The Green Sheet
The Financial Services Industry Source for Education, Inspiration and Actionable Advice

The Emerging Markets Opportunity

By Peter Scharnell

Emerging Markets are classified as newly created processes of credit card acceptance for which no industry merchant category currently exists. Emerging Markets receive special Interchange pricing consideration from the card associations. Pricing is restricted to utilities, insurance, cable companies, telecommunications, government and schools. Visa's Interchange rate program is called the CPS/Retail 2 for Select Emerging Markets. The Interchange rates are 1.43% and $0.05 for credit and 0.80% and $0.25 for debit. The MasterCard program is called the Service Industries Incentive Program (SIIP). The Interchange rates for this program are 1.15% and $0.05 for credit and debit (debit transactions have a break-even amount of $57.14). Each card association has their own unique Emerging Market program and is restricted to specific Merchant Category Codes (MCC). In order for your merchants to qualify for these reduced rates, you will need to work with your processor to submit the appropriate forms to each card association.

The following are some of the specific requirements for Visa and MasterCard programs:

Visa CPS/Retail 2 for Select Emerging Markets

- Restricted to the following MCCs: Government (9211, 9222, 9399), School (8211, 8220, 8299), Utilities (4900), Insurance (5960, 6300), Cable and Other Pay TV (4899)
- Must be electronically authorized
- Transaction must be sent for processing within 24 hours of the authorization
- Transactions not meeting CPS requirements will not qualify and will be classified accordingly
- MCC 5960 must meet CPS Card Not Present requirements
- AVS is not required for CPS Retail 2

MasterCard - Incentive Program (SIIP)

- Restricted to keyed transactions to the following MCCs: Telecommunication Equipment (4812), Telecommunication Services (4814), Cable and Other Pay TV (4899), Utilities (4900), Insurance (5960 and 6300)
- Applies to consumer cards only
- Merchant must sign marketing agreement with MasterCard
- Electronic authorization is required and must be settled within 1 day of authorization
- Transaction must include special indicator in authorization and settlement records

The Utility Opportunity

One example of an emerging market with a lot of potential is the utility segments (MCC 4900 include Gas, Electric, Water and Waste). A new Visa Utility Interchange fee for consumer debit and credit card transactions will be available beginning April 2, 2005. This program was put into place in order to generate additional Visa card acceptance and to address the utility merchants' concern about the costs of accepting Visa. The flat transaction rate for utility merchants will require a registration process. One of the necessary considerations to obtain this rate is the elimination of convenience fees by the utility companies. Visa and MasterCard prohibit merchants from charging a surcharge to cardholders however, the associations do make a distinction between a surcharge and a convenience fee. Essentially, “cash discounts” may be offered provided that it is clearly disclosed to the consumer and the cash price is presented as a discount from the standard price charged for all other forms of payment.

There are many reasons why utility companies benefit by accepting and adhering to Visa’s Utility program such as, enhancing cash flow as a result of on-time receipt of funds, faster posting of payments, and the ability to offer the customer more options on how they pay their bills. Additional benefits are reduced expenses resulting from lower billing, collection, and check handling costs. MasterCard also has special Interchange rates for the Utility sector within their SIIP program and you can obtain them in addition to all of the emerging market rates, from your processor or on the Green Sheet MLS Portal.

Emerging Payment Solutions

Electronic payments are more convenient for customers that want to pay their bills. Payment cards are now accepted in more traditional spending categories and according to statistics from Visa, payment card usage for bill payment has increased over 300% over the past two years. Additional research shows that 27 of the largest 30 bill payment merchants in insurance, cable and telecommunications now accept payment cards in the majority of their markets. The benefits are obvious to the customer as well as the companies providing the bill payment solution.

There are basically two ways to provide electronic bill payment solutions, manual bill payment and automatic bill payment. With the manual solution, the cardholder enters the card information for each individual payment and controls what they pay, how and when they make their payments. Depending upon your processor, there are several Class A certified terminals that you can utilize for manual payment processing manufactured by Verifone, Hypercom and Lipman. Automatic bill payment allows merchants the ability set up scheduled payments and eliminates the need to re-enter the customer’s credit card information each time a payment is required. Recurring billing solutions provide a streamlined process for customers to pay their regularly scheduled bills. The merchant will see many benefits form an automated bill payment solution such as; better cash flow, reduced mailing and collection expenses, increased revenue and most importantly, improved customer loyalty and satisfaction. There are several solutions available for recurring billing such as the PC Charge Pro software gateway, Internet-based virtual terminals like Authorize.net, Ezic and VeriSign as well as alternative gateways like the ACH Direct virtual terminal that supports the processing of credit card, debit card and electronic check (ACH/ATM) transactions. In addition to the advanced gateway options, the emerging market customers will also be eligible for the special Interchange rates where the cost of accepting hand-keyed recurring credit cards will be as low as if they were card present transactions.

Pricing to Win the Sale

At the present time, the majority of emerging market merchants are priced as retail accounts and are experiencing mid or non-qualified keyed-in discount rates. This is where the sales opportunity comes to light. Because of the emerging markets programs that are now available, the average cost incentive for customers that fall into this category is more than 50 basis points below that of keyed-entered retail.

The result is a large opportunity for savings and greater profit margins for these merchant types. The critical factor for the approved qualification and pricing is that the processor makes certain that the merchant has submitted the proper paperwork and is set up and priced correctly according to the specific Interchange program. When completed properly, the keyed-in qualified sales for the emerging markets categories will receive the qualified rate. This enables the sales person to price the emerging market sales as low as the swiped rate for retail or to creatively build some additional profit into the opportunity!

Peter Scharnell is VP Marketing for Electronic Exchange Systems (EXS), a national provider of merchant processing solutions. Founded in 1991, EXS offers ISO partner programs, innovative pricing, a complete product line, monthly phone/web training, integration services, and most of all credibility.

For more information, please visit our website at www.exsprocessing.com or email Peter at peter.scharnell@exsprocessing.com

Electronic Exchange Systems is a registered ISO/MSP for HSBC Bank USA, National Association.