processing of transactions at the point of sale can have devastating effects. Combine the ripple effect of customer dissatisfaction with lost revenue, and it's easy to see why you must have live customer support 24 hours a day, 7 days a week, 365 days a year. It is mission critical for all restaurateurs.