Are you overpaying for card payments?

The Wild West of Merchant Acquiring

Fifteen years ago, the Durbin Amendment to the Dodd-Frank financial reform bill established reduced rates for regulated debit cards. Although the Fed significantly increased those rates in diverging from what the Durbin Amendment required, big merchants still succeeded in gaining about a 50% reduction in their cost of accepting regulated debit cards for payment.[1]

Several months after the Durbin Amendment became Law, I was listening to a presentation by one of the largest merchant acquirers in the country when a senior officer of the acquirer bragged to an audience composed of ISOs that, guess what, we're going to keep all the savings owing to the merchants instead of passing through the savings to our merchant clients. Apparently, the fact that the ISOs were charging their merchants a discount (bundled rate) rather than a more transparent approach, such as interchange plus an explicit fee over and above the interchange fees and network fees, enabled the ISOs to do this.

Discount fees are easily understood as opposed to detailed statements illustrating which fees are simply passed through, like interchange fees and network fees, as contrasted with the fees charged by ISOs and acquirers. However, discount fees often come with various other charges that significantly raise merchants' total costs. For many of us, discount fees have become the source of frustration with the ISO industry since they typically do not result in the transparency that more sophisticated merchants demand from their acquirers.

Today, merchants have little choice but to accept payment cards. While cards are ubiquitous and are popular with consumers wedded to the promise of rewards, merchants suffer ever-increasing costs to accept them. Recent examples of marketplace abuse have gained the attention of social network media and horror stories of merchant abuse abound. Detailed analysis of merchant statements have been reported on Linkedin that show excerpts of merchant statements with over a 5% markup over interchange.[2] Other

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[1] Durbin Amendment, What it is. How it works. Impact. Julia Kagan 4/1/24

[2] Ion Cracium, LinkedIn post of 8/4/25

sources have weighed in at length about many of the hidden fees and lack of transparency in the merchant payment processing.[3]

This situation has created a Wild West scenario in which vigorous competition exists to gain merchants' business. Competition has led to better services and reduced costs for sophisticated merchants that have a thorough understanding of their own costs as well as the costs imposed by the card networks, including the interchange paid to card-issuing banks. The most sophisticated merchants know precisely how much they are paying for acquiring services and they demand cost-plus contracts where acquirers' and network fees are disclosed clearly within contracts and periodic statements of fees.

Unfortunately, most merchants lack the sophistication needed to gain complete insight into how much they are paying for acquiring services. Unscrupulous companies often take advantage of unknowing merchants, resulting in them paying extraordinarily high fees and holding grossly one-sided contracts. It's been said that acquiring card transactions has created more millionaires in the US than any other occupation!

Here are some steps I have found helpful when attempting to renegotiate an existing agreement or finding a new provider:

- Merchants should review their current acquirer contracts so they entirely understand how much they are being charged.
- They should compare proposals from multiple providers to ensure they get the best deals.
- They should focus not only on price but also on all contractual provisions within the contracts.
- They should set deadlines in order to make sure they do this far in advance of renewing their existing agreements, in order to avoid being trapped by provisions that automatically renew their agreements.
- Plan for 6 months at a minimum to review existing agreements and gather proposals.
- Plan for an additional 6 months to coordinate conversion, if necessary, to another provider. The timeframe needs to be adjusted in the event customized services or reports are required.
- Consider adding a provision in your new agreement that requires the new provider to clearly disclose all fees and limits or eliminate altogether any new fees during the term of the new contract.

[3] Duplicate Transaction, Credit Card Processing Companies and Transparency, 7/ 8 20

Following these steps can be time-consuming, but shortcuts typically lead to failure to obtain the most cost-effective services. Start early and consider hiring an expert to assist in this endeavor.

We can help. Contact us at info@payments-roundup.com or +1 484-269-1719

Visa Acquirer Monitoring Program (VAMP)

By: David True

Starting April 1, 2025, Visa consolidated its dispute and fraud monitoring programs (VDMP and VFMP) into the enhanced Visa Acquirer Monitoring Program (VAMP). This update aims to strengthen acquirer risk controls, improve the safety of the Visa payment network, and especially target card-not-present (CNP) transactions.

What Is Changing?

Unified Framework: VDMP (dispute monitoring) and VFMP (fraud monitoring) have been retired; VAMP will now track both *fraud and non-fraud disputes through a single ratio*, simplifying compliance and enforcement for acquirers and merchants.

Monitoring Focus: Acquirers—not merchants—are directly monitored, but merchant activity impacts acquirer compliance.

Why should merchants care?

VAMP fundamentally changes the game. Unlike previous programs that primarily monitored merchants *individually*, *VAMP assesses acquirers based on their entire merchant portfolio*. This means that even compliant merchants can face consequences if their acquirer's portfolio exceeds thresholds, creating a shared responsibility model that requires strategic thinking.

Monitoring and Advisory Period

- **Advisory Phase:** From April 1, 2025, through June 2025, merchants and acquirers identified by Visa were in an advisory period—no fines were assessed, but acquirers had to ensure risk controls were in place.

- **Enforcement:** From July 2025, acquirers and merchants breaching VAMP thresholds will face fines and potential remediation or restriction requirements

SMBs: Immediate Prevention Tools (Budget-Friendly Focus)

- **Implement Chargeback Prevention Alert**s: Small businesses should prioritize enrolling in tools such Verifi CDRN and Ethoca alert systems. These services intercept disputes before they become formal chargebacks, giving merchants 72 hours to issue refunds and prevent disputes from counting toward VAMP ratios. Many payment processors offer these services as add-ons at reasonable monthly fees.
- **Deploy Order Insight**: This Visa tool helps prevent disputes by providing enhanced transaction details to issuing banks when customers inquire about charges. Implementation typically requires working with your payment processor to push order details in real-time.
- **Optimize Billing Descriptors**: Ensure your business name on customer statements is immediately recognizable. Many SMB chargebacks result from customers not recognizing the merchant name on their statements. This simple change can significantly reduce the volume of disputes.

If Your Processing is Through an ISO (or an ISV like Square, Clover, or Toast)

- **Understand Your ISO/ISV Relationship related to VAMP**
  - **Portfolio Risk Sharing**: When working with an Independent Sales Organization, SMBs must understand that their activity contributes to the ISO/ISV's overall portfolio risk.
  - **Internal Threshold Management:** *ISOs typically implement internal VAMP thresholds below Visa's official limits to protect their portfolios. Small businesses should proactively ask their ISO/ISV* about these internal limits and monitoring practices, as they may face restrictions even while staying under Visa's published thresholds.
  - **Limited Risk Absorptio**n: Unlike major acquirers with thousands of merchants, ISOs have less ability to absorb high-risk merchants. This means SMBs working with ISOs face higher risk of account termination if their VAMP ratios deteriorate.
- **Leverage ISO Support**
  - **Educational Resources**: SMBs should actively engage their ISO for VAMP compliance training, access to tools, and assistance with monitoring.

    - **Technology Integration**: ISOs often have partnerships with specialized compliance and fraud prevention vendors. SMBs should ask their ISO about access to chargeback management tools, fraud screening services, and automated alert systems that might be cost-prohibitive to purchase individually.
    - **Relationship Management**: Maintain regular communication with your ISO/ISV about VAMP performance. Request monthly ratio reports and discuss joint strategies for staying compliant. ISOs are incentivized to help merchants succeed since portfolio health directly impacts their business.

Implementation Strategy for Resource-Constrained SMBs

Phase 1 (Immediate - Low Cost):

- Optimize billing descriptors and customer communication
- Implement basic fraud prevention through payment gateway settings
- Enroll in alert services through your existing payment processor
- Establish monthly VAMP ratio monitoring

Phase 2 (Short-term - Moderate Investment):

- Deploy Order Insight integration
- Implement 3D Secure 2.0 for higher-risk transactions
- Consider basic chargeback management software for smaller portfolios

Phase 3 (Long-term - Higher Investment):

- Advanced fraud prevention tools and machine learning systems
- Comprehensive dispute management platforms
- Multiple acquirer relationships for risk distribution

Cost-Effective Tool Selection

- **Consolidated Platforms**: Look for providers offering multiple VAMP compliance tools in single packages rather than purchasing individual point solutions. Many smaller compliance vendors cater specifically to SMB budgets and needs.
- **ISO-Sponsored Solutions**: Many ISOs offer group pricing or sponsored access to compliance tools for their merchant portfolios. This can provide enterprise-grade solutions at SMB-friendly pricing.

Bottom Line for SMBs

Small businesses working with ISOs/ISVs need to be particularly proactive about VAMP compliance because they have less margin for error than merchants working with large, diversified acquirers. The key is implementing a layered prevention strategy that prioritizes cost-effective tools while maintaining strong relationships with ISO partners. Success requires viewing VAMP compliance not as a compliance burden but as fundamental business risk management that protects both processing relationships and revenue streams.

If you have questions about the impact of VAMP on your business or the best risk-mitigation tools to fit your needs, please contact dtrue@paygility.com or d.sheaffer@teampaytech.com

Debit Interchange

The caps on debit interchange implemented in 2011 benefited merchants to different degrees, largely dependent on merchant size. Large merchants generally benefited; smaller merchants, much less so.

This article, based on a study by [Fumiko Hayashi of the Kansas City Federal Reserve Bank](), suggests why.

Debit card interchange fees charged to merchants in the United States climbed sharply during the 2000s. Merchants' capacity to route transactions to preferred (and less expensive) debit card networks was limited.

In 2010, Congress passed the Dodd-Frank Act, which included measures to address escalating fees and restrictions on routing. These measures were implemented in July 2011 by the Federal Reserve Board as Regulation II.

Regulation II introduced three critical provisions:

- a cap on debit card interchange fees for large ("regulated") issuers
- a ban on network exclusivity arrangements between networks and issuers, and
- a ban on limitations preventing merchants from routing transactions over any enabled network.

The cap applied only to card-issuing banks (“issuers”) with $ 10 billion or more in assets, leaving smaller (“exempt”) issuers unaffected by the cap. Exempt issuers collectively accounted for about 35% of all debit card transactions.

