

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

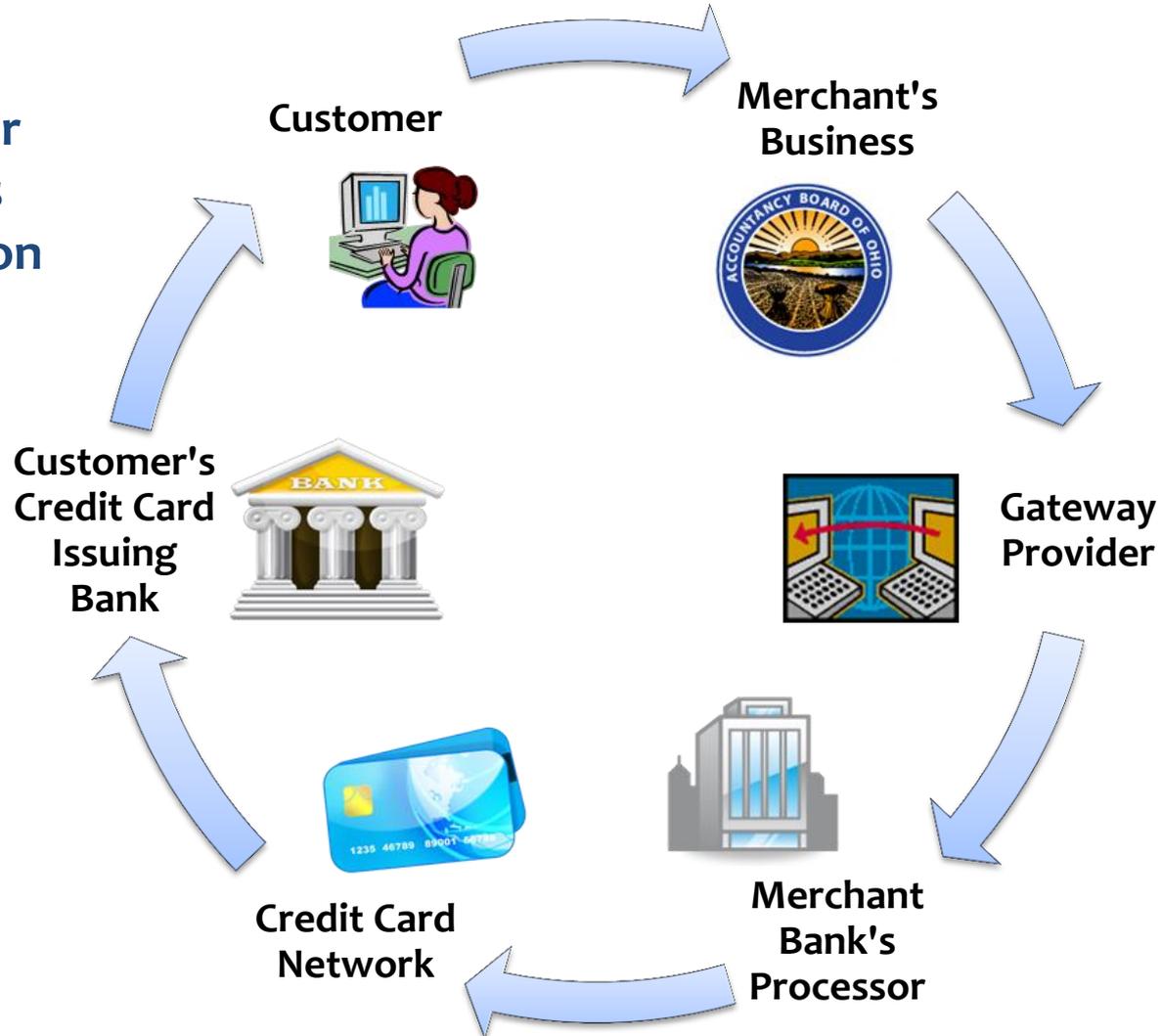
- The issuing bank pays the acquiring bank for their cardholder's purchase less the interchange fee for the transaction.
- The acquiring bank pays their merchant from the remaining balance minus a markup for processing the transaction.

