J.P.Morgan

A MERCHANT'S GUIDE TO

Card Acceptance Fees

Unlocking value before, during, and after the payment

Do you know how much you're paying in credit and debit card payment fees? Do you know what you get in return for those fees? You might assume there's not much you can do about the line item on your books associated with payment fees—or that any savings might not be worth the effort.

Unless you have a team of payment experts advising you, the chances are good that you are paying too much in payment fees. The reality is that you have options that can save you money and also help improve your customer checkout experience.

This guide helps you understand the basics—specifically what you can do to reduce the single-largest chunk of card transaction costs—interchange fees.

By cracking the code on interchange, you gain more control over payment acceptance costs. This guide is for anyone who wants to understand and reduce interchange fees. This includes:

- Businesses that have changed how they accept payments.
- Organizations that need or are trying to improve their payments strategy.
- Those that want to respond to customer demands while managing costs.

The next few pages will address three common misconceptions:

Myth 1: Interchange fees are impossible to figure out.
Myth 2: Interchange is out of your control.
Myth 3: Improving interchange fees is not worth the effort.

A fast-food restaurant wants to build revenue and cut costs by improving the checkout process, now slowed down by requiring PIN input.

A regional chain of stores wants to add an online channel. The company wants to understand and minimize the impact on its cost of payments.

A local gym adds a new home-delivered meal service. It's trying to keep costs low as it builds its subscriber base.

As your business grows, so does the challenge of balancing different goals.

How do you streamline the purchase experience to keep customers coming back? How can you minimize the costs to serve each customer without creating new problems? Are you ready to dive into the inner workings of payment acceptance and those costs? The right advice can help you do both: improve the customer experience and save on transaction fees.

MYTH 1 | INTERCHANGE FEES ARE IMPOSSIBLE TO FIGURE OUT

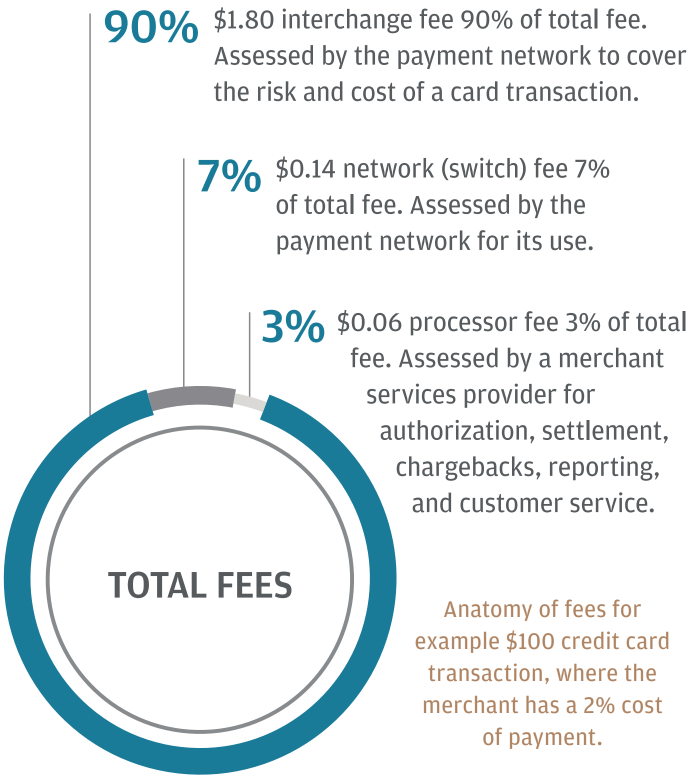
Understand the key factors that apply to your business

Before you can make sense of interchange fees, it helps to review the card payment process. When a customer uses a card to purchase a product or service, your processor—also known as a Merchant Acquirer—connects with other stakeholders to deliver your funds quickly and safely. You may see your cost of payment as one line item from your processor—but this single number includes core payments to other stakeholders:

1 | The interchange fee is generally the largest fee your card processor pays on your behalf and can represent up to 95 percent of the overall cost of payments. The card payment network—which could be Visa,® Mastercard®, American Express®, Discover®, or a debit network—assesses the fees to pay the card-issuing bank. Interchange fees help cover the issuer's risks and costs associated with each card transaction and card rewards, such as points or miles. The card payment network also contacts the issuer to start the fund transfer.

