

## **Reminder to Watch Your April Merchant Processing Statement**

We're all familiar with the semiannual rate adjustments from MasterCard and Visa. The most recent round went into effect on April 4th, so if you see a bump on your April statement, you'll understand why.

### ***What does this mean to you?***

If you're on a pass-through plus merchant processing arrangement, such as the NSRA plan with Chase, your rates will increase, but only by the amount of the MasterCard and Visa interchange increases, which even your processor can't control.

If, however, you process under a "bundled rate," be careful that the processor is only passing through the MasterCard and Visa interchange, and not taking that opportunity to tag on a little extra for themselves without saying so.

### ***How can you tell?***

On a pass-through plus structure, you can look at the components that make up the processing fee and check a sampling of transactions to make sure you're getting charged appropriately. You're not going to simply look at your April statement compared to March and know the impact without considering changes in your sales, and more importantly, variations in the pattern of card types your customers actually used.

On a bundled rate, you're simply not going to know without a lot of research. A bundled-rate processor typically doesn't provide the breakdown of card types your customers actually used; rather they set the bundled fees high enough to cover the fluctuations and accompanying risk. But since there's no transparency of underlying rates, there's always the window of opportunity for that processor to increase rates by more than the interchange, while relying on the fact that transaction processing is very complex and most people won't have the time to pursue the argument.

Important to note: The increases in the Visa and MasterCard interchange rates are of relatively low significance, perhaps representing a few basis points (tenths of a percent). Of much greater impact to your fees are the **restructuring of transaction types** and the **introduction of richer rewards cards**. Restructuring a transaction type could mean, for example, that your processor begins to identify riskier transactions and "downgrade" them, which somewhat counter-intuitively means they apply a higher processing fee to cover the risk. A specific example would be ecommerce transactions where the merchant's system holds the card number--sometimes for days before the product is shipped, at which time he processes the charge and the card # is deleted. For every day that card number is stored, there's greater risk of fraud.

MasterCard and Visa both introduced richer rewards cards last year to be more competitive with American Express, and they are probably beginning to come into common use now. These cards carry much higher fees than their non-rewards counterparts. The more common use of these cards burdens the merchant with higher fees—yes, someone pays for all those free airfares and hotel rooms.

Here's one more thing to watch: To date, BA Merchant Services has been very relaxed on differentiating transaction types, such as card-not-present transactions, and so has been giving more favorable rates on them than perhaps they should, whereas most processors "downgrade" those transactions and charge higher fees due to the higher risk involved. This includes the e-commerce example mentioned above. BA Merchant Services announced on February 29<sup>th</sup> that along with the April 4<sup>th</sup> interchange increase "At this time, BA Merchant Services is determining the individual impact based on the Card Organization changes and your current qualification levels." This implies that BA may now begin to identify those riskier transactions and scrutinize your qualification level.

If you experience a significant increase in your processing fees after this change (check your weekly statement or your May statement, which should reflect a full month at the new rates, you may want to get a quote (or another quote) from Chase.

You can see the details of the interchange increases at the following links:

[http://usa.visa.com/merchants/operations/interchange\\_rates.html](http://usa.visa.com/merchants/operations/interchange_rates.html)

[http://www.mastercard.com/us/merchant/how\\_works/interchange\\_rates.html](http://www.mastercard.com/us/merchant/how_works/interchange_rates.html)

NSRA is looking forward to providing more guidance for members in understanding transaction processing and analyzing merchant statements in its members-only section at [www.nsra.org](http://www.nsra.org). Stay tuned for more word in NSRA Online.