Updates on Credit Card Surcharging and Acceptance

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AGENDA
Network Surcharge Rules
Anti-Surcharge Legislation
Credit Card Acceptance Policy Considerations
Reducing Credit Card Processing Fees
B2B Payments

Approximate payment types within the B2B Industries

- Check: 28%
- ACH: 9%
- Card: 6%
- Wire & Other: 57%
What is a Surcharge?

A surcharge is an additional fee that a merchant adds on to a transaction when a customer uses a credit card for payment.
Surcharging Operating Rules

Effective January 27, 2013, U.S. merchants will have the option of adding a surcharge to Visa and MasterCard credit card transactions.

Merchants who surcharge credit card transactions will be subject to the following requirements:
Surcharging Operating Rules

• Visa and MasterCard will permit surcharging of **credit** card transactions only.
• The settlement does NOT change current restrictions on the surcharging of debit transactions (signature or PIN).
• Merchants will be able to surcharge credit card transactions at the brand level or product level.
  › **Brand Level** = Merchant charges same % on all Visa and/or MC credit cards
  › **Product Level** = Merchant charges a % on particular types, such as Rewards Cards, Signature, World Cards, etc.
Merchants are only allowed to assess a surcharge that does not exceed their effective rate for the applicable credit card surcharged.

Merchants can surcharge up to their cost, capped at 4%.

0.0%  ➔  4.0%
Surcharging Operating Rules

- Calculating the effective rate/surcharge amount:
  - The average effective Interchange Reimbursement Fee rate plus the average of all fees imposed by Visa on the Acquirer or Merchant, expressed as a percentage of the Transaction amount, applicable to Visa Credit Card Transactions at the Merchant for the preceding one or twelve months, at the option of the Merchant.

- Merchants that elect to surcharge must provide advance written notice to Visa, MasterCard, Discover, and the merchant acquirer 30 days prior to surcharging.
Surcharging Operating Rules

• Merchants will be required to disclose their surcharge policy at the point of store entry....

We impose a surcharge on credit cards that is not greater than our cost of acceptance

...and the point of sale prior to the purchase transaction being completed.

We impose a surcharge of ____ % on the transaction amount on Visa and MC payments.

We do not surcharge Visa & MC debit cards.
Surcharging Operating Rules

• The Surcharge amount must be included in both the Network Authorization Request and in Settlement.

• The Transaction Receipt must show the Surcharge amount separately on the front of the receipt in the same type font and size as the other items, after the subtotal (allowing for any discounts) and before the final Transaction amount.
Surcharging Operating Rules

- **American Express** – A merchant must not impose a fee when the card is presented unless that fee is imposed equally on all other payment products, except for electronic funds transfer, cash, or check. *No registration required, no separate surcharge field/amount required in authorization or settlement.*

- **Discover** – A merchant may assess a surcharge on a card sale provided that (a) the amount of the surcharge does not exceed the merchant fee paid to Discover for the card sale and (b) the merchant also assesses surcharges on card sales conducted using other cards accepted by the merchant. *Same authorization/settlement requirements as Visa/MC.*

The foregoing is based on general information available to Vantiv. Each merchant should check their own requirements with respect to the networks in which they participate.
Survey Questions

If your company accepts credit cards, do you charge the customer a surcharge fee to offset card processing costs?  

15%

Would your company like to have a solution that easily gives you the ability to surcharge the credit card payments?  

63%
Surcharging Solution Example
Surcharging Operating Rules

• Can merchants pick and choose how they will surcharge based on:
  › Size of transaction               No
  › The customer/cardholder           No
  › Products being sold               Maybe…

... MasterCard says: A merchant with multiple business units/divisions may opt to impose a surcharge on credit transactions at all, some, or none of its business units/divisions. The lines of business must be distinct.
Violating the Surcharge Operating Rules

- Currently, all complaints are coming from the cardholder, but Visa has “secret shoppers” in the market place.
- Cardholder may initiate a MC chargeback / Visa compliance case to recover an invalid surcharge.
  - MC = standard chargeback fees
  - Visa = fee of $2 up to $600
- If the merchant fails to become compliant after notification:
  - MC = up to $25,000/month
  - Visa = up to $5,000/month
  - Both can increase the fines until merchant is compliant
Anti-Surcharging Legislation

- State Anti-Surcharge Legislation
  - Distinction between consumer and commercial transactions?
  - Which surcharge laws apply? The vendor’s state or the customer’s state?
  - 10 states currently have anti-surcharge statutes:
    - California
    - Colorado
    - Connecticut
    - Florida
    - Kansas
    - Maine
    - Massachusetts
    - Oklahoma
    - New York
    - Texas
Anti-Surcharging Legislation

California’s Anti-Surcharge Statute:
No retailer in any sales, service, or lease transaction with a consumer may impose a surcharge on a cardholder who elects to use a credit card in lieu of payment by cash, check or similar means. *Cal. Civ. Code §1748.1 [2012]*.