2 | The network and switch fee—including assessments—is paid on your behalf by your card processor. The participating card payment network assesses the fee to cover the cost of using its infrastructure to process and settle the transaction.

3 | The processor fee is what remains after the other two fees are deducted. It covers the cost of processor actions to complete the transaction, move the money, and allocate the transaction fees that go to banks and payment networks. If you use a merchant bank like J.P. Morgan, it might look like you are paying transaction fees only to J.P. Morgan. In reality, your processor allocates more of the fees than it keeps.



Anatomy of fees for example $100 credit card transaction, where the merchant has a 2% cost of payment.

> Interchange fees vary from transaction to transaction based on intricate set of formulas. As you will learn on the following pages, you don't need to understand every aspect of interchange to optimize payment acceptance and minimize your interchange fees.

Reducing costs is just one part of the equation

Understanding opportunities and trade-offs is key to identifying a payments processing solution.

Most merchants know that the decision whether to use a debit versus a credit card is in the hands of the consumer. The cost of a debit transaction is often less than a credit transaction but saving on interchange might not be as critical as making the sale.

Do your customers prefer debit cards? Is the checkout experience with debit as easy as credit? Many merchants prefer to optimize for the customer experience, create a frictionless checkout, and guarantee the sale. Others want a solution that helps reduce the number of declined payments.

With any discussion of interchange, you need to keep an eye on your overall goals. Optimizing interchange is only part of your complete value proposition. It’s one reason merchants exploring payments processing solutions value the experts at J.P. Morgan.

How data can drive strategies. A retail chain tried to avoid higher interchange rates by following what it believed were best practices. The chain mandated employees input a zip code for Address Verification Service (AVS) for orders received over the phone. Instead, more transactions were declined because agents used the zip code of the store instead of the cardholder.

J.P. Morgan payments experts identified the issue to help the client get its procedures back on track.

“I don't offer generic advice aimed only at lowest cost options. I find that customers building out new functionality often want to minimize any disruption to the checkout experience. Some choose to optimize in favor of savings, only when they realize the direction improves the cardholder experience. Instead, we’ll guide and tailor a solution that's right for each organization based on its goals and unique transaction mix.”

Ashleigh Mitchell
J.P. Morgan Executive Director and Debit Product Owner

MYTH 2 | INTERCHANGE IS OUT OF YOUR CONTROL

Identify and implement changes you can influence

Perhaps the best way to optimize your interchange fees is to fine-tune your point-of-sale behavior to reduce risk and cost to payment networks.

Each payment network publishes rates and fees that reflect best practices. To earn the best rate and lowest fees, the transaction must meet a list of requirements. For example, some networks expect you to use Address Verification Service (AVS) as a standard practice in card-not-present transactions to validate the customer's five-digit billing zip code.

For each requirement not met, the payment network downgrades the transaction and increases the interchange fee.

Understanding downgrades

Some reasons transactions get downgraded:

- POS Terminal did not read swipe or chip correctly.
- Card number entered manually.
- No zip code submitted through Address Verification Service for certain card-not-present transactions.
- Deposit not submitted promptly.
- Additional required data not included with transaction.

Once you understand what drives downgrades, you can avoid some downgrades by adjusting processes. Over time, your effort produces quantifiable savings and other benefits. You might find yourself better able to forecast and control your interchange costs. You might gain valuable insights about your customers and their buying habits.

As a result of its experience on both ends of card transactions—settling card transactions and fees and analyzing issuing-bank data—J.P. Morgan is also in a unique position to help you minimize unnecessary interchange fees.

Understanding factors outside your control

Only a few factors that trigger downgrades, or higher fees, are outside your control. Here are some of the biggest:

Type of card presented by customer

You can't control the card your customer uses.

1 | Credit > Debit
Credit cards typically have higher fees than debit cards.

2 | Commercial > Consumer
Issuing banks typically charge higher fees for commercial cards than consumer cards.

3 | Reward > General purpose
The higher the card tier, the higher the interchange. Fees help cover the cost of reward points and miles.

Merchant Category Code

Your line of business defines your Merchant Category Code (MCC).

➔ Networks establish many interchange rules at the MCC level. Your MCC plays into how you approach optimization.

Identifying factors you can control

Given how much money you can save by adjusting some behaviors, J.P. Morgan payment experts recommend you focus on the factors that you can control.