Fumiko Hayashi (of the Kansas City Federal Reserve Bank) researched the results of Reg 11 and found that since it was enacted, the average exempt debit card interchange fee for networks such as, Interlink, Maestro, STAR, NYCE, PULSE declined slightly, while it increased for networks such as Visa, Mastercard, and Discover.

Fee increases were often much larger than decreases.

Hayashi’s research emphasizes that these network-wide averages do not sufficiently capture what small merchants saw. Unlike their large counterparts, small merchants struggle to identify the lowest-cost networks and lack the bargaining power to negotiate lower fees. Even where Regulation II increased routing options, many small merchants remain unable to exercise these choices effectively.

A detailed review of interchange fee schedules for 13 networks) shows a pattern in fees charged to small merchants between October 2011 and August 2024. Some networks decreased their fees for at least one of four major merchant categories (grocery, general retail, gas station, quick-service restaurant), but others either increased or left them unchanged.

Out of 13 networks, nine decreased interchange fees for at least one category. Five of these networks also raised fees for at least one other category. Two networks raised fees in all categories, and two made no changes.

Critically, the magnitude of fee increases—often associated with newly introduced premium fees for issuers in preferred-issuer programs—was much larger than the magnitude of reductions.

The underlying market dynamics temper the ability of Regulation II to drive widespread fee reductions for small merchants.

Why aren’t small merchants getting the full savings?

1. Flat-rate pricing: Most small businesses use simple, all-in-one pricing from their payment providers (for example, a flat 3% on every card sale). This helps with budgeting but hides the real costs, so merchants can’t spot fee differences or choose the cheapest route for each transaction.

2. No negotiating power or options: Big businesses have the time, money, and knowledge to negotiate better deals and pick the lowest-cost way to process every card sale. Small merchants don't usually have that ability, so most stick with the default arrangement—even when it costs more.
3. Network incentives: The system is designed to give banks and payment networks reasons to keep fees higher for small merchants. They may actually offer lower fees to big merchants who can bring in bigger sales volumes..

Because most small merchants do not pursue the lowest-cost routing options, networks lack a competitive incentive to lower fees specifically for them. Instead, some networks strategically set higher fees for small merchants to entice exempt issuers into preferred programs, while offering lower fees to large merchants to win more transactions.

The research reveals that, despite the increased routing choices intended by Regulation II, overall exempt interchange fees for small merchants saw little broad decline and were frequently subject to larger increases than decreases.

As a result, policy measures focused on routing options may not be sufficient to manage fees for small merchants.

If you'd like to know more about managing your payment acceptance cost, please contact David True at dtrue@paygility.com or Dean Sheaffer deanshea@ptd.net

Beyond the Card: How ACH is Transforming Retail Transactions

As the costs of processing credit card payments continue to rise, more merchants are seeking cost-effective alternatives to protect their bottom line. One solution gaining significant traction is the use of Automated Clearing House (ACH) payments, the tried-and-true pay by bank solution. Once seen primarily in business-to-business transactions and payroll systems, ACH is rapidly making its way into consumer retail transactions, offering a compelling alternative to traditional credit and debit card payments.

According to the National Automated Clearing House Association (NACHA), ACH payment volume surged by 7.6% in 2024, with consumer-related volume valued at a staggering $27.4 trillion and representing approximately 76% of total ACH volume[4]. This growth is being fueled by several key factors, with cost efficiency at the forefront.

Credit card transactions typically cost merchants anywhere from 1.5% to 3.5% of the transaction value in processing fees[5]. In contrast, ACH transactions usually come with a flat fee that ranges between $0.26 and $0.50 per transaction[6], depending on volume and provider agreements. To illustrate the savings: on a $100 transaction, a merchant may pay as little as $0.26 via ACH, compared to up to $3.50 with a credit card. That's a savings of over $3 per transaction, an impactful difference when multiplied across thousands of daily transactions for merchants who often manage to a net profit margin of approximately 3%.

With retail margins under growing pressure due to inflation, rising labor costs, and shifting consumer behavior, this reduction in payment processing costs can significantly improve profitability. Yet despite the advantages, some merchants are cautious about promoting ACH payments due to concerns about consumer adoption and the perceived risks of non-sufficient funds (NSF) or overdrafts associated with ACH.

However, new technologies and strategies are making ACH payments not only viable but advantageous:

1. **Access to a Broader Customer Base**: An estimated 20% of U.S. adults do not have a credit card, according to the Federal Reserve[7]. By accepting debit and ACH

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[4] ACH Network Volume and Value Statistics | Nacha

[5] Average Cost Of Credit Card Processing Fees | Bankrate

[6] ACH Costs are a Fraction of Check Costs for Businesses, AFP Survey Shows | Nacha

[7] The Fed - Banking and Credit

payments, merchants can serve customers who may otherwise be excluded from digital transactions.

2. **Changing Consumer Preferences**: Consumers increasingly seek ways to manage debt more effectively. Paying via ACH helps them avoid accruing interest or reducing available credit lines, making it a more financially responsible choice.
3. **Incentivized Behavior**: Merchants are finding success in encouraging ACH payments by offering discounts, rewards, or other incentives that rival or exceed typical credit card perks while providing perks that are not currently available with most traditional bank debit card programs. These promotions can drive customer loyalty while saving merchants on fees.
4. **Enhanced Risk Management**: Modern ACH providers now offer tools such as payment guarantees and overdraft protection. These services mitigate the risk of NSF transactions, allowing merchants to implement ACH without the need for real-time fund verification.