- “Retailer:” every person other than a card issuer who furnishes money, goods, services, or anything else of value upon presentation of a credit card by a cardholder. “Retailer” shall not mean the state, a county, city, and county, or any other public agency.
- “Cardholder:” means a natural person to whom a credit card is issued for consumer credit purposes, or a natural person who has agreed with the card issuer to pay consumer credit obligations arising from the issuance of a credit card to another natural person.
- “Consumer:” is not specifically defined in Civil Code Sections 1747-1748.1.
Antisurcharging Legislation

Contracting around anti-surcharge statutes.

• Choice of law provisions.
Anti-Surcharging Legislation

• Anti-surcharge statutes in court

› Expressions Hair Design v. Schneiderman
  • New York’s anti-surcharge statute is General Business Law §518.
  • In October 2013, in, the U.S. District Court for S.D.N.Y. declared §518 unconstitutional and issued a preliminary injunction against the state Attorney General and all district attorneys from enforcing the statute against the named plaintiffs.
  • Preliminary injunction stipulated in November 2013
  • Case appealed to 2nd Circuit Court of Appeals
Anti-Surcharging Legislation

• Consult your legal counsel for review of state laws and how they may or may not impact your ability to surcharge.
Credit Card Acceptance Policy Should Define Policies and Procedures Such As:

- Acceptable payment cards
- Who is the policy applicable to
- Are surcharges imposed at the brand level or product level
- Define banner exceptions
- Define prohibited card activities, i.e. cash advances
- Define debit card prohibitions
- How are payment card fees allocated to your various operating companies, i.e. on a transactional basis or monthly basis
- How do you handle refunds
- How do you handle chargebacks
- How are discounts handled

- Reconciliations
- Define your rate structure
- Maximum surcharge cap adjustments
- Methods to accept credit cards
- Under what terms of sale will you accept credit cards and are your operating companies given discretionary autonomy in this matter
- Level I, II, III processing
- Card not present processing
- How to ensure the lowest possible transaction rate
- Security of cardholder information
- PCI compliance policy
- Choice of law/venue enforceability

Performance Food Group
B2B Payment Channels

› Common Settings for Credit Card Payments
  • New Customer
    › Applicant wants goods or services immediately and does not want to wait for credit evaluation process
    › Poor credit risk
  • Existing Customer
    › Pay when P.O. is placed
    › Pay when credit has been extended
    › Delinquent account and customer wants additional product or service
    › Clean up account
    › Maxed out on credit line
  • Card-Not-Present Transaction: No Signature and No Imprint from the Cardholder
Vendor’s Evaluation of a Credit Card Payment Program

› Vendor’s Perspective
• Credit Team
  › Reduced credit risk
  › Minimized bankruptcy risk
  › Minimum documentation
  › More accurate and timely financial reporting
  › Lower administrative expense (depending on vendor’s surcharge)
  › Faster collections
  › Increased productivity
  › Improved customer service
  › And, if reduced terms are made prerequisite for customer’s credit card use:
    • Immediate payment
    • Increased cash flow
    • Reduced accounts receivable
    • Improved DSO
    • Fewer credit approvals and collection-related activities
Vendor’s Evaluation of a Credit Card Payment Program

• Sales Team
  › New sales channel means more sales opportunities
  › Attracting new customers
  › Enhanced competitive position

• Finance Team
  › Cost of card acceptance
  › Cost of all payment types vs. profit margin
  › Impact on sales?
Customer’s Evaluation of a Credit Card Payment Program

› Customer’s Perspective
  • Card as Extended Terms
  • Improved Cash Flow
  • Convenience
  • Lower Processing Costs

› Cardholder’s Perspective
  • Points and Miles
  • Reimbursement
The Surcharge Rollout

› Vendor’s Perspective
  • Elastic/Inelastic demand: competitive niche
  • Trade relationship factors
  • Alienate the customer?
    › Do the vendor’s competitors accept credit cards? If so, do they pass along surcharges?
  • Understanding the Effect of a Surcharge Program
    › Compare the total amount spent on processing fees (interchange rate multiplied by sum total of credit card transactions) to the profits derived directly from credit card sales and the potential profit loss stemming from a surcharge program
    › What kinds of implementation costs (IT equipment, training, etc.) are associated with accepting credit card transactions and managing a surcharge program?
Convenience Fees vs. Surcharges

The Convenience Fee Rules listed below are based on Visa’s rules, as they are the strictest. Other rules apply if accepting only MC and AMEX