# 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.

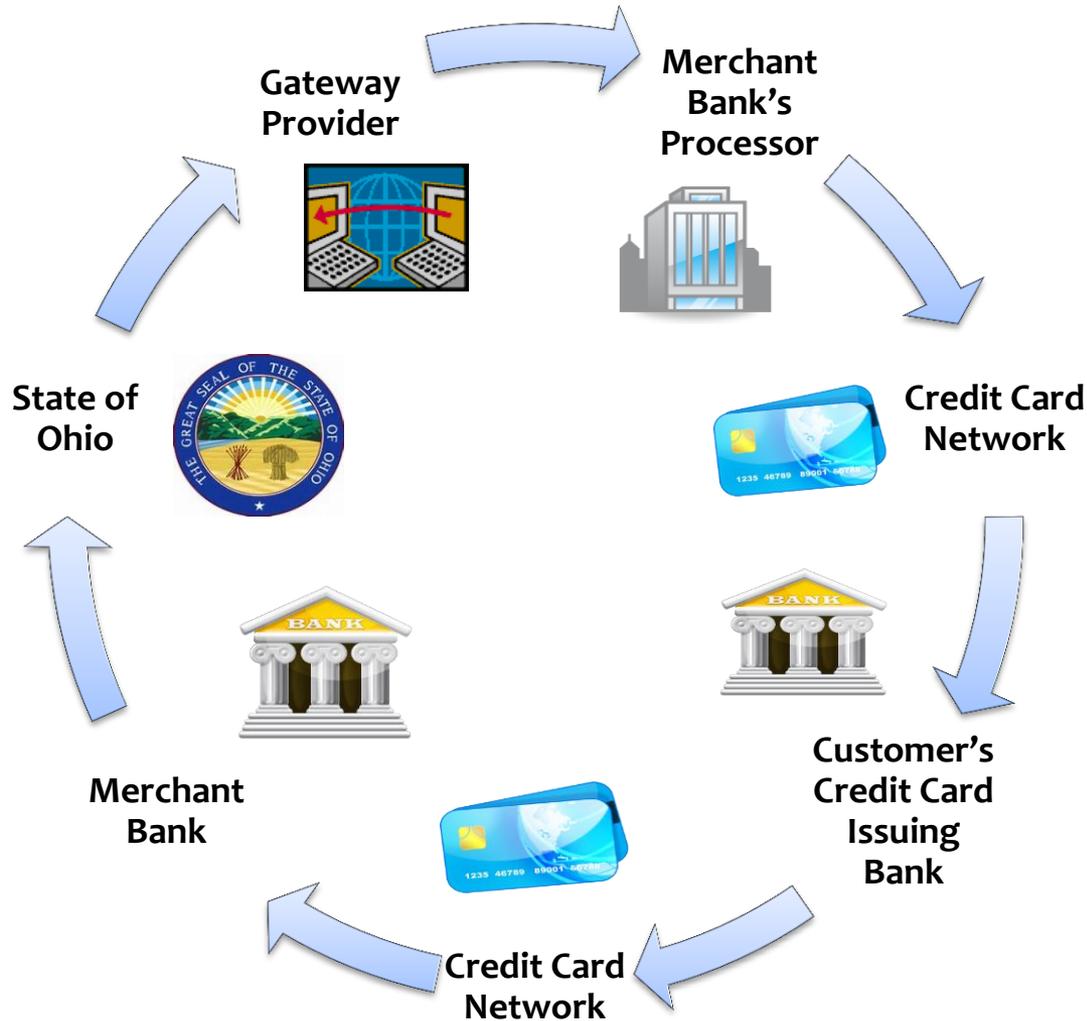
# Credit Card Transaction Flow

**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
  - Cards will be issued with dual chip/stripe
- Applies only to card-present transactions.
- Will greatly reduce counterfeit cards.
  - U.S. one of last areas still using mag stripe
  - Data stored on chip, not magnetic stripe

# EMV

- Card inserted into the terminal
  - Card will remain in the terminal/reader for several seconds.
  - Unique identifier assigned/stored by internal chip
  - Terminals will automatically recognize chip.
- EMV not total fix
  - 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???