By integrating ACH payment options, merchants are discovering new avenues to reduce operating expenses, attract a wider audience, and deliver more value to consumers. As merchant adoption grows, ACH is poised to play a more prominent role in the retail payment ecosystem by delivering both financial and strategic benefits to merchants that are ready to embrace change and actively manage their expenses and overall profitability.

To discuss what pay by bank options may be best for your business, contact us at info@payments-roundup.com.

How Merchants Can Accurately Calculate Their Cost of Payment Card Acceptance

In today's cash-light economy, accepting credit and debit cards is essential for most merchants. But with every card swipe comes a cost, and if you're not tracking it closely, you might be paying more than you think. Here's a breakdown of how to accurately calculate your cost of card acceptance and what you can do to manage it.

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1. Understand the Fee Components

To calculate your real cost, you first need to understand the three main components of card processing fees:

a) Interchange Fees
These are fees set by the payment networks (Visa or Mastercard), and are paid to the bank issuing the card. The exact rate depends on many factors such as card type (debit vs. credit, rewards vs. basic), how the card was presented (in person or online), and whether the transaction was swiped, dipped, tapped, or keyed. Interchange rates are typically a percentage of the transaction amount plus a fixed per-transaction fee. These are non-negotiable.

b) Assessment Fees
These are also set by the card networks (Visa, Mastercard, Discover, American Express) and are revenue to those networks; they ostensibly cover network operating costs. They are usually a small, fixed percentage of the transaction volume. These are also non-negotiable

c) Processor (Acquirer) Markup
This is the portion of the fees charged by your payment processor, sometimes called the "discount rate," "markup," or "processor fee." It might include a percentage markup, per-transaction fees, monthly account fees, gateway fees, fraud tools, PCI compliance fees, and other add-ons. These are generally negotiable.

Some pricing plans combine all these into a single flat rate ("blended" or flat-rate pricing); others disclose each component individually (known as "interchange-plus" pricing).

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2. Choose the Right Pricing Model—and Stick with It

The accuracy of your cost calculation depends heavily on understanding your processor's pricing structure. Here are the common models:

- **Flat-rate pricing**: One fixed rate (e.g., 2.6% + $0.10 per transaction) no matter what kind of card is used. Predictable, but can overcharge you on low-risk transactions.
- **Tiered pricing**: Transactions are put into "buckets" (qualified, mid-qualified, or non-qualified) depending on risk and card type. Simpler than interchange-plus but less transparent and can be expensive if high-risk cards dominate your mix.
- **Interchange-plus pricing**: You see the actual interchange and assessment fees plus a fixed margin from your processor. This is the most transparent—and often cheapest—option for merchants with consistent volumes and knowledgeable oversight.

If your processor offers it, interchange-plus usually gives you the best shot at calculating and controlling your actual costs.

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3. Dig Into Your Statement for Hidden Costs

To accurately capture your total cost, look beyond just the percentage fees. Be sure to include:

- **Monthly account or gateway fees**
- **PCI compliance or non-compliance fees**
- **Chargeback or retrieval fees**
- **Gateway transaction fees**
- **Fraud protection services**
- **Equipment or terminal leases**
- **Cross-border or currency conversion fees**

Also, watch out for **downgraded transactions**—when a transaction is processed at a higher-fee rate because of missing data, card-not-present fallback, or failed authentication. Work with your processor / acquirer to understand exactly what caused the downgrade and implement corrective measures to prevent similar downgrades in the future.

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4. Calculate Your "Effective Rate"

Once you know all of your payment acceptance costs, the most useful metric to monitor is your **effective rate**, the real percentage of each sale that ends up going to card acceptance costs.

Effective Rate =
(Total fees paid in a month ÷ Total monthly card sales) × 100%

For example, if your store processed **$50,000** in card sales and paid **$1,250** in total card acceptance fees, the effective rate is **(1,250 ÷ 50,000) × 100% = 2.5%**.

Tracking this month over month helps you:

- Spot spikes caused by high-fee cards or keying errors
- Identify unanticipated processor markups or "downgrades" inflating costs
- Benchmark your performance and negotiate better terms with your processor

Merchants with physical retail or restaurant business volumes often aim for effective rates between **2.0% and 2.5%**. Rates much higher than that could signal unnecessary costs.

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5. Strategies to Lower Your Card Acceptance Costs

To minimize what you pay and maximize transparency:

1. **Ask your processor for regular fee statements** that list interchange, assessments, and markups separately.
2. **Compare offers** using both your effective rate and transaction volume data. If your processor can't clearly break down fees, consider switching to one with more transparent pricing.
3. **Negotiate processing fees** based on your monthly volume, average ticket size, chargeback history, and anticipated growth.
4. **Encourage low-cost payment options** (e.g., PIN-based debit, debit transactions with lower interchange) when legally and operationally feasible.
5. **Audit your statements regularly**—you may uncover duplicate gateway fees, "junk fees," or opportunities to optimize transaction routing.
6. **Train staff on reducing transaction errors** that could trigger higher-cost declines and downgrades and keep your POS systems updated to handle modern cards and security protocols.

