

How to Talk to Vendors about Accepting Card Payments

Presented by:

David Nakagawa
Maureen Sudbay
Kristen Bolden



FORUM2014

Visa Overview

14,600

Financial institution clients¹



2.2 billion

Visa cards (as of June 30, 2013)



\$6.9 trillion

Total volume



175

Currencies Processed



88 billion

Total transactions²



36 million

Acceptance locations



Visa settles the majority of volume from public sector credit card programs, and has relationships with most issuers competing for public sector business.

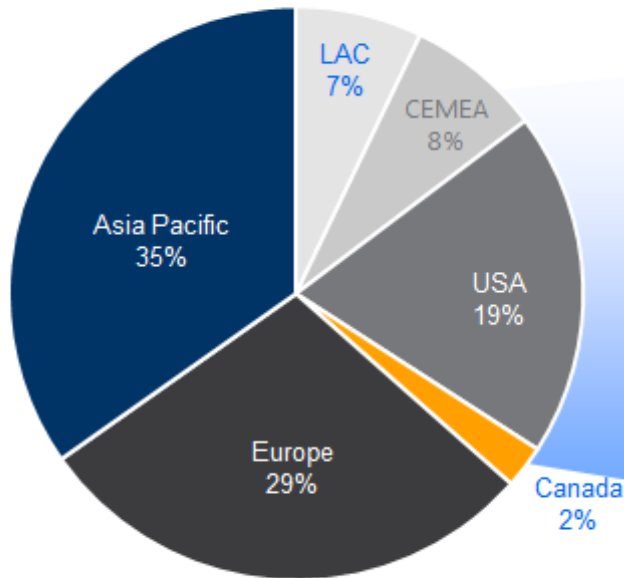
- 83% of GSA is Visa-branded
- 42 of 49 states are Visa-branded
- 76 prepaid programs in 40 states



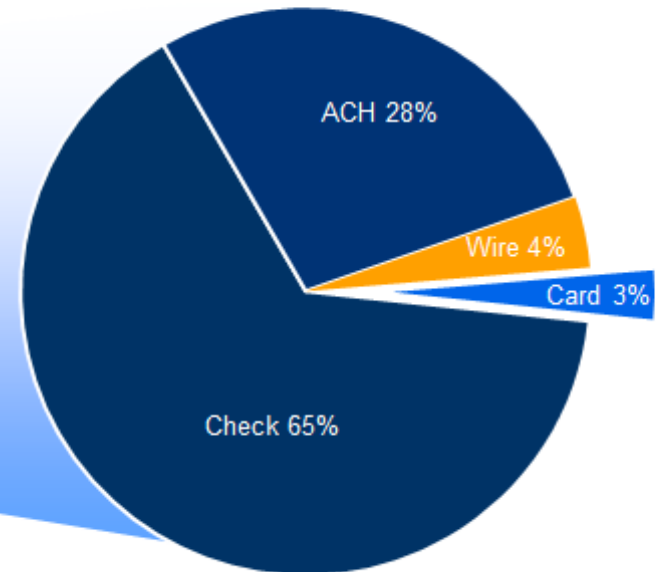
Total U.S. Commercial Opportunity

Total Commercial Consumption Expenditure (CCE) is substantial, but card acceptance has very low penetration (3% in US)

2011 Global CCE Distribution
100% = \$109.3T



2012 U.S. B2B Payment Mix



Source: Visa Commercial Consumption Expenditure Index; Economist Intelligence Unit (EIU) modeling and analysis, September 2012.