<table>
<thead>
<tr>
<th>CONVENIENCE FEES</th>
<th>SURCHARGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowed only on CNP transactions</td>
<td>Allowed on CNP and CP transactions.</td>
</tr>
<tr>
<td>Through an alternative channel from merchant’s normal payment channel</td>
<td>Fee is a percentage of the sale</td>
</tr>
<tr>
<td>Fee is a flat or fixed amount</td>
<td>Applies only to credit cards, not debit</td>
</tr>
<tr>
<td>Applicable to all forms of payment</td>
<td>Competing brands should be surcharged, if contract allows.</td>
</tr>
<tr>
<td>Disclosed prior to the completion of the transaction and the cardholder is given the opportunity to cancel. Included as part of the total sale.</td>
<td>Disclosure surcharge policy</td>
</tr>
<tr>
<td>Allowed on credit and signature debit.</td>
<td>Merchant must provide prior notice before implementation.</td>
</tr>
<tr>
<td>Special programs for government and higher education</td>
<td>Be mindful of state laws.</td>
</tr>
</tbody>
</table>

*Surcharges & convenience fees cannot be applied on the same payment.*
Discounts

In the U.S. Region, any purchase price advertised or otherwise disclosed by the merchant must be the price associated with the use of a Visa Card.

A U.S. merchant may offer a discount as an inducement for a Cardholder to use a means of payment that the merchant prefers, provided that the discount is:
* Clearly disclosed as a discount from the standard price  
* Non-discriminatory, as between a Cardholder who pays with a Visa Card and a cardholder who pays with a "comparable card“ (MC, AMEX, Discover).
Is the following allowed and in compliance with the Network Rules?

I am a B2B merchant and on our invoicing we currently offer a 5% discount if paid within 30 days (no matter what the payment type). I want to change our terms to 5% discount if paid within 30 days by cash and check & provide a 3.5% discount if payment is by credit card.

Yes
Is the following allowed and in compliance with the Network Rules?

At this time we only accept credit cards for parts orders. We will not accept credit cards for custom manufacturing. Are we allowed to accept credit cards only on the parts orders and refuse credit card payments on custom manufacturing?

Yes
Whether you choose to impose a surcharge or not, merchants are looking to reduce the cost of card acceptance. How can this be done?
Three key entities manage the payment system:

1. **Issuers:**
   - Issue cards
   - Assume buyer’s credit risk
   - Generate reports
   - Provide customer service

2. **Networks:**
   - Provide systems/operations
   - Develop products
   - Provide risk management
   - Offer advertising and promotions
   - Set standards and rules

3. **Acquirers:**
   - Sign up merchants
   - Underwrite merchant risk
   - Provide processing
   - Handle authorization
   - Manage Capture/Settlement
   - Generate reports
   - Provide customer service
Fee Breakdown

- Interchange = Issuer
- Network Assessments & Other Access Fees = Networks
- Processing Fee = Acquirer/Processor
Interchange Management

What is the Interchange Fee?

The **largest cost component** of a merchant transaction

Collected by Acquirer from the merchant for every Visa®, MasterCard®, and Discover® transaction.

Passed through Visa, MasterCard, and Discover to the card Issuer.

NOTE: Does not include other network pass-through fees such as those for Dues & Assessments, Network Access & Brand Usage, Acquirer Processing, Network Settlement / Base II, Risk, etc.
Fee Breakdown

$500 Visa B2B Transaction

- Interchange (2.10% + $0.10)
- Visa Base II Fee
- Tran Fee
- Comm/Gateway Fee
- Visa Acq. Proc. Fee
- Visa Assessment
- Visa Risk Fee

Total Cost = $12.57

Interchange represents 84% of the cost of this transaction.

*Based on Average Ticket currently qualifying for the Visa Commercial B2B Business Card rate
Interchange Management

Fees are influenced by 3 key considerations

- B2B
- Travel & Entertainment
- Fuel
- Grocery
- Other Retail
- Recurring Payments
- eCommerce
- Restaurants
- Emerging Market

- Card Terminal
- POS Software Systems
- Virtual Terminal
- Automated Fuel Dispenser (AFD )
- Key Entry
- Emerging Technology

- **Consumer Cards**
  - Credit
  - Debit
  - Rewards
  - World
  - Signature

- **Commercial Cards**
  - Purchasing
  - Business
  - Corporate
  - Fleet
Visa Business Card Not Present Transaction

**With AVS (Address Verification)**
2.10% + $0.10

**Without AVS and Level II data**
2.95% + $0.10

**0.85% Downgrade**
Interchange Management

**Incentive Interchange Programs**

- Commercial Cards – Level II / III
- Commercial Cards – Large Ticket

**Savings Opportunity:**

- Decreased expense
- Increased profit
Commercial Card – Data Levels

• **Level 1:**
  › Card number, expiration date, location information, Tax ID, AVS

• **Level 2:**
  › Sales Tax Amount
  › Customer Code
  › Sales Tax Indicator
  › Tax exempt transactions cannot qualify for Level 2, but they can qualify for Level 3

• **Level 3:**
  › Line Item Detail – invoice data such as quantity, description, dollar amount. This is not a comprehensive list of level 3 data requirements.