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6. The Bottom Line

Accurately calculating the cost of payment card acceptance isn't just about knowing your card processing rate, it's about understanding every piece of the puzzle: interchange, assessment, processor markup, and hidden fees. By choosing a transparent pricing model (ideally interchange-plus), tracking your **effective rate**, reviewing your statements carefully, and negotiating or switching providers when necessary, you can bring greater certainty to your finances and keep more of your hard-earned revenue in your pocket.

By: Dean Sheaffer

Dean is the Founder and CEO of Team PayTech. As a consultant to CEOs and their leadership teams, Dean brings actionable focus enabling strategic advantage for businesses of all sizes.

Your Credit Card Processor: who are you working with and how do they make money?

By: David True

From the moment a customer makes a purchase until the transaction reaches a payment network (Visa, Mastercard, Amex or Discover) multiple parties are involved, each with its own incentives and sources of revenues.

Acquiring Bank Revenue Streams

Acquiring banks generate income through multiple channels beyond simple transaction processing. Their primary revenue source comes from merchant discount rates (MDR), which typically range from 1% to 4% for small to medium merchants, though large-volume merchants often negotiate rates well below this range. This discount rate represents the percentage "discounted" from each transaction amount before funds reach the merchant's account.

The acquiring bank's profit margin within the MDR consists of several components. After paying interchange fees to issuing banks (which average less than 2% of purchase price) and assessment fees to card networks like Visa and MasterCard, the acquiring bank retains a markup that covers operational expenses and generates profit. This markup typically represents 20% to 40% of the total merchant payment processing cost, depending on the region and card type.

Beyond transaction-based revenue, acquiring banks earn through licensing fees charged to Merchant Service Providers, which are usually blended into merchant pricing. Additional revenue streams include monthly service fees for lower-volume merchants, terminal rental fees, and charges for ancillary services such as chargeback processing, customer support, and compliance management. Some acquiring banks in certain markets even implement reverse payment models where they pay merchants interest on delayed settlement funds, profiting from the float period.

ISO Revenue Models and Commission Structures

ISOs operate on fundamentally different revenue models focused on residual income streams. Their primary income comes from a percentage of every transaction processed by merchants they onboard, creating passive income that continues as long as merchants remain active. These residuals typically range from 0.3% to 0.7% of transaction volume, or represent 25% to 70% of the processor's markup, depending on the negotiated agreement.

The ISO commission structure often follows a tiered approach based on performance metrics. Entry-level ISO agreements might start with 50% revenue sharing, increasing to 70% or higher as sales volume grows. For example, an ISO earning 0.5% on transactions would generate $2,500 monthly from a merchant processing $50,000, scaling to $30,000 annually from ten similar-sized merchants without additional sales effort.

ISOs also earn upfront bonuses for merchant onboarding, typically ranging from $500 to several thousand dollars per approved merchant account, depending on the merchant's projected volume and industry risk profile. Additionally, many ISOs charge merchants setup fees, monthly service charges, and equipment leasing fees, creating multiple revenue touchpoints beyond residual processing income.

Aligned Incentive Structures

Both acquiring banks and ISOs share incentive structures that prioritize merchant acquisition and retention while managing risk exposure. Acquiring banks focus on portfolio growth because higher transaction volumes directly correlate with increased interchange and fee income. Their pricing models often include volume-based tiers, offering lower rates to high-volume merchants to encourage growth and prevent attrition to competitors.

ISOs benefit from this same volume-growth dynamic through their residual income model. Since their earnings depend directly on merchant processing volume, ISOs are incentivized to provide ongoing merchant support, optimize pricing to prevent merchant churn, and actively seek opportunities to increase existing merchant transaction volumes. This creates a natural alignment between ISO success and merchant business growth.

The industry's risk management incentives also align both parties' interests. Acquiring banks bear liability for merchant defaults and chargebacks, making them selective about merchant approval and ongoing monitoring. ISOs share this risk exposure through clawback provisions in their agreements, where they must return residual payments if merchants they onboarded fail to pay processing fees or generate excessive chargebacks. This shared risk model ensures both parties remain invested in merchant quality and compliance.

Market Dynamics and Competitive Pressures

The payment processing landscape increasingly rewards scale and efficiency. Acquiring banks leverage their regulatory status and direct network relationships to negotiate favorable interchange rates and assessment fees, passing portions of these savings to high-value merchant relationships while maintaining healthy margins on smaller accounts.

ISOs maintain competitiveness through specialization and service quality rather than rate competition alone. Many focus on specific industry verticals or provide value-added services like cash discount programs, advanced analytics, or integrated point-of-sale solutions to differentiate their offerings. This specialization allows ISOs to command higher margins while providing merchants with tailored solutions that generic processors cannot match.

The revenue models of both acquiring banks and ISOs ultimately align around sustainable merchant relationships and transaction volume growth. Acquiring banks profit from portfolio scale and efficient risk management, while ISOs build long-term wealth through residual income streams tied to merchant success. This alignment creates a cooperative ecosystem where all parties benefit from merchant retention, volume growth, and industry expansion, explaining the continued proliferation of both traditional acquiring banks and specialized ISO partners in the evolving payments landscape.