Source: 2012 Remittance Survey of 662 AR, treasury, AP, purchasing, procurement, & accounting professionals (n=662)

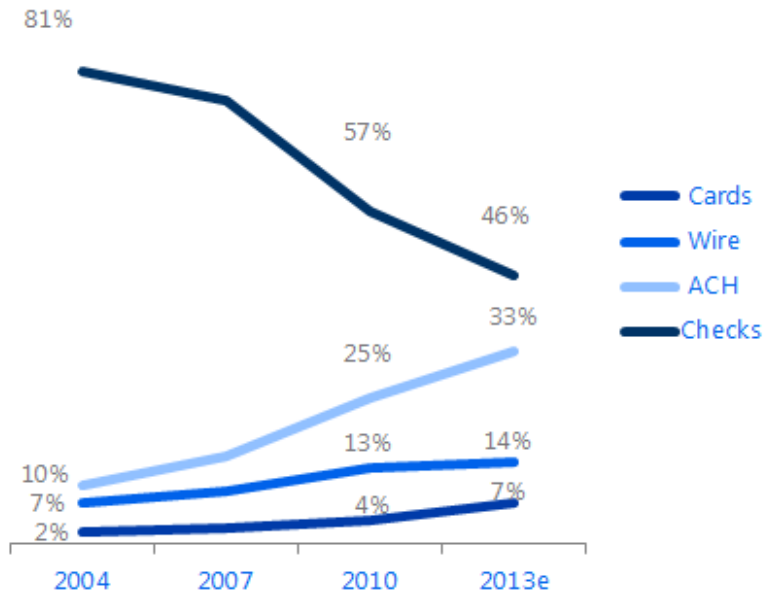


FORUM 2014

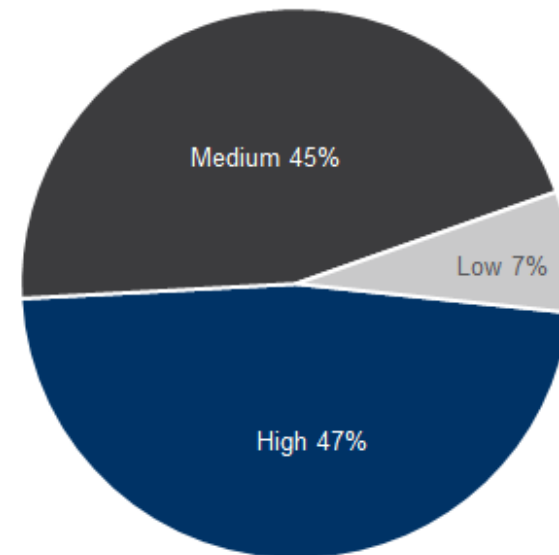
ACH Gains Share

While interest in electronic payments is converting payments away from checks, ACH is capturing more of this trend

U.S. B2B Payment Mix
(% of Total Number of Transactions)



Interest in Using More Electronic Payments



Source: February 29, 2012 First Annapolis Commercial Card Market Landscape study prepared for Visa

Source: 2012 Remittance Survey of 662 AR, treasury, AP, purchasing, procurement, & accounting professionals (n=662) - Association For Financial Professionals.



FORUM 2014

Visa Purchasing Card

- Traditionally used for high-volume, low dollar purchases
- Can reduce an organization's invoice processing costs
- Can improve cash float
- Configurable and flexible issuance options

Cards



Purchasing Card



One Card



Fleet Card

Features

Authorization Controls

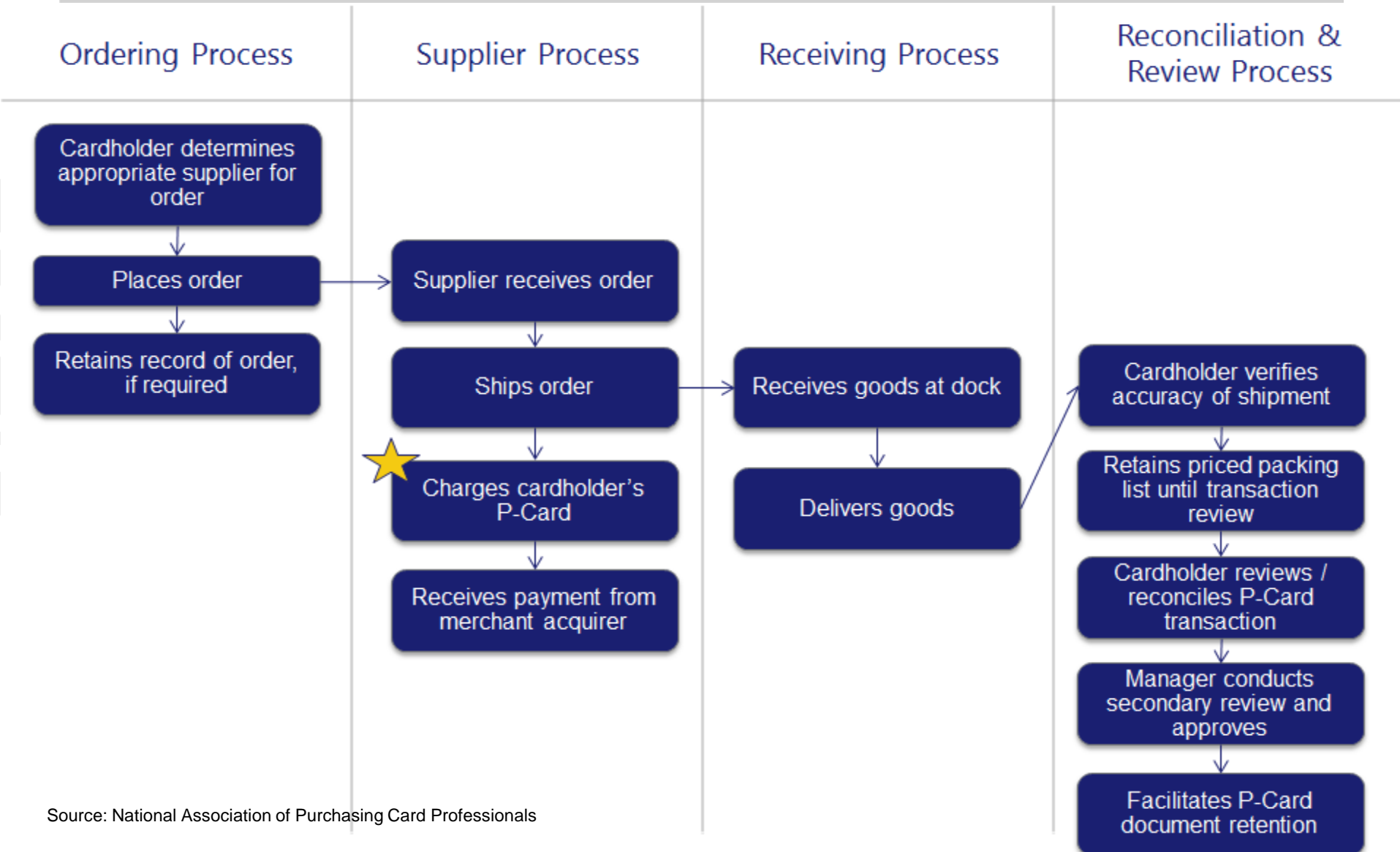
Enhanced Data Capture

- Level II
- Level III

Virtual Cards

- EAP
- Ghost Cards

Traditional P-Card Process



Electronic Accounts Payable (EAP)

EAP is a **virtual commercial card** used as a payment mechanism and **integrated with a company's ERP system**

How Electronic Accounts Payable (EAP) Works



- Sends approved accounts payable files to AP Automation Provider or buyer's commercial bank

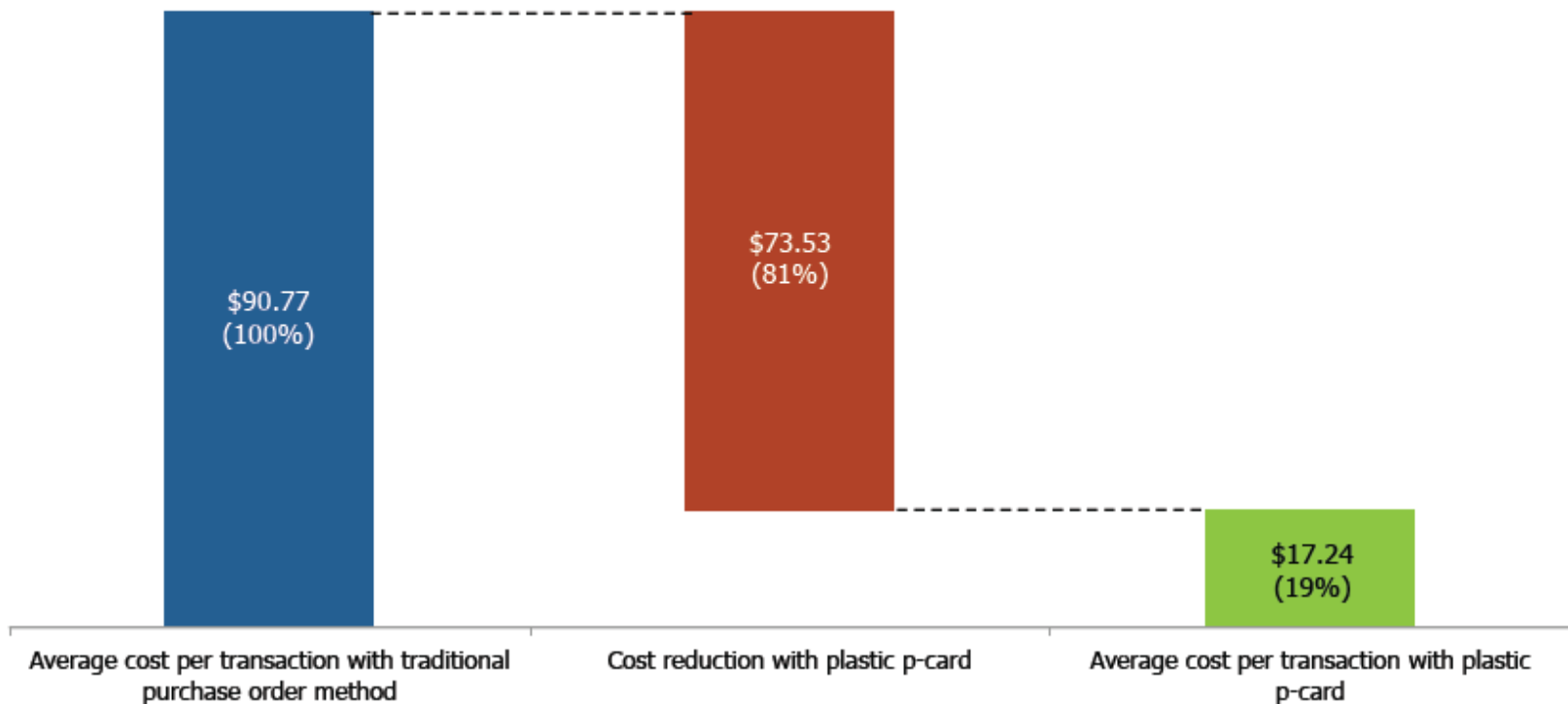
- Processes these files
- Adjusts card limit to match invoiced amount
- Sends remittance notices to suppliers
- Creates a reconciliation file for buyer's record tracking

- Charges buyer's commercial card with approved amount

The Value of Cards – Cost Reduction

A 2012 RPMG study showed the cost savings to buyers from Purchasing Card use is significant at \$73.53 or 81% per payment transaction

