

Basics of Interchange, Pricing Components and Merchant Discount

Why is this important?

- 89% merchants said reason for switch was pricing too high
- Experts at pricing make more money
- Most salespeople don't understand it so you will have a competitive advantage
- You will know what to get into and what to stay away from



What is Interchange?

- VISA and Mastercard associations
 - “Interchange reimbursement fees”
 - About 150 fee categories
- Charged to banks, not to merchants
- Purpose:
 - Transfer fees between financial institutions
 - Grow payment system
- Usually largest component of merchant discount
- New rates in April and October



What is Merchant Discount?

- This is what makes up merchant discount -
Four basic components
 - Interchange, Dues and Assessments
 - Third-party processing fee
 - Bank sponsorship fee
 - ISO fee - for example, YOU
- Let's get specific
 - Interchange: 1.54% + \$0.10, plus 0.0954%
 - Processor fee: Range of 2 -10 cents
 - Sponsorship fee: 1-5 BP
 - ISO fee: typically 30-100 BP



Examples

- See Handouts

Why so many fee categories? What do they all do?

- Provide incentives for new markets
- Mitigate risk
- Introduce new technologies to
 - Speed processing
 - Reduce costs
 - Protect security



What determines which category the transaction falls into and final fees?

- Algorithm
- Decision points
 - Type of card
 - Merchant MCC code
 - Performance threshold
 - Characteristics of type of sale
 - When settled
- Merchant discount pricing method
 - Three tier
 - Interchange plus



So what do we tell merchants?

- Don't try to educate the merchant about Interchange - this can be a "black hole" you'll get sucked into
- Deliver this message
 - Pricing is continually changing
 - If you haven't reviewed your merchant discount lately, now is the time to look at it
 - I can help you and I have a great team backing me up
 - I will examine their unique mix of transactions and propose a competitive pricing program
 - I need three most recent monthly statements
 - I will be back in 48 hours with a better program
 - If you it turns out you have great pricing, I will confirm it