How Merchants Can Distinguish Between Sales Agents and ISOs

As a merchant navigating the payment processing landscape, understanding whether you're dealing with a **sales agent** or an **Independent Sales Organization (ISO)** is crucial for making informed decisions about your payment processing needs. These distinctions affect pricing, service quality, contract terms, and your long-term business relationship.

Key Identification Markers

Registration Status represents the most definitive difference between ISOs and sales agents. **ISOs must be formally registered** with Visa and MasterCard, paying $5,000 to each network annually to maintain their status. This registration allows them to operate under their own brand name and establish direct relationships with acquiring banks. You can verify an ISO's registration status by asking for their Visa ISO number or MasterCard

MSP registration details, which legitimate ISOs should readily provide.unibulmerchantservices+3

Sales agents, conversely, are not registered with card networks and must operate under the umbrella of a sponsoring ISO or payment processor. Card network rules specifically require that unregistered agents market themselves using their sponsoring organization's name on business cards, websites, phone calls, and all marketing materials. If someone approaches you claiming to represent multiple different companies or uses vague branding, they're likely an agent rather than a registered ISO.cardconnect+2

Business Structure and Authority

ISOs operate as established business entities with formal corporate structures, compliance departments, and direct banking relationships. They maintain their own merchant processing agreements (MPAs) and can issue branded merchant statements. When evaluating a potential partner, ask to see their business incorporation documents, insurance certificates, and proof of their acquiring bank sponsorship. Legitimate ISOs should have comprehensive compliance procedures, PCI DSS certifications, and established risk management protocols.gettrx+1

Sales agents typically work as individuals or small teams without the infrastructure to handle complex merchant needs independently. They lack the authority to approve merchant accounts, set pricing parameters, or make policy decisions. Instead, they must route all applications and service requests through their sponsoring ISO or processor. This limitation often results in longer response times and less flexibility in addressing merchant-specific requirements.swipesum+2

Pricing and Revenue Structure

ISOs earn revenue through merchant discount rates and maintain direct markup authority over processing fees. They can offer competitive pricing because they work directly with acquiring banks and often manage multiple processor relationships. ISOs typically provide transparent fee structures and can negotiate rates based on merchant volume and risk profiles. Their pricing flexibility stems from their ability to retain 100% of their markup above the processor's base rates.stripe+2

Sales agents earn commissions from their sponsoring ISOs, typically receiving 25% to 70% of the revenue split. This commission structure often translates to higher costs for merchants because agents represent an additional layer in the revenue chain. Since agents don't control pricing directly, they have limited ability to negotiate rates or modify fee structures without approval from their sponsoring organization.b5z+1youtube

Service Capabilities and Support

ISOs maintain comprehensive merchant support infrastructure including dedicated customer service teams, technical support departments, and account management systems. They can provide direct assistance with chargebacks, disputes, funding issues, and account modifications. Many ISOs offer value-added services such as point-of-sale systems, payment gateways, fraud protection, and business financing. Their direct processor relationships enable them to resolve issues more efficiently and provide merchants with detailed transaction reporting and analytics.merchantequip+3

Sales agents primarily focus on merchant acquisition rather than ongoing support services. While they may provide initial setup assistance and serve as your primary contact, complex issues typically require escalation to their sponsoring ISO or processor. This can result in longer resolution times and less personalized service, as agents often lack the technical expertise and system access necessary to address sophisticated merchant needs.beaconpayments+3

Contract and Legal Considerations

ISOs enter into direct contractual relationships with merchants, assuming responsibility for service delivery, compliance, and risk management. They maintain liability insurance, provide legal protections, and offer recourse mechanisms if service issues arise. ISOs must meet stringent financial requirements and undergo regular audits by their sponsoring banks and card networks.prioritycommerce+3

Sales agents typically cannot enter binding agreements on behalf of their sponsoring organizations. Merchants working with agents usually sign contracts with the underlying ISO or processor, not the agent directly. This arrangement can create confusion about service responsibilities and limit merchants' recourse options if problems occur.riandalaw+1

Red Flags and Verification Steps

Several warning signs indicate you may be dealing with an unregistered agent rather than a legitimate ISO. **Be cautious if the representative**: cannot provide specific ISO registration numbers, uses generic business cards without clear company branding, promises rates that seem too good to be true, pressures you to sign immediately without proper review time, or cannot explain their direct relationship with acquiring banks.swipesum+1

To verify legitimacy, ask for the company's Visa ISO registration number and MasterCard MSP identification. Request to see their business license, insurance certificates, and acquiring bank sponsorship letter. Legitimate ISOs should readily provide this documentation and encourage you to verify their credentials independently.akurateco+1

Making the Right Choice

Choose an ISO when you need: comprehensive merchant services, competitive pricing flexibility, direct customer support, value-added services, and long-term partnership stability. ISOs are particularly beneficial for businesses with complex payment needs, high transaction volumes, or specialized industry requirements.staxpayments+1

Consider working with an agent when: you prefer highly personalized, local service, have straightforward payment processing needs, or value having a dedicated contact person who understands your specific business. However, be prepared for potentially higher costs and understand that ultimate service delivery depends on the agent's sponsoring organization.cardconnect+1

Understanding these distinctions empowers merchants to make informed decisions, negotiate better terms, and establish payment processing relationships that support their long-term business growth. Always verify credentials, compare multiple options, and ensure that any payment processing partner—whether ISO or agent—can demonstrate the expertise, infrastructure, and commitment necessary to support your business objectives effectively.