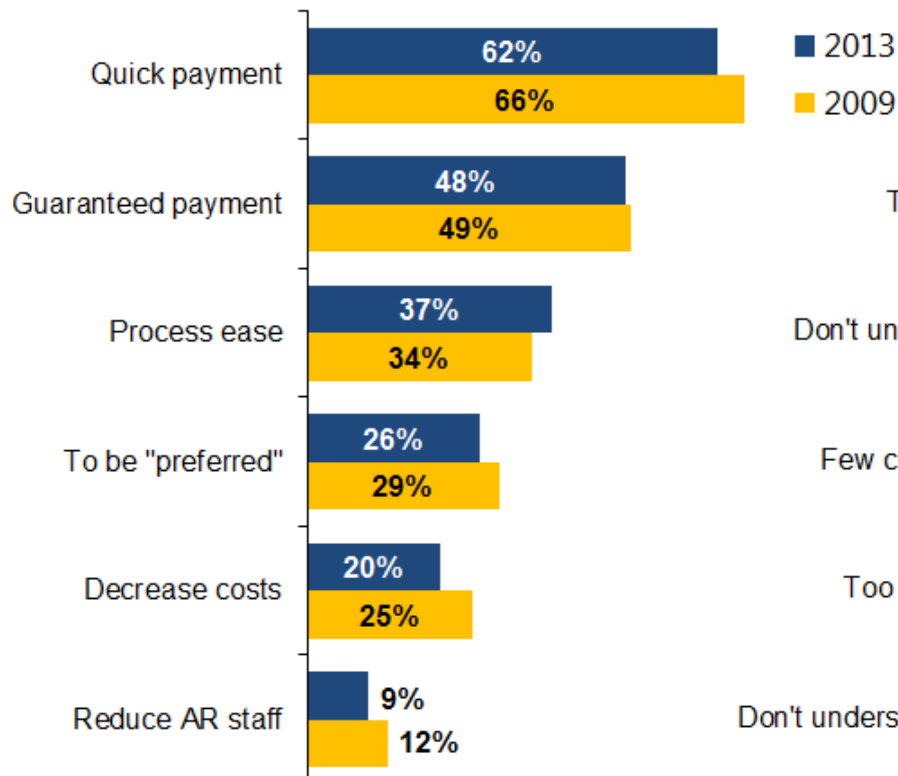
Cost Reduction per Transaction by Purchasing Card Use



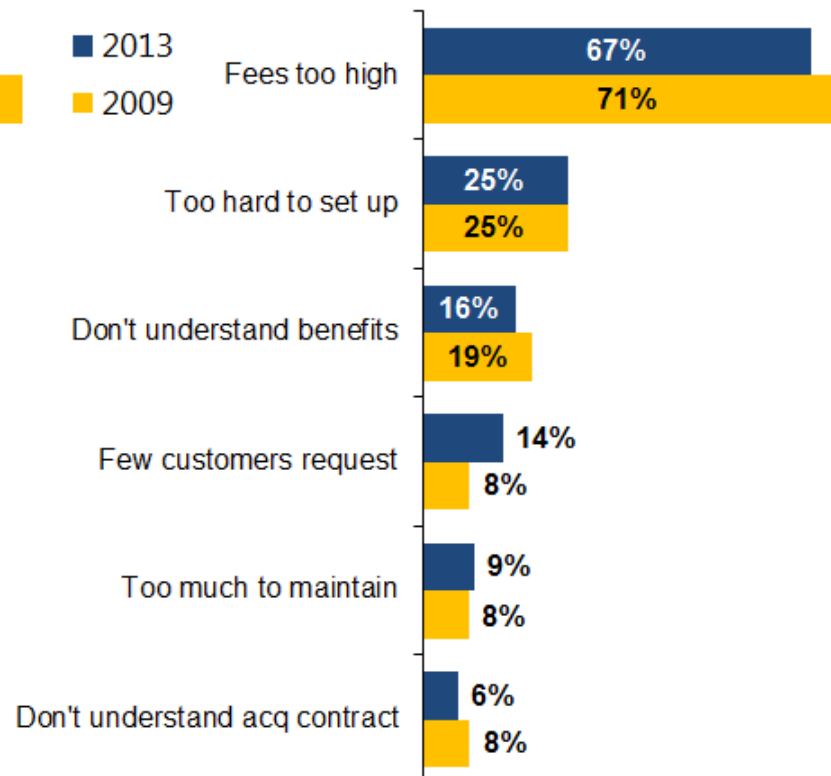
Supplier Perspectives

While suppliers see benefits of card acceptance, acceptance fees still inhibit adoption

Frequently cited reasons suppliers give for taking cards
(2013: n=101; 2009: n=146)

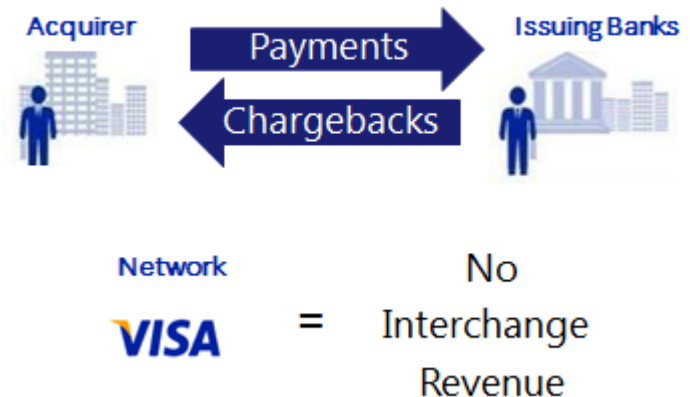


Frequently cited reasons suppliers resist or won't accept cards
(2013: n=101; 2009: n=146)

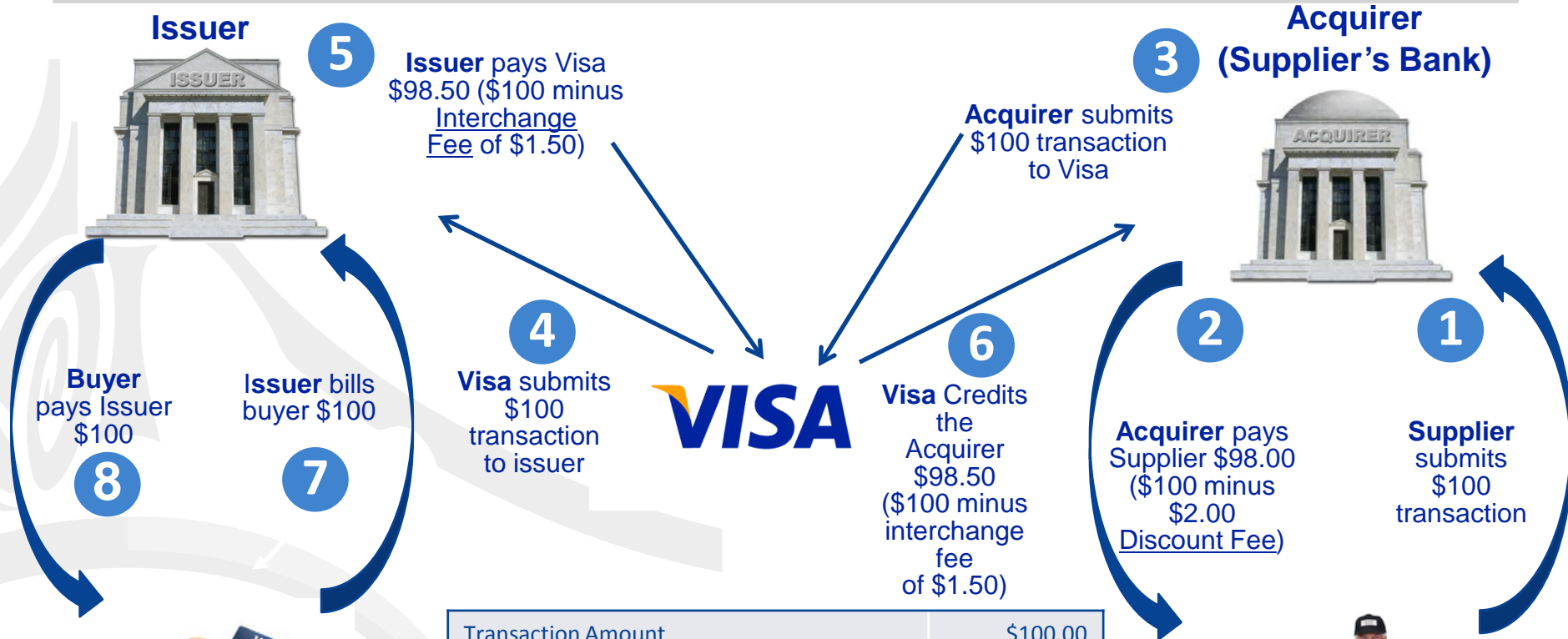


Card Economics - Interchange

- Interchange is a **default transfer price between issuers and acquirers**, applied on each transaction; Designed to balance incentives
- Interchange is **bi-directional**, flowing from acquirers to issuers on payment transactions, and reversed on credits or chargebacks; interchange flows from issuers to acquirers on ATM transactions
- While linked to Visa volume growth, **interchange is not Visa revenue**; Set in response to dynamic and highly competitive market forces;
- Visa's Interchange and acquirer fees may be included in the Merchant Discount Rate, negotiated between merchants and their acquirer



The Visa Systems – Clearing & Settlement



| | |
|---------------------------------------|----------|
| Transaction Amount | \$100.00 |
| Interchange Fee | \$1.50 |
| Visa Pays Acquirer | \$98.50 |
| Acquirer Pays Merchant | \$98.00 |
| Net Fee to Acquirer | \$.50 |
| 1.5% Interchange Rate* | |
| 2.0% Merchant Discount Fee* | |
| *Rates for illustrative purposes only | |



Purchasing Card Data – Levels I, II and III

| | | |
|------------------|---|---|
| Level I | <ul style="list-style-type: none">• Transaction amount• Date• Cardholder information• Exchange rate• Merchant name | <ul style="list-style-type: none">• Merchant Name• MCC |
| Level II | <ul style="list-style-type: none">• Level I details plus...• Sales tax amount/VAT• Customer code• Street address• Phone number | <ul style="list-style-type: none">• Small business status• MWDOB Data• Tax ID• DUNS number |
| Level III | <ul style="list-style-type: none">• Level I and II plus...• Item description• Item quantity• Cost per unit• Item transaction level | <ul style="list-style-type: none">• Ship to/from• Freight• Duty• Alternative tax |

Purchasing Card Interchange

| Category | Interchange Rate | Data Requirements | Transaction Size |
