



Optimizing payments

Achieve cost savings, reduce risk



Credit card acceptance costs are the second highest cost behind payroll¹



Top tips for card payment optimization

As a business leader, you know the importance of transforming your operations to keep up with evolving customer expectations. Your top priority is ensuring an exceptional customer experience and meeting the needs of your staff all while controlling expenses. Part of that process extends to creating a seamless and secure payment experience regardless of how or where the transaction takes place. What if you could give your customers the flexibility and convenience to pay the way they want while simultaneously achieving substantial cost savings for your business?

This is where payment optimization comes in. Payment optimization offers multiple ways for a business to reduce or offset their cost of payment acceptance while also helping reduce risk exposure. This is achieved through best practices in cardholder validation, data collection, payment routing and fee solutions. With the right payment optimization strategy, it is possible to lower the cost of payment acceptance while still delivering convenience, ease and transaction security to your customers and your business.

We enable customers to implement a card acceptance strategy tailored to the needs of their business. In this guide, we'll highlight a few ways to enhance your card validation procedures and adopt card payment optimization techniques that benefit your business.

Understanding transaction fees

Every business knows that there are certain fees associated with accepting card payments. Interchange rates are set by card brands and can constitute up to 90% of the direct cost of every card transaction. They are charged by banks to cover the cost of accepting, processing and authorizing transactions. There are hundreds of interchange categories impacting rates.² Several factors play a role in determining card interchange rates. Some factors – like the type of card used (debit, credit, reward) and card brand (Visa, Mastercard, American Express) – are usually out of the business' control. However, when businesses are strategic about the way they validate card payments and the processing procedures they implement, they can gain back some control over the costs they pay on card transactions.



EMV CHIP VALIDATION

A key driver of fees that a business can exert some influence over is payment authentication. Card transactions processed without authentication are typically considered riskier so the cost of acceptance is higher. For example, an in-store payment with an EMV chip card carries less risk than an online purchase with the same card. Why? Because the chip can be used to validate that a card is legitimate when it's inserted into an EMV payment device. Meanwhile, the online payment relies on key entry by the customer, but the chip cannot be used to validate the card. In this example, the interchange fee will be higher for the online transaction than the in-store transaction.

CARD SECURITY CODE VALIDATION

How a transaction is authorized and settled can also determine the rate category. Transactions where the card is not physically presented at the time of purchase, such as online and by phone, are considered a higher security risk than transactions where the card is present. As a result, a higher interchange category may apply to the card not present (CNP) transaction. However, by gathering more information from your customers, a card not present transaction can qualify for a lower interchange rate. Capturing the card's security code (CVV, CVC, CMID, CID) in combination with using address verification can help with this. As an added bonus, collecting this information helps reduce the risk of possible cardholder fraud and/or identity theft. Our payment consultants work with businesses to automate collection of required data to help reduce the cost and risk of card acceptance.

Adopt card payment optimization techniques



COMMERCIAL CARD OPTIMIZATION

Commercial cards, which are issued by businesses for employee use, often have the highest interchange rates of all card types. By capturing and transmitting additional transaction details for commercial card purchases at the time of payment authorization, companies can qualify for reduced interchange programs. These pricing programs are offered by Visa and Mastercard to businesses who sell to other businesses (a B2B model) and/or to government organizations.

When additional data is collected and transmitted on each eligible commercial card transaction authorization, it helps to validate the authenticity of the transaction, providing information about the underlying transaction to the purchaser and the card brand. By improving authentication with additional detail, the transaction carries less risk and may qualify the commercial card payment for lower acceptance rates as defined by the card brands. Some examples of B2B purchases are office supplies, computer equipment, telecommunications, shipment and delivery, consulting services and catering.

FEE PROGRAMS

Another way to optimize payments is through fee programs. These programs are designed to help businesses offset the costs of accepting card payments.

There are three types of programs:

- **Convenience fees.** With convenience fees, businesses can offset the cost of accepting payments over the phone, online and by mail. Convenience fees allow a business to charge a flat fee when payments are made outside the customary in-store, card present environment.
- **Credit Card Surcharge.** Enables a business to charge a percentage-based amount when a customer chooses to pay using a credit card. This program is available in most states but there are a few exceptions.³
- **Service fees.** Restricted primarily to government agencies and educational institutions, this fee program enables organizations to impose a fee when a customer chooses to pay using a credit or debit card.

Fee programs are typically communicated to cardholders prior to a transaction through signage or other clearly visible notification. These programs offer a proven way to expand payment choice for cardholders while also effectively managing the costs associated with accepting payments.

Debit optimization

Debit card transactions have two authorization and processing paths available. One way routes the transaction through the same rail as the card brands, Visa or Mastercard. The other option is through one of the debit networks, which is identified on the back of the debit card. When a regional debit card is authorized over the Visa or Mastercard networks, it is treated like a credit card prompting the cardholder to sign for the transaction authorization. When the transaction is authorized through a regional debit network, the cardholder is prompted to enter their PIN (personal identification number), which indicates the cardholder is the authorized user of that card. This extra layer of cardholder authentication reduces the risk of fraudulent transactions and fraud-related chargebacks.

Additionally, the debit and credit rails carry different transaction charges for a debit card payment. Typically, a debit transaction routed over the credit network will cost more than a transaction that prompts for a PIN. Our debit optimization solution enables PIN acceptance on PIN-capable devices and prompts for PIN immediately when a debit card is presented, which can help your business take control of debit processing costs and reduce the overall cost of payment acceptance.

Debit card processing: two payment rails



REGIONAL DEBIT RAIL PIN authorization

- Cardholder authentication at time of sale
- Convenient cash back option
- More controls to prevent friendly fraud chargebacks
- A cost-effective processing option



CARD BRAND CREDIT RAIL Optional/signature authorization

- Reduced cardholder authentication options
- Expanded options for filing chargeback claims
- Typically incur higher interchange fees



Getting started



Identifying the opportunities to optimize transaction processing within a large company or government agency can be complex, which is why it's important to work with your payment processor to analyze your card payment data across all your environments. That's where we can help.

Using advanced analytics, we help customers identify areas for optimization and make actionable recommendations to better manage card payments. By evaluating the business' entire card authorizing and interchange environment, we can help you cost-effectively deliver a satisfying and secure payment experience.

Learn how U.S. Bank can help your organization benefit from an optimized payment processing program.



¹ Deloitte, "2020 Enterprise transformation and cost reduction survey", 2020

² Merchant Maverick, The Complete Guide To Understanding Credit Card Interchange Rates & Fees, February 2021

³ Although we offer surcharging in most states, Merchants are responsible for determining the legality of surcharging in their state, and merchants are liable if their activities are found to be unlawful. Credit card surcharge applies to credit card only, not available on debit cards.