- ➔ **Include verification support.** In general, the more information you include with the authorization, the better informed you and the issuer are about the customer and the transaction, which can help lower your interchange fees. That's because additional information typically helps mitigate risk. More information also helps improve authorization approval rates. Use AVS to improve interchange fee and Cardholder Verification data (CVD)—the 3 or 4 digits on the card—to minimize fraud.
- ➔ **Commercial card additional details (Level II and Level III data).** Even if you aren't a classic B2B merchant, you can reduce interchange fees by including Level II and Level III data with the transaction deposit. Businesses that handle a high volume of business, purchasing, and corporate card transactions—such as wholesale distributers—already do this by reporting details such as sales tax, accounting codes, and freight amount. In the same way, travel and entertainment businesses will include addendum (additional) data with transactions, such as check-in and check-out dates, ticket and folio numbers, and rates. This additional data can support your customer's need for detailed information.
- ➔ **Settlement timing.** Batching transactions for settlement makes sense but waiting too long to submit transactions results in higher than necessary interchange fees. Retail transactions typically require same-day settlement; online and call-center purchases typically require settlement within two days after ship date. Submitting deposits every day ensures transactions flow through as quickly as possible.
- ➔ **Use the correct procedures for in-person, online, and call center transactions.** Many merchants now support multiple point-of-sale channels, including retail outlets—where a card is present—and online, app, and call center operations—where you don't see the card. Each customer experience carries a slightly different level of credit risk and different information to complete the transaction. By using the right payments processing solution for each, including separate designations for in-person transactions, merchants can support multiple point-of-sale channels and optimize transaction costs.

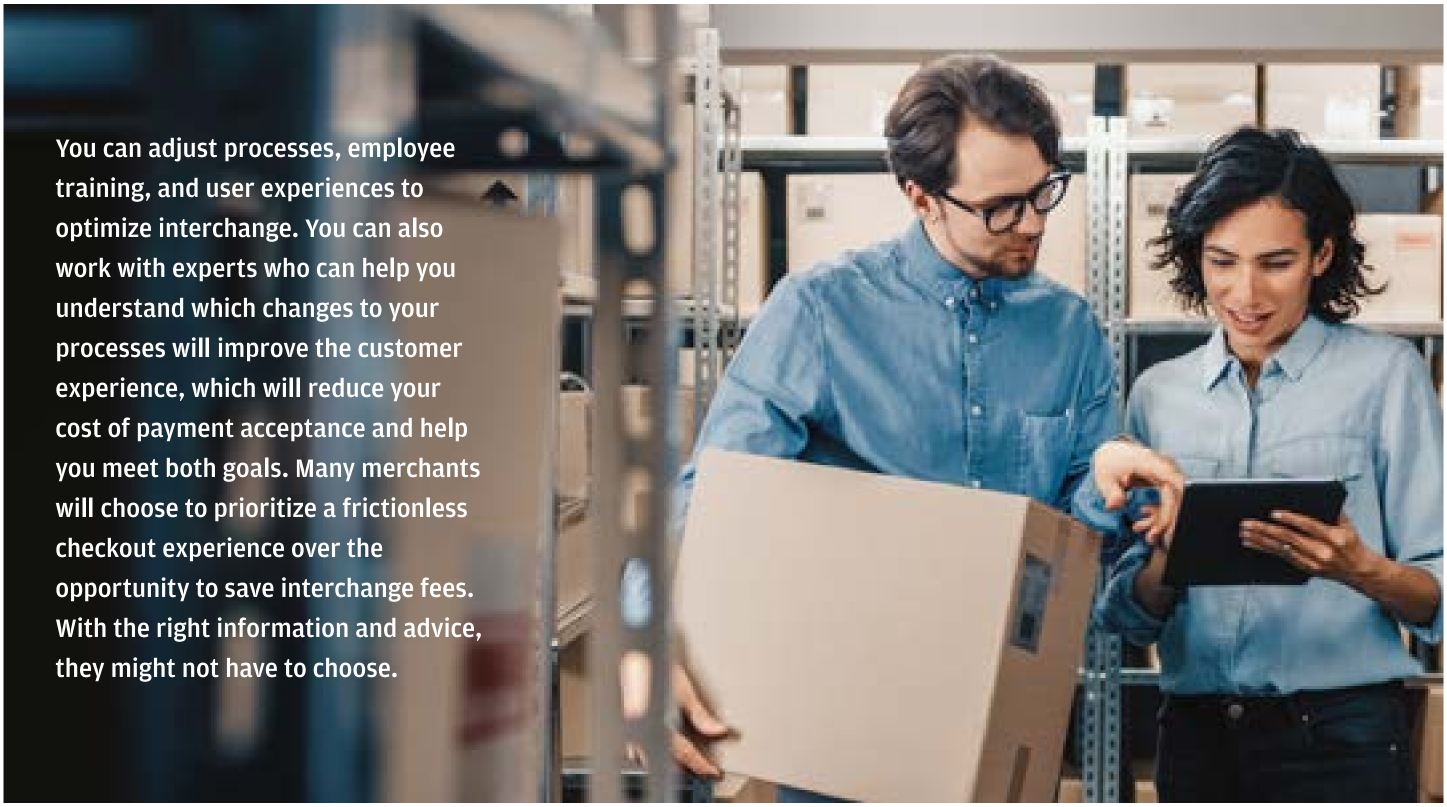
"Data quality can be a real issue, and it often adds cost. We analyze data points within transactions to deliver insights and recommendations. For example, a few changes in how you capture and format addresses or expiration dates or even your product/service data has the potential to materially impact your interchange costs."