|-------------------------|------------------|-------------------|------------------|
| Commercial Retail | 2.50% + \$.10 | - | No minimum |
| Level II | 2.05% + \$.10 | Level II | No minimum |
| Level III | 1.85% + \$.10 | Level III | No minimum |
| Purchasing Large Ticket | 1.45% + \$.35 | Level III | \$6,980 or above |

Settlement Update – Check-Out Fees

- The card networks (Visa and MC) and several bank issuers have reached a preliminary agreement on the interchange lawsuit filed by merchants. The lawsuit was brought in 2005 by merchant plaintiffs alleging that banks and card payment networks restricted competition on interchange rates.
- With the preliminary agreement, Beginning Jan 27, 2013, merchants will be able to add “checkout fees” (surcharge fees) for Visa & MasterCard credit card transactions per the terms of the settlement agreement. The terms apply to all Visa and MasterCard credit cards.
- Debit and Prepaid cards cannot be assessed “checkout fees”.
- 10 U.S. states have surcharging restrictions including California, Colorado, Connecticut, Florida, Kansas, Maine, Massachusetts, New York, Oklahoma and Texas.

Settlement Update – Check-Out Fees

- Check-Out fees are being imposed solely at the merchant/supplier discretion.
- A merchant/supplier must disclose the check-out fee at the point of sale (or online check out screen). Also, merchants/suppliers are required to provide a separate line item on the receipt that shows the dollar amount of the fee. (example provided on next slide)
- Each merchant will determine how much the “checkout fee” will be if they decide to charge one, however, no merchant may charge more than 4% of the transaction amount. Merchants are required to disclose the amount of the surcharge before you make a purchase; look for signs at the store entrance and at the cash register or point of sale.
- U.S. Merchants that intend to surcharge must complete a notification form with Visa or MC 30 days in advance of charging the fee