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The Coming AI Storm in Payments

By: Mark Horwedel

My most rewarding work experiences have centered on collaboration among banks and among merchants. These experiences have been associated with payments, an area where banks and merchants have worked together to build platforms and services for their common good as well as to serve consumers by improving the efficiency and convenience of payments.

Today's most successful payment systems are based on huge scale because of successful collaboration. Credit cards, shared ATM networks and debit cards are among the most prominent payment services in today's economy. Their ubiquity is based on the nearly universal participation of every commercial bank and every regional and national merchant in the US. The development of universally accepted credit and debit cards required the cooperation and acceptance of merchants. Today, we take these payment services for granted and look forward to even greater convenience in our shopping and buying experiences.

Agentic AI is rapidly emerging as both an opportunity and a threat to incumbent providers of banking and payment services as well as to traditional sellers of goods and services. Offerring the lowest prices for commoditized products will enable AI agents to steer customers to the lowest priced merchant. Similarly, web-based merchants may steer their customers to the lowest cost payment options. Individual banks that tax providers of Pay-By-Bank services or whose cards typically bear premium interchange rates might find themselves singled out by AI agents as merchants incorporate bank pricing into every payment option.

It's likely that the pace of the next payment revolution will result in either a windfall or a death knell to many of today's companies. Collaboration may well be the key to survival, but collaboration should not be limited to formats that exclude Fintech companies and disrupters of traditional card payments. Why would merchants want to perpetuate the credit card systems in which they typically get rules forced upon them as well as supra-competitive pricing?

While banks can rely on the many institutions they have created over the years to lead them or assist them in navigating the path to future payments, merchants are not similarly equipped. Unlike banks, merchants have no intermediate networks to advocate and bargain for their share of the benefits associated with emerging payments. While merchants have created member associations to lead political efforts in which they are continuously engaged with the bank networks, they lack entities with the operational and business infrastructure to effectively negotiate fair agreements with the banks. As a result, merchants find themselves as unequal players, typically forced to accept the one-sided rules and prices foisted upon them by the banks' networks and to struggle alone.

Merchants must band together to either create a new entity or to empower an existing one to negotiate on their behalf. It is especially important that small and mid-sized merchants join in this effort either directly or through their state or national trade associations. It should be made clear to the banks and their networks that everything including the price of acceptance as well as the rules are on the table. As opening stakes, one-sided rules like honor-all-cards and default pricing should be tossed out the window. Anything short would lock in the sins of the past and prove a disservice to the merchant community. The time has come to organize. Failure to do so will likely doom merchants to playing the same reactionary role that has cost them dearly with card payments.

Payments Steering – What it is, Why You Want to, and Key Considerations

By: Dean Sheaffer, CEO and Founder of TeamPaytech

With thanks to David True and Lou Morsberger for their input.

In this article we will explore Payments Steering – a set of levers any merchant can pull to help reduce (and even eliminate) their cost of payment acceptance and drive top-line revenue.

Payment Steering – What is it?

In short, payment steering involves providing customers with incentives to use lower cost methods of payment and/or to absorb all or a portion of payment costs.

There are three common methods of steering and one less common method.

1. **Discounting** – Discounting involves pricing your goods/services to incentivize customers to use a less expensive form of payment. One strategy you can employ is to include your most expensive payment cost in your pricing and then reducing / discounting when customers use a lesser cost payment method. For example, if you have an item that you sell at $100 and if your payment cost is 3% you might adjust the price to $103 and offer a 3% discount for using a payment method other than credit cards. A complete description can be found in our prior edition of Payments Roundup – Why Merchants are Rethinking Payment-Based Discounts
2. **Surcharging** – Surcharging is essentially the reverse of discounting. Your "regular" prices remain the same and you add an additional fee (surcharge) for purchases made with a credit card. For example, a customer purchasing a $100 item with cash would pay $100 and a customer making the same purchase with a credit card would pay $100 + a $3 surcharge for a total of $103 to cover your payments cost. Note that surcharging is prohibited or restricted in several states and that there are other rules to follow. See our earlier article on this topic HERE
3. **Pay-by-Bank** – In the US, pay-by-bank typically involves customers linking their checking account to a merchant's app or wallet, but there are emerging pay-by-bank methods which can involve little or no integration at a merchant's point of sale. Additionally, both the Federal Reserve and The Clearing House offer real-time payments through their FedNow and RTP networks. All pay-by-bank methods

involve significantly less payment costs than credit cards. Integration ranges from zero to a heavy lift depending on the particular use case.

4. **Alternative Payments** – There are several other payment options with lower costs - such as cryptocurrency, but for smaller merchants the effort to enable their systems to accept such payments is often simply not worth the effort.

   NOTE: For Pay-by-Bank and Alternative Payments, recent changes (e.g. CFPB - whose role has been dramatically altered under the current administration, rule 1033 which requires financial institutions to make consumer data accessible to the consumers themselves and to authorized third parties, effectively mandating the use of open banking APIs. the associated increased fees for API access, and stablecoins authorized under the GENIUS act) have raised questions about the future of these methods. Nothing is settled, but these are worth watching before committing to such methods.

Payment Steering – Why You Want To!

The cost of payment card acceptance in the US is one of the highest in the world. With payments costs often being merchants' second highest operating expense (after payroll/benefits), we need to find ways to reduce our costs or pass them on to consumers who are benefiting from Visa / Mastercard credit card rewards programs at our expense.

You should own the relationship with your customers and provide incentives for reducing the cost of payments for them and for you while gaining more loyal customers who buy more and buy more often.

Payment Steering – Key Considerations.

As you think about Payment Steering, here are some high-level considerations:

1. Is your payment processor program a "blended rate" or an Interchange ++ program? Can you processor accommodate the payment strategy that is best for your business? Will an increase in your pricing affect your sales?

2. How will customers view discounting?

3. Is surcharging permissible in your state(s)?

4. How will customers paying with credit cards view surcharging?

5. What sales channels does your business utilize

6. What loyalty/rewards programs do you have? How hard would it be to enable payment method-based rewards?

7. What is your competition doing to reduce payment costs and drive sales?
8. How will you monitor evolving regulatory, access, and pricing issues?

Exactly what payment steering features are right for your business can be complicated – we're here to help. We are happy to have a half-hour free consultation to learn your business and provide feedback on the steps required to enable payment steering for you.

Contact us at info@payments-roundup.com or +1 484-269-1719

The Couch That Bought Itself (And Other Tales of Agentic AI)

By: Dean Sheaffer

Agentic AI will change the way you do business – there, I said it. No take-backs.

Picture this: you fire up your favorite AI assistant and casually say, *"Hey, buy me a new couch."* In milliseconds, it remembers you hate leather (you're still scarred from that one sticky summer), knows your living room dimensions down to the inch, and recalls that your heart beats a little faster for the color blue.

That's today's AI. Tomorrow's **Agentic AI** goes one step further: it doesn't just help you search, it *acts*. It scours thousands of product databases, weighs prices, loyalty perks, delivery schedules, and even your preferred payment method (Apple Pay over credit card? ACH for cashback? Crypto because you're feeling rebellious?)—all to find *your couch*. Then it either buys it for you (delivery and removal included, thank you very much) or politely presents a few "best" options, just in case you're picky.

Why Merchants Should Be Nervous (And a Little Excited)

This isn't a tiny upgrade—it's a tectonic shift. Merchants aren't just selling to humans anymore; they're selling to algorithms with perfect recall and zero patience for fluff.

Here are the questions that should keep you up at night (but in a fun, future-is-wild sort of way):

- **Do we still need fancy merchant websites?**
  If the AI is doing the shopping, your dropdown menus and snazzy carousels may matter less than the quality of your product data. (Sorry, UX designers.)
- **Is your database AI-friendly?**
  Think beyond SKU numbers. A couch isn't just "blue" and "sofa." It's 84 inches wide, stain-resistant, mid-century modern, made of recycled ocean plastic, and ships in 3 days with free assembly. Every one of those details is ammo for the AI.
- **How will you differentiate?**
  Forget glossy marketing copy—Agentic AI doesn't swoon over adjectives. Instead, think structured data: how do you make your products "pop" for an algorithm that compares specs, payment flexibility, and loyalty rewards with machine precision?

Payments: The Secret Battlefield

Payments aren't just the boring step at checkout anymore—they're part of the *value proposition*. Your AI agent might decide between two identical couches because one comes with:

- **Preferred payment options** (do you support tokenized wallets, RTP, or the customer's loyalty-rich credit card?)
- **Rewards stacking** (5% back for Pay-by-Bank *plus* free delivery through a partner program = a win).
- **Lower risk of returns or disputes** (some networks might flag a merchant with high chargeback ratios, steering AI away).
- **Refund flexibility** (instant refunds through faster payments vs. 5–7 business days on a card—guess which the AI likes?).
- **Security signals** (biometrics, 3-D Secure 2.0, tokenization—your AI doesn't mess with fraud).
- **Authorization Rate** (if the shopper is not recognized merchant, processor or issuer systems may be more likely to decline a transaction

Oh, and let's not ignore the elephant in the showroom: **chargebacks**. If an AI makes the purchase, can the *human* still claim they didn't authorize it under today's card network rules? That's a payments law school final exam waiting to happen.

And then there are **returns**: what happens when you hate the couch your AI picked, but the merchant says "Hey, don't blame us, blame your robot"? Consumer protection is about to get…interesting.

The In-Store Wildcard

If buying becomes fully automated, physical shopping has to evolve into **something more than buying**. Think entertainment, curation, human touch. Walking into a store might feel less like errand-running and more like attending a mini-event: "Come for the free coffee, leave with the couch your AI already picked out."