

# My Processing Costs are Really High, What Can I do?

## Executive Summary

As the company has grown, we realize our current credit card processing costs are starting to get out-of-hand and want to find a way to reduce those costs. By utilizing a payment gateway, multiple rates can be gathered to find the most competitive rate for the business.

## Introduction

When first entering into the credit card processing market place, the business may have used the first solution they found to accept credit card processing. As the years have progressed, the business has learned more about their processing options and are now looking for new alternatives to find a way to reduce these costs.

Credit card processing can be broken down into the following costs:

- Authorization Fees. These can be a percentage of the transaction (typically 1-3%, based on the card presented) and fixed per-transaction fee (0.03-0.10) on each authorization and void.
- Settlement Fees. These fees include a per-batch settled and item in the batch fee (normally a fixed fee like .03) for each refund, and/or authorization settled.
- Monthly statement fees (per terminal and per account)
- Chargeback (card holders dispute a charge) fees
- PCI Compliance fees (quarter scan fees or questionnaires)
- Terminal leasing (if the equipment was not purchased outright)

Within these fees, some fees have additional criteria regarding how the credit card data was captured – a web interface might have a higher rate and a higher risk of chargebacks and/or fraudulent card activity. For some credit card processors, like Apple's in-app payment program or Square, you may be charged a fixed percentage of the transaction without the additional category of fees.

## Problem Definition

One of the main problems when the company is ready to ask for competitive rates from various entities is that the company may be locked into the current processor's technology with no way out. Changing the payment processing from one entity to the other then requires re-coding the system to use the new technology from the potential next processor. But what processor or technology to decide on is a cost-benefit decision for the company.

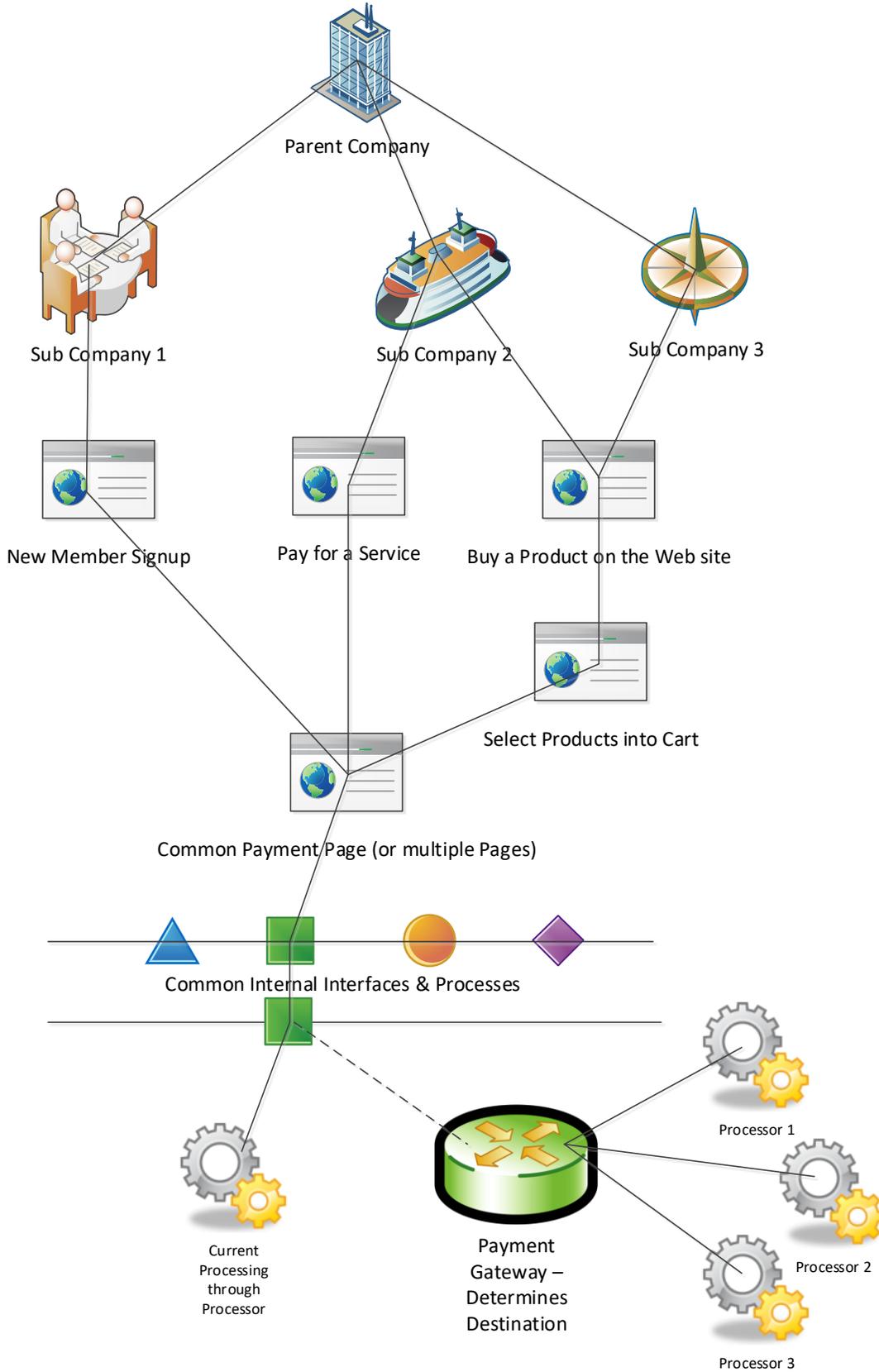


Figure 1. Example of current credit card processing

As listed above, there are a list of fees that go into the cost of doing business but there are new features and technologies that may allow the business to pass on the costs to the card holder in the form of processing fees or “cash discount” programs (where you have a discounted value for paying a transaction via a cash option while the credit card transaction will charge full price).

Some additional areas to consider when searching for a better rate:

- Does the Gateway support 3DS (3D Secure, Verified by Visa, MasterCard Secure Code) or some additional fraud-detection technologies to reduce chargebacks?
- How are recurring records processed – what types of schedules might you want to run (monthly, weekly, dynamic schedules of payments)
- Can the processor store the card and return a token (verify that you can retrieve the unencrypted credit card number or you may get locked into using that processor)?
- Are there processing limits? (Number of declines in a specific period of time, number of transactions in a specific period of time – velocity limit). These limits may be used to help identify account enumeration issues (where the fraudsters are testing a batch of credit card numbers to see if any are valid by using the merchant’s processing) but they can also affect your business during the busiest times.
- Chargeback handling – will the processor provide a dynamic list of transactions that were returned from the card holder by dispute?
- Support for Purchase Card Level 2/Level 3 for Corporate Cards
- Next Day funding or defining any “hold backs” of the revenue collected. For some business types, like CBD business, some banks will define a 6 month hold back of revenue to cover any potential future charge backs.

## Solutions

If the business has determined they are ready to move from their existing processor to a new processor, it may be a wise idea to look at using a Payment Gateway to act as a middleman. With this Gateway, you will change your code once to connect your systems to this Gateway and then it forwards the transaction details to the current credit card processor. With this solution, you now have the ability to shop the transaction volumes between various credit card processors each contract renewal period and determine the best option for the business. If the processor changes, the business can then update the Gateway with the new processing details.

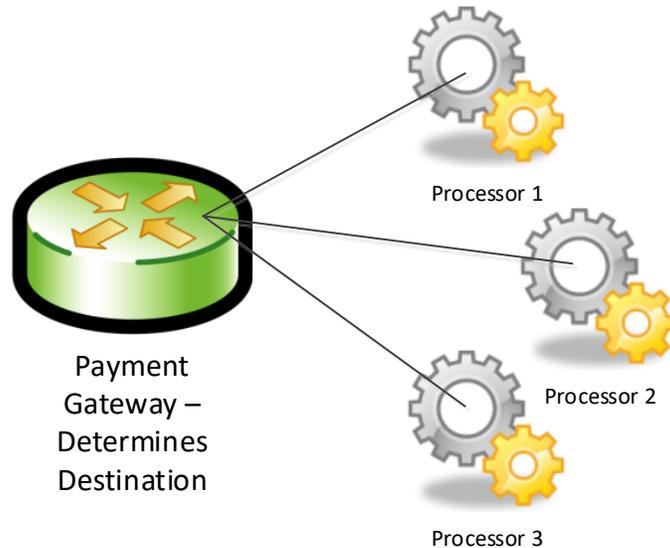


Figure 2. A Payment Gateway Routes Transactions according to your rules

But just having a Gateway does not completely solve all the issues. With BFC’s Gateway system, we built in additional validation, velocity, merchant warning, duplicate checking and other technologies to allow each merchant using the system’s additional tools to help reduce fraud and validate the customer.

With the validation sub system, the BFC Gateway can check the card number, validate an ABA number, determine the “parent” card types for international cards (ex: BCCard is processed on the Discover Pulse network), check email address and street address information.

Before making a final choice of a Payment Gateway, finding an Independent Selling Organization (ISO) for better rates and being compatible with the potential Gateway is critical. To find a list of ISOs, using the VISA PCI-Compliant Service Provider List is the best source of companies that can provide you the rates and offerings. You can find this list at <https://www.visa.com/splisting/searchGrsp.do>. In the Service Provider Type drop down, select “ISO-Merchant”, “Merchant Servicer”, and “Third Party Servicer.” Most ISOs do not publish their rates and each company handles requests differently.

Some terms to consider:

- Industry Type: Retail (card present transactions), eCommerce (card data captured over a web site), MOTO (Mail-Order, Telephone Order), Grocery, Hospitality, Airlines, etc.
- MCC Code (Merchant Category Code) – some businesses may not process certain types of businesses (ex: sin-industry like cigarettes or adult-themed websites)
- Interchange Plus Pricing: this pricing model is based on the card brand’s base rate and the “plus” part is the percentage the ISO collects as the third-party entity.
- Fixed Rate Pricing: The ISO defines a fixed rate regardless of the Interchange fees – this uses some actuary tables to determine a rate that still provides profits to the ISO.
- Next Day Funding: Some business types will require hold backs but others will be able to provide Next Day funding for the batch(es) settled by a specific time. The time is important to know if cash flow is critical in the business.

- Interchange: This is the percentage the card issuer has defined for the merchant to pay to process the card
- Cash Discount Program: Because some states do not allow a “service fee” percentage to cover the cost of credit card processing, another option is to give the customer an option of a Cash Discount – moving any cost of the credit card processing to the card holder instead of the merchant by raising the price of all goods to cover the cost of the transaction.

## Benefits

Once the business has moved their processing through a Gateway, the company is now able to shop their credit card rates to various entities. The key decision is to identify the best Gateway with the features the business would like to support. Some Gateways are only payment processors without additional features and functionality. Once the business has processor independence, they are able to find additional solutions for the future.

## Summary

BFC’s Gateway is not just a credit card payment processor but can support ACH/electronic check payments, support validation and payment processing logic. We can support multiple payment processors and continue to expand the features and functionality the Gateway system can provide. BFC can also provide a software license option to host the Gateway system in-house. Phone 972-242-8090 x 2 or email us at [sales@bfc-usa.com](mailto:sales@bfc-usa.com) to find out if BFC can help.