Allan Shearer
J.P. Morgan Executive Director
and Relationship Management

Best practices for optimizing interchange fees

Because payment networks reward best practices, you can optimize interchange for both types of transactions, using the guidance in the table that follows.

In-person transactions	Online and call-center transactions
→ Settle transactions each day. → Make it easy for customers to insert or tap their cards. → If you must manually key in a card number, get the zip code associated with the billing statement, validate using AVS. → Maximize savings with a debit solution tailored to your in-store needs. → Help prevent costly chargebacks by making it easy for customers to identify transactions on card statements. Include details like telephone number and order number. → Enrich with details. Report Level II and Level III data for commercial customers.	→ Direct customers to pay via a secure website or app, when possible, because phone or mail payments can increase costs including interchange. → Settle transactions as soon as they are shipped. → Prevent costly chargebacks by including detailed information like your phone number and URL. → Check your transaction type and ensure its routing process is correct. As an example, utilities qualify for special debit routing that uses PINless Bill Pay. → Enrich with details. Include Level II and Level III data for commercial card customers.



You can adjust processes, employee training, and user experiences to optimize interchange. You can also work with experts who can help you understand which changes to your processes will improve the customer experience, which will reduce your cost of payment acceptance and help you meet both goals. Many merchants will choose to prioritize a frictionless checkout experience over the opportunity to save interchange fees. With the right information and advice, they might not have to choose.

MYTH 3 | IMPROVING INTERCHANGE FEES IS NOT WORTH THE EFFORT

Review and update process as your business evolves

Your business might include segments with different constraints and opportunities. Your operation might include both products and services; it might include multichannel point of sale.

For these and other reasons, optimizing interchange is only part of the payments equation. While there is much you can do on your own, you don't have to. Optimizing your overall cost of payments while you balance the impact on the customer experience requires the support of experts and an ongoing commitment to the process.

When an industrial components company learned it could take advantage of threshold billing rules, it changed routing methods to optimize for card transactions that each averaged $150,000. This shaved hundreds of dollars off the cost of each payment.

"It works the same for other B2B companies with customer relationships and high-value tickets. If you allow customers to build up credit and pay at a certain threshold, you can save dramatically on interchange."

Matthew Bringewatt
J.P. Morgan Executive Director
and Relationship Manager

Expert guidance for the asking

For a holistic view of your options, work with your processor.

At J.P. Morgan, we work with businesses of all sizes, including some of the world's largest organizations. We understand every aspect of the payment process, from card acquisition to issuing bank operations and the rules of the payment networks that sit in between. We've turned our expertise and our customer feedback into systems, tools, and codified insights that help with these ongoing activities:

- Optimizing interchange
- Optimizing cross-border interchange
- Minimizing interchange downgrades
- Maximizing approval rates
- Improving data quality
- Minimizing chargebacks

Operational insight for more savings

J.P. Morgan applies our knowledge to your unique operation with research and recommendations:

- See where your customers are shopping and what types of cards they use to pay. You can then forecast channel costs that include strategies to optimize interchange fees based on customer buying preferences.
- Find out how your volume breaks out across payment networks and what you need to know to negotiate better rates.
- Maximize the benefits available with your MCC. Consider special programs, tools, and solutions that address specific industries.

