

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

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Cash 257

Merchant Services and Revenue Collection

Objectives

- Feel prepared to discuss/understand basics of merchant processing
- Understand Service Fees
- Difference between credit and debit
- Why the spike in data breaches
- Changes on the horizon

What is Merchant Services

- Two sides of credit cards
 - Issuing: A financial institution issues per card association rules.
 - Issuing bank assumes unsecured risk of the credit card. Will customer pay the credit loaned?
 - Acquiring: Financial Institution acquires the transaction and pays the merchant per card association rules.
 - Acquirer assumes the risk that merchant will provide product and services sold.

Interchange

- Interchange is the money transferred from the acquiring bank to the issuing bank for each transaction.
- Established by the card brands (Visa, MasterCard, and Discover)
- Interchange is assessed to reimburse issuing banks for lost interest resulting from cardholders grace period for payment.

Interchange

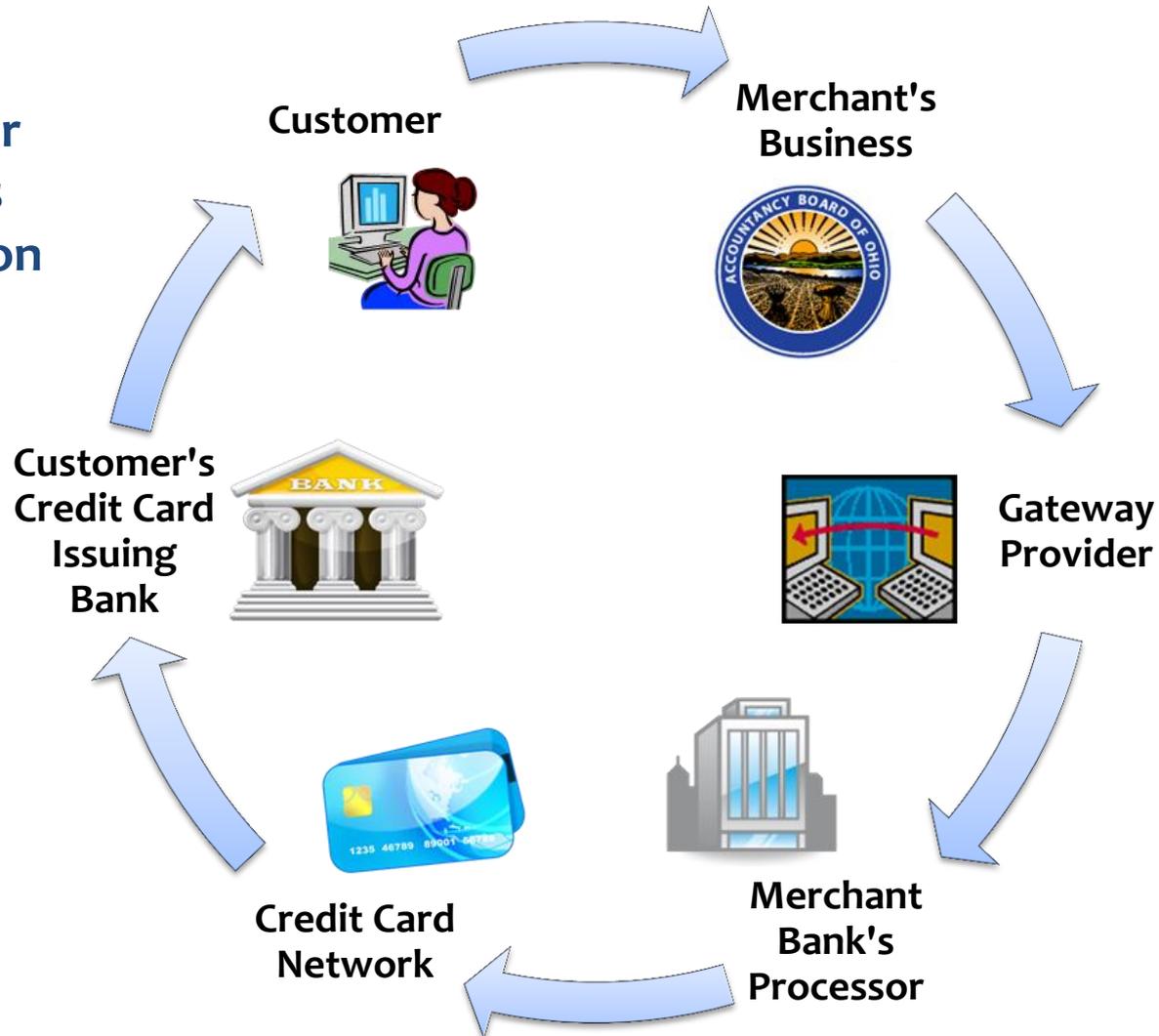
- The issuing bank pays the acquiring bank for their cardholder's purchase less the interchange fee for the transaction.
- The acquiring bank pays their merchant from the remaining balance minus a markup for processing the transaction.

