the 5, 10, 10, 10 of merchant services

5 Reasons Merchant Services Matter More Than Ever, 10 Questions About Your Merchant Services Program, 10 Things to Consider About Merchant Services Reinvention, and 10 Minutes to Start Your Reinvention

Today, like every payment channel, merchant services are evolving.

- Agile fintechs have introduced innovative, alternative, disrupting solutions that are disenfranchising banks and credit unions.
- Megabanks and neobanks are capturing more market share with their modern, digitally accessible services.
- BaaS is gaining momentum, and merchant services will continue to evolve as a popular component of embedded finance.
- There has been material consolidation among payment processors through recent mergers and acquisitions.
- The point-of-sale landscape will continue to evolve as consumer behavior continues to change in the digital era.

This material evolution of merchant services combined with the industry-wide challenges to generate meaningful increases in non-interest income is motivating financial institutions to reinvent their merchant services. If your institution is rethinking merchant services, here are some thought-provokers about the state of merchant services.

5 reasons merchant services matter more than ever

Here are the fundamental reasons why merchant services matter – more than ever – to the near- and long-term commercial strategies and financial performance of banks and credit unions:

1. **Significant Growth Opportunities** – Almost every business accepts credit/debit cards, gift cards, and electronic checks, so the market for merchant services is massive and growing.
2. **Significant Revenue Opportunities** – Merchant services generate recurring deposits-related and non-interest income as well as provide a diversified revenue stream.
3. **Merchant Services Are "Sticky"** – Merchant services inherently generate meaningful exit barriers for lucrative commercial accountholders, and "sticky" financial services are key to realizing retention goals.
4. **Cross-Sale Opportunities** – Merchant services are a high-demand financial service every business that accepts card payments needs, and a service that can be beneficially bundled with an array of traditional services like deposits, loans, financial management solutions, and more.
5. **A Competitive Necessity** – Reinventing merchant services is the strategic focus of an array of fintechs and payment facilitators or third-party payment processors. To successfully compete with these alternative and highly motivated providers, to protect existing commercial relationships and attract new ones, and to remain relevant, banks and credit unions must offer modern, frictionless merchant services.

Merchant services are inherently complicated, highly competitive, and a lucrative source of recurring revenue.

10 questions about your merchant services program

Now for a candid reality check.

1. Do business owners in your markets know that you offer merchant services? On average, only about 10% of business accountholders currently use the merchant services provided by their primary financial institution.
2. Is your staff trained and comfortable promoting merchant services?
3. Are there specific opportunities to simplify your merchant services program and maximize operational efficiencies and cost-effectiveness?
4. Does your payment processor agreement provide the most favorable terms possible?
5. Are there near- and long-term opportunities to increase related recurring revenue?
6. Have your merchant services evolved to support the material changes in business owner expectations, consumer behavior, and the point-of-sale landscape?
7. Is your current merchant solution competitive in your markets compared to the solutions provided by fintechs, payment facilitators, and mega and neo banks?
8. When did you conduct your last portfolio review and residual audit?
9. Do you have access to the actionable, dynamic, data-driven insights needed to improve the overall performance of your acquiring strategies and merchant programs?
10. Do you have the resident expertise to maximize your acquiring strategy?

Merchant services can improve your bottom line while increasing the value your financial institution offers the business community.

10 things to consider about merchant services reinvention

If it's time to reinvigorate your existing merchant services programs or launch new ones, here are 10 important considerations:

1. **Expect significant revenue share with residuals paid in perpetuity.** Your financial institution should receive a significant revenue share since the merchants are your accountholders. And you should continue to receive the revenue share as long as merchants continue to accept card payments through the account initially established, even if you terminate the related agreement.

2. **Avoid payments processor restrictions.** Merchant services providers should have an open philosophy and proactively match each unique merchant with a payments platform that meets their specific requirements.

3. **Expect a sales close ratio of 70%.** Merchant services providers should partner with your financial institution in consultative sales to ensure business owners are offered the best solution at the best possible rate. Today's leading providers can approve approximately 80% of low-risk merchants, including those with low transaction volumes, within five minutes and provide near real-time setup to begin accepting card payments.

4. **Require transparent reporting.** Ensure each merchant account is supported with easy-to-access, easy-to-understand reporting that includes transaction volumes and types, revenue share, closures, referral status, and customer support inquiries. This level of transparent reporting is vital to your ability to proactively monitor attrition and satisfaction, and to ensure you are paid your revenue share.

It's common that merchant services partners and programs that were sufficient when initially launched are no longer efficient, cost-effective, or competitive.

5. **Require transparent merchant pricing.** Unfortunately, "bait and switch" pricing is common with merchant services. Merchants often receive a low introductory rate that increases annually. There also may be excessive fees, such as PCI non-compliance or EMV non-compliance fees, that are not pass-through fees from the card brands. Merchant services providers should allow you to control pricing and pricing increases.

6. **Recognize the importance of merchant pricing.** In 2010, fintechs introduced fixed-rate pricing, which enables businesses to more easily budget. But the fixed-rate programs often include transaction fees that average 1% to 2% more. Interchange plus or interchange pass-through are the most transparent and cost-effective pricing models, which charge the card brand fee plus a minimal markup.

7. **Avoid cash flow restrictions.** Fintech companies, specifically payment facilitators, often deduct daily fees and impose deposit limits on businesses, which restricts cash flow. Merchant services providers should deduct fees once per month and hold deposits only if the transaction seems fraudulent.

8. **Require security for your business customers.** Regardless of whether payments are in-person or online, your merchant services provider should provide tokenization, encryption, breach protection, and internal/external fraud settings to help prevent card fraud.

9. **Expedited funding.** Merchant services providers should support next-day or same-day funding and, in some cases, instant funding. Two- or three-day funding is no longer competitive.

10. **Expect a complete technology stack.** Merchant services providers should offer a true omni commerce experience that incorporates a mobile app, tablet point-of-sale, virtual terminal, hosted payment page, shopping chart functionality and advanced APIs for sophisticated online shopping, email invoicing, automated recurring billing, and QuickBooks integration. There should be surcharge, interchange optimization, no gateway transaction fees, and no web development resources needed.

If financial institutions are displaced as the provider of merchant services, many of the disruptors also have the strategy, experience, technology, and brand allure to become the providers of traditional financial services like deposit accounts, loans, and more.

10 minutes to start your reinvention

There has never been a more consequential and urgent time to review your strategy, portfolio, and partners to ensure your program is highly competitive, will be relevant near- and long-term, and is maximizing revenue.

Invest just 10 minutes and let us introduce you to Merchant's PACT (Payment Acceptance Consulting Team) and its premier **Payment Acceptance Consulting** