



## Web Based Payment Processing and Convenience Fees

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### Web Based Payment Processing



Internet Processing has changed drastically over the last 10 years. Merchants and payment solutions providers continue to find new and better ways to harness the power of the web.

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### Benefits of Internet Processing

3 Main Benefits

1. Scalability – multitude of “access methods” with unlimited users processing into one, online, real time aggregated environment.
2. Flexibility – The ability to pass additional data helps make reconciliation and management of the transaction more efficient.
3. Security – Internet payment applications store and encrypt transaction data so the merchant doesn’t have to.

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### Internet as a means of communication

Custom      Retail      MOTO  
 IVR      Mobile      Internet

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### Variety of ways to process

Pre-Built or Custom Processor Solutions

In House Integration

Existing Vendor Solutions

New Vendor Solutions

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### Benefits to Government Agencies

1. Efficiency – Online processing allows for a wider array of acceptance methods which means easier collection of fees, dues, license renewals, etc.
2. Security – Using PCI Compliant web based payment providers shifts a tremendous amount of responsibility for card storage to a third party provider.
3. Convenience Fees – The ability to collect convenience fees helps to relieve the costs associated with accepting various forms of payment. There are many layers to convenience fee processing.

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**Convenience Fees**

Understanding Convenience Fees and how a merchant may use them is much like solving a puzzle.

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**Convenience Fee Agenda**



- Convenience Fee Definition
- Typical Industry Segments
- How Convenience Fees Work
- Card Network Compliance Rules
- Third Party Processors

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**Convenience Fees**






**Definition**

A Convenience Fee is an additional charge to a cardholder over and above the cost of goods and services.

**Use**

- Convenience Fees are typically used to recoup the cost of processing in an eCommerce or telephone payment channel.
- In some cases a Convenience Fee can be assessed in a face-to-face environment.

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## Solving The Puzzle



Some implementations are not fully compliant

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## Industry Segments

Typical segments that charge Convenience Fees include:

- **Government Tax**
  - Federal and State Income Taxes
  - Property Taxes
- **Government Non-Tax**
  - Licenses, Fines, Court Costs
- **Utilities**
  - Water, Electric, Gas
- **Education**
  - Colleges, Universities, Professional Schools and Junior Colleges
  - Tuition and related fees, school maintained room and board

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## Processing Methods

- **Single Transaction Method**
  - One authorization for the entire amount including Convenience Fee
  - Used in Government (non-tax), Utilities and Education
  - One transaction appears on cardholder's statement
- **Two-Transaction Method**
  - Separate transactions for Principal Payment Amount and the Convenience Fee Amount
  - Used in Government Tax
  - Two transactions appear on cardholder's statement

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**Card Network Compliance**



- Network rules for compliance are confusing and not consistent across the different card types
- Compliance rules also vary by industry within a Network
- Visa and MasterCard have published rules and programs
- American Express rules are in their merchant agreement
- Discover Network has few specific rules

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**Card Network Compliance**



**Visa – General Program**

- Must be an alternative payment channel (e.g. Web or IVR)
- Added only to non face-to-face transactions
- Flat or fixed amount regardless of payment value
- Applicable to all forms of payment in the channel
- Included in the total amount (i.e. single transaction)
- Cannot be charged by a third party
- Must not be added to a recurring transaction
- Utilities **cannot** charge a Convenience Fee if participating in the Utility Interchange Reimbursement Fee Program

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**Card Network Compliance**



**Visa – Government Tax Program**

- Tax Program rules override general program
- Fee must be processed as a separate transaction
- Fee allowed in any channel, including face-to-face
- Fees may vary across channels
- Cardholders must be notified prior to finalization with an opportunity to opt out of the transaction
- Registration is required

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**Card Network Compliance**

**Visa – Government Tax Program**

- **Consumer and Commercial Credit Cards**
  - Variable Convenience Fee (percentage, tiered or flat) is allowed
  - Typical card-present and card-not-present interchange applies to both transactions
  - Convenience Fee must not be greater than another comparable consumer credit or commercial payment card (ACH and eCheck transactions excluded)

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**Card Network Compliance**

**Visa – Government Tax Program**

- **Consumer Signature Debit Cards**
  - Fixed Convenience Fee only and must not exceed \$3.95
  - Interchange is capped at \$2.50 and is not charged on the separate Convenience Fee transaction
  - Convenience Fee cannot exceed any fixed or flat fee charged on any other payment card (ACH and eCheck transactions excluded)
  - BIN file will be need to be set up for merchant so that they can determine which cards are debit

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**Card Network Compliance**




**MasterCard**

- **Government Tax, Government Non-tax, Education and Utilities**
  - Fixed or variable Convenience Fee
  - Allowed on card-not-present and face-to-face transactions
  - Convenience Fee must be the same across all competing card brands. However, allows for a variable fee on MasterCard debit to be different than a fixed rate charged on a competing debit card
  - Program registration is required

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## Card Network Compliance

**Discover**

- Cannot be assessed on a Cash Advance transaction
- Convenience Fee must be the same across all credit card brands
- **For Discover Network Retained merchants:**
  - The Convenience Fee cannot exceed the merchant's discount rate set by Discover Network
- **For Fifth Third Discover Acquired merchants:**
  - Fixed or variable Convenience Fee
  - Allowed on card-not-present and face-to-face transactions

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## Card Network Compliance

**American Express**

- Convenience Fees are only allowed in:
  1. Government Tax
  2. Government Non-Tax
  3. Education
- Not allowed in Utilities
- Not allowed on face-to-face transactions
- Convenience Fee must be the same across all competing payment types

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## Card Network Compliance


- Due to conflicting rules, some merchants exclude one or more card types
  - Education tends to only accept MasterCard because Visa does not allow:
    1. Variable Convenience Fees
    2. Convenience Fees on face-to-face transactions
  - Government Tax may exclude MasterCard or Visa because of the debit card flat fee






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## Third Party Processors



Used by merchants to facilitate Convenience Fee processing

- Handles payment transactions
  - Integrates to Web for eCommerce
  - Provides IVR services for phone payments
  - Supplies Virtual Terminal for face-to-face transactions
- Collects Convenience Fee
- Pays interchange and other processing costs
- Allows merchant to collect the exact amount of payment due

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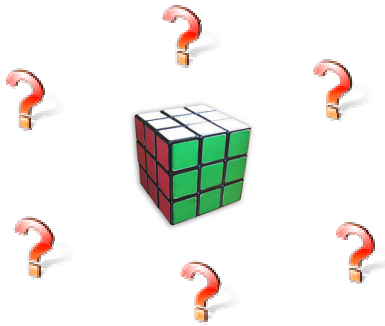
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## Convenience Fees



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