Interchange

- Merchants ultimately receive the gross amount of the sale minus interchange, dues, assessments, and the providers markup.
- Interchange fees may change annually in April and October.
- Interchange fees can be found on Visa and MasterCard website.

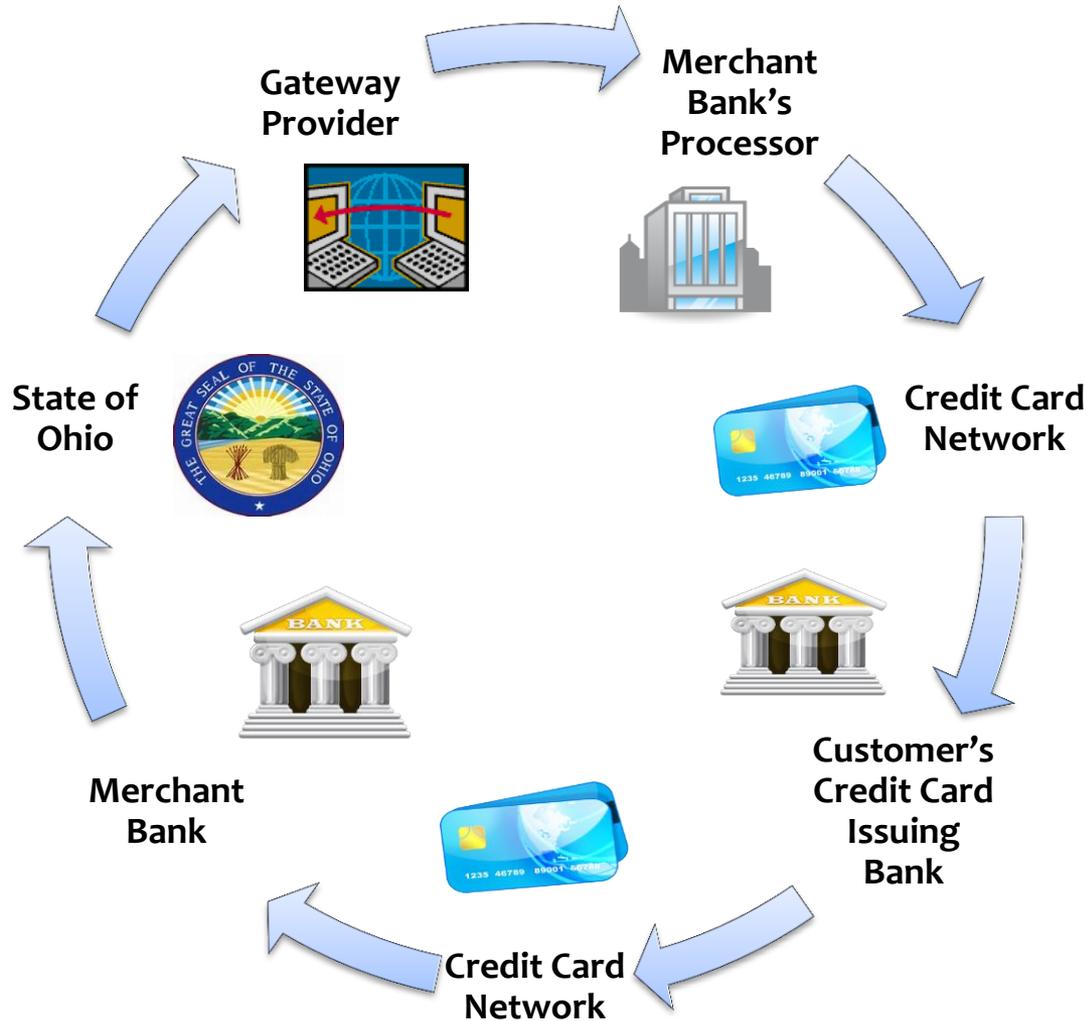
Credit Card Transaction Flow

STEP 1:
Customer
Initiates
Transaction



Credit Card Transaction Flow

STEP 2: Transaction & Funds Are Processed



Service Fee

- A Service fee can be added to a Government transaction.
- Government transaction is classified by the card association merchant category code.
- A service fee can off-set the interchange fees that a government merchant location would receive.

Service Fees

- Service fee can be a fixed amount or percentage. One or the other.
- Service fee must be applied equally
- Service fee cannot exceed 4%
- Merchant must not make a profit on a service fee
- Service fee must be listed as a separate transaction on customer statement

Credit vs. Debit vs. Reward Cards

- Credit/Rewards cards utilize card association systems for processing.
- Debit cards utilize separate networks for processing.
- Processing fees: lowest to highest
 - Debit, then credit, then rewards.

Security

- PCI Payment Card Industry
- Developed as a standard to verify security of card data.
- EMV-Euro MasterCard Visa. Standard for card acceptance utilizing pin/chip.
- U.S. one of last to adopt EMV. Fraudsters focusing efforts on U.S. until EMV adopted.

EMV

- EMV shift October 2015 for U.S. Merchants and Fuel Merchants October 2017.
 - Shifts liability of charge back responsibility
- EMV protects against card counterfeiting
 - Data stored on chip, not magnetic stripe
- EMV not the total fix
