



April 2022's Interchange Rate Changes: Everything Business Owners Need to Know

Here's the latest information on the biggest round of changes since the Covid-19 pandemic

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Credit card processors and card-issuing banks accrued some goodwill in 2020 when they asserted that they would not raise interchange rates or other fees during the height of the pandemic. Now, as merchants strive to make their financial comebacks, Visa and Mastercard continue to maintain that they are on the side of businesses—but this is not truly the case.

Both Visa and Mastercard have overhauled their interchange rates in April 2022 in nuanced ways. Though positioned as positive for merchants, the updates come with seemingly contradictory terms and penalties that affect certain cards and billing categories, as well as dependencies on the type of transaction an enterprise provides for its customers. It's crucial to focus on these variables to find out how they affect your business.

The first thing to consider is the overabundance of card types available today. Over the past few years, there has been an explosion in the amount of card types, special rewards programs, business cards, and commercial cards. There are all these different offers out there that promise to increase rewards or boost cash back. And the type of card that your business is taking will ultimately determine whether you have a rate increase or not. Overall, it looks like there will be anywhere from a 5-20% basis point increase depending on the type of business and type of card taken.

Some other factors that the credit card issuers took under consideration when raising rates were fraud and security, encouraging businesses to espouse "tokenization" to mitigate risk. Tokenizing refers to the encryption of retained customer data that allows for faster payment processing—especially crucial if the payment is taken without the card or client physically present. Tokenizing repeat customers helps deem them as trustworthy credit card users who pose a diminished fraud risk for issuing banks.

To that end, Visa's most significant April 2022 update was the addition of the "token" category, increasing e-commerce and hand-keyed transactions rates by 5% —basically an increase for all card-not-present environments. The idea is to incentivize merchants into using a card vault or another billing tool, to update how they receive payments. The result is a lowered transaction rate of 1.8%, negating this year's increase to 1.89%.



Updating your credit card payment system to provide tokenization is not automatic. Businesses have to talk to their processors, gateways, or communication devices; it's very important for someone to make sure their transactions are tokenized. Do you know if your businesses transactions are tokenized and secure? If you don't have that answer, it's time to find a credit-card processing expert to advocate on your behalf, such as Merchant Advocate.

Perhaps the most controversial new rollout is Visa's doubling of penalties for not processing key transactions correctly. A full percentage point higher, the penalty is close to 1% of the gross sale, on top of the normal rates, which range from 2-3%. That's significant, signaling a possible 4% - 5% decrease of a business's net profit!

For this reason, it is very important to review your statements every month. Or you can partner with have a monthly monitoring service to go over every line item, making sure that you are not being overcharged. Merchant Advocate has built a proprietary technology to do just that: An IP that will help businesses double-check every line item, make sure the math is right, check the coding, see what the penalties are, see what your increases are. Your analyst will help you digest this information, then fix things accordingly.

Meanwhile, Mastercard has now imposed approximately a 3% increase for businesses that fall under the consumer and commercial interchange category—a classification that includes everything from supermarkets to travel agencies and car rentals. Mastercard has also hiked fees for all transactions made virtually or over the phone, but unlike Visa's pass for tokenized vendors, MC's increases hit across the board, not taking into account businesses' security status.

Another tip? Make sure your business is coded properly to take advantage of the few decreases on special rewards cards that Mastercard *is* offering. What Merchant Advocate can do is make sure to double-check that the interchange coming across is accurate, the business is coded properly, and if a vendor is available for decreases, make sure those go into play.

Finally, it's important to keep in mind where credit-card processors fit into all of this. As usual, they are taking advantage of the complications, and are primarily focused on retaining their profit margins by hiking up their own fees by half a percent or more. Make sure to stay educated and have an advocate in your corner.

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