  Utilities—Learn how to reduce your cost of payments and potentially increase authorization rates with tools specifically designed to help manage recurring payments.

  Small-ticket merchants—Learn how to incentivize card usage in industries where the average ticket price is low.

  Gas stations—Learn how a review of historical data can help you improve interchange costs by routing your debit and credit card volumes to the best networks.

  Restaurants and Hotels—Learn how to detail incidentals, including tips, that are added after card authorization takes place to optimize interchange.

J.P. Morgan has helped thousands of merchants improve the cost of payment transactions at scale. We interpret the impact of new regulations and continually update customers on potential impact. Our commitment to customer service helps set us apart. We can help you demystify interchange fees, find the right mix of product offerings, and put you back in control of payment transaction costs.

J.P. Morgan customers come to us for specific advice, but just as often, we use our experience across the entire payments process to identify issues our customers didn't know existed.

All these services are covered by the small expense you pay your processor with every transaction, along with transaction authorization, settlement, and customer service.

Small expense, large value

Here are some of the J.P. Morgan services covered in the processor fee.

Processor fee	What we do
Authorizations and settlements	Confirm that the transaction is approved or declined by the customer's bank (card's issuing bank) and deposit the money into your bank account.
Chargebacks	Manage any sale that is disputed by your customer.
ACH transfers	Deposit funds to your bank account via the ACH Network.
Wire transfers	Deposit funds to your bank account via electronic funds transfer.
Value-added services	Offer additional features and functions to streamline your process.

Beyond payments	How you benefit
Dedicated customer service	Access to exceptional service and support from one of the world's most trusted financial institutions. Work with experts that understand consumer insights, payment regulation, fraud monitoring, and everything in between, for holistic advice on your payment strategy.
A consumer-centric approach	We can provide access to deep insights built on the financial understanding of 66 million U.S. households.*
Complete financial services to accomplish your business goals	Choose from a comprehensive set of financial products to meet your banking needs. When you work with J.P. Morgan, you work with one of the largest, most trusted financial institutions.
Reporting and insights to drive performance	We can provide everything from simple transaction data to deep consumer insights, and everywhere in between. We have the tools, solutions, and advice to help you understand the impact of payments on your business.

*2021 Annual Report <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/annualreport-2021.pdf>

Start saving on transaction costs

You don't need to understand every aspect of interchange to start saving on transaction costs. Instead, look at how your business is processing payments and identify the newest or most conspicuous factors that could affect interchange. Then, adjust your processes, employee training, and customer point-of-sale experiences to keep pace with shifting business and customer needs. Finally, incorporate regular reviews into your payment best practices.

#1 | Understand the key factors that apply to your business.

#2 | Identify and implements changes you can influence.

#3 | Review and update process periodically as your business evolves.

That fast-food restaurant that wanted to speed up checkout? It now uses PINless debit processing, which enables it to continue to route payments over lower-cost debit networks while it speeds checkout time.

That regional chain of stores that added an online channel? It now knows the differences between in-store and online costs and how to minimize online fees.

That local gym that added subscriptions to home-delivered heart-healthy meals? It split into two separate MCCs to route transactions for its different business models to optimize interchange.

Beyond your cost of payments

As you grow, you typically need strategies and services that help you drive more revenue, not just reduce your cost of payments. J.P. Morgan payment experts offer additional services to help customers optimize transactions, some of which are described in the following table.

For more details, watch the masterclass.

WATCH NOW →

Services to optimize transactions	
Wallet cleanup	Reduce declines by performing regular account updates to remove expired card-on-file details.
Timing strategy	Increase likelihood of transaction approvals with timing strategies based on money in account.
Transaction message	Ensure accuracy and completeness of data elements.
Balanced retry strategy	Trade off costs of repeat declines against incremental revenue.
Tokenized transactions	Early learnings indicate that tokenization can significantly improve authorization rates and lower fraud rates.
Routing transactions for optimal performance	Add routing strategies based on PINless network eligibility and cardholder location.

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