 - Card data still “in flight”.

EMV

- Point-to-Point Encryption (P2PE)-Card data encrypted within merchants system.
 - If merchants system compromised, P2PE card data is useless.
- Tokenization-protects stored card data in merchant system with “token”.
 - Token used instead of card data for future transactions.

Apple Pay

- Allows customer to store encrypted card info (iPhone) which is read by merchant point-of-sale.
- Security aspects appealing to merchants and customers.
 - No cardholder data exposed.
 - No card carried by consumer.

Apple Pay

- Most customers storing credit and rewards cards instead of debit card info.
- Creates higher interchange fees for merchants.
- Bypass lower cost debit networks for processing.
- Will security trump higher interchange costs for merchants?

Check Acceptance

- Electronic Check Conversion
 - Scans check(s) and converts item(s) to ACH transaction
 - Checks submitted directly to bank for deposit
- Electronic Check Conversion with Verification
 - Scans check and converts item to ACH
 - Verify's check against check/fraud database
 - Usually provides collection assistance for returned checks

Cash Handling

- Cash Courier
- Armored car service that collects and or exchanges cash from location on designated dates and times
- Can provide change
- Provides secure transport of cash
- Usually for businesses with large volumes of cash

Cash Handling

- Smart Safes
 - Cash deposited directly to electronic safe at location
 - Safe records cash and transmits dollar amount directly to bank nightly
 - Bank posts funds to account next day
 - Courier collects safe funds weekly, monthly etc.
 - Eliminates daily cash deposit trips to local bank

Merchant Services

- Questions???