  The greater amount of data provided, the lower the interchange rate.
Level 3 Data Example
Level 3 Data Example
Level 3 Data Example
## Interchange Rate Examples

### Visa Purchasing Card:
- **Purchasing Standard**: 2.95% + $0.10
- **Purchasing Card Not Present (tax exempt)**: 2.65% + $0.10
- **Purchasing Card Present (tax exempt)**: 2.50% + $0.10
- **Purchasing Level II Rate (taxable)**: 2.05% + $0.10
- **Purchasing Level III Rate**: 1.85% + $0.10
- **Purchasing Large Ticket Rate**: 1.45% + $35.00

### MasterCard Business Card:
- **Business Standard**: 2.95% + $0.10
- **Business Data Rate I (tax exempt w/ no L3)**: 2.65% + $0.10
- **Business Data Rate II (taxable)**: 2.00% + $0.10
- **Business Data Rate III**: 1.75% + $0.10
- **Business Large Ticket Rate**: 1.20% + $40.00
Sample Transaction Costs: Interchange Expense

Visa Purchasing Card: $500 transaction

- Purchasing Standard (minimal data): $14.85
- Purchasing CNP (tax exempt, w/out Level 3): $13.35
- Purchasing Level II Rate (taxable): $10.35
- Purchasing Level III Rate: $9.35

30% - 37% cost reduction by processing Level III data vs. minimal data

MasterCard Business Card: $500 transaction

- Business Data Rate I (Level I): $13.35
- Business Data Rate II (Level II, taxable): $10.10
- Business Data Rate III (Level III): $8.85

34% reduction in cost by processing Level III data versus Level I
Large Ticket Interchange Expense

**Visa Purchasing Card: $50,000 transaction**

- Purchasing Standard (minimal data): $1,475.10
- Purchasing CNP (tax exempt, w/out Level 3): $1,325.10
- Purchasing Level II Rate: $1,025.10
- Purchasing Large Ticket Rate: $760.00

43% - 48% cost reduction by processing Level III data vs. minimal data

**MasterCard Business Card: $50,000 transaction**

- Business Data Rate I (Level I): $1,325.10
- Business Data Rate II (Level II): $1,000.10
- Business Large Ticket: $640.00

52% reduction in cost by processing Level III versus Level I data
Large Ticket Example

MasterCard Business L4 Card: $39,829.18 transaction

- Data Rate I (tax-exempt) 2.96% + $0.10 $1,179.04
- Data Rate II (taxable) 2.31% + $0.10 $ 920.15
- Large Ticket (level III) 1.51% + $40.00 $ 641.42

45.6% reduction in cost by processing Level III versus Level I data

$537.62 Savings
<table>
<thead>
<tr>
<th>Account 1 - Sept.</th>
<th>Current</th>
<th>$87,508.20</th>
<th>NACM Program</th>
<th>$61,768.62</th>
<th>Savings</th>
<th>$25,739.58</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account 1 - Oct.</td>
<td>$63,681.35</td>
<td>$45,615.82</td>
<td>$18,065.53</td>
<td></td>
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</tr>
<tr>
<td>Account 2 - Sept.</td>
<td>$3,642.60</td>
<td>$2,856.15</td>
<td>$786.44</td>
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<tr>
<td>Account 2 - Oct.</td>
<td>$2,866.23</td>
<td>$2,266.81</td>
<td>$599.41</td>
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<tr>
<td>Account 3 - Sept.</td>
<td>$3,389.50</td>
<td>$1,367.25</td>
<td>$2,022.24</td>
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<tr>
<td>Account 3 - Oct.</td>
<td>$6,761.06</td>
<td>$2,305.80</td>
<td>$4,455.27</td>
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<tr>
<td><strong>TOTALS</strong></td>
<td>$167,848.94</td>
<td>$116,180.46</td>
<td>$51,668.48</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* EFFECTIVE RATE

<table>
<thead>
<tr>
<th>Effective rate = fees divided by Visa/MC/Disc Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3.14%</strong></td>
</tr>
</tbody>
</table>

$5,347,307.72

**AVG. MONTHLY SAVINGS**

| $25,834.24 |

**TOTAL ANNUAL SAVINGS**

| $310,010.91 |

**SAVE**

30.78%
Level 3 Impact

Without Level 3 Data on tax exempt payments, merchants are paying on average 0.20% to 0.90% more than they could be on every Level 3 capable commercial card transaction.
QUESTIONS???

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SAVINGS ANALYSIS

Interested in a FREE interchange qualification analysis for attending today’s presentation?

Email a copy of your company’s recent monthly merchant services statement(s) to:

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THANK YOU!!