Convenience Fee Conundrum

Solving the Convenience Fee Puzzle

As a merchant vying for your share of the business-to-business (B2B) dollar, you can greatly benefit from the advantages of accepting electronic card payments. But with that added capability comes new challenges that you must address to be as profitable as possible. Interchange management, PCI compliance, and convenience fees are just a few of the issues you’ll face as your payments become more sophisticated.

Dealing with multiple card associations is difficult enough. But take into consideration the fact that American Express®, Discover®, MasterCard® and Visa® all have policies that are different from one another. It’s easy to see how the complexity of accepting electronic payments is magnified. The good news is, if you focus on meeting Visa’s requirements - as their policy tends to be the strictest - then the requirements of the other associations will generally be satisfied, too.

Each of the networks has different rules governing the use of Convenience Fees, depending on what type of merchant you are. Take, for example, merchants operating in a Business to Business environment. Visa’s Operating Regulations have several requirements under which Convenience Fees can be assessed.

A merchant who charges a Convenience Fee must ensure that the fee is:

- Charged for a bona fide convenience in the form of an alternative payment channel outside the merchant’s customary payment channels
- Disclosed to the Cardholder as a charge for the alternative payment channel convenience
- Added only to a non face-to-face transaction
- Not added to a recurring transaction
- A flat or fixed amount, regardless of the value of the payment due
- Applicable to all forms of payment accepted in the alternative payment channel
- Disclosed prior to the completion of the transaction and the cardholder is given the opportunity to cancel
- Included as a part of the total amount of the transaction
- Only charged by the merchant who actually provides goods or services to the cardholder. A Convenience Fee may not be charged by any third-party.

Integrating Network Rules into Your Business

To successfully implement a Convenience Fee program, you should carefully examine how network rules impact your specific business and payment models.
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*Must Offer Convenience*

To begin with, you must offer a form of convenience if you plan to charge a fee for that convenience. This might require you to create an alternative payment channel with more automated or convenient processes. Many B2B merchants take payments in the form of card not present transactions over telephone, or by mailed invoices and face-to-face transactions. So an alternative payment channel that offers more convenience could include a web-based payment system. But if you operate a business exclusively in a web-based, card not present environment, charging a convenience fee for your standard payment process via the web would not qualify as a convenience. There must be true convenience above and beyond your typical payment processing methods in order to justify an additional fee.

*Disclosure to the Customer*

The Convenience Fee must be disclosed to your customers directly on your web site and indicate that the fee is for the cost of creating and maintaining this convenient payment channel. And because it's a web-based payment, we can assume these are non-face-to-face transactions, which specifically must exclude charging recurring payments as a convenience.

*Flat Fees*

Perhaps the one requirement that makes Convenience Fees problematic for B2B merchants is that fees must be a flat or fixed amount, not a percentage of the transaction or a tiered or sliding scale. The challenge is simple. Small purchases cannot typically tolerate a larger Convenience Fee, while large purchases may not drive a fee that is proportional to the cost of goods or services.

For example, you might accept a $4 Convenience Fee for a $200 payment. But would you still want to charge $4 for a $20,000 purchase? Or charge $4 for a $20 purchase? If the fee is set too low, the implementation of the fee may not be cost effective. If the fee is too high, your customers will call on your competitors.

*Consistency Across the Payment Channel*

Finally, Convenience Fees must be applied to all forms of payments accepted within the alternative payment channel. Consider our web-based payment channel. A customer making an ACH payment is subject to the same Convenience Fee that is applied to credit card transactions. Disclosing the fee, including it as part of the total transaction amount, and allowing the customer to cancel or back out of the transaction are all basic functions of web site shopping cart functions. Remember, the Convenience Fee can only be charged by you, the merchant, not by any third party acting on your behalf.

Reviewing and evaluating all of the requirements for successful Convenience Fee implementation is not a simple task. In fact, regulations may make it unlikely for some merchants to implement such a program. When evaluating your electronic payment processes, it’s important to consider all options, both revenue-generating and cost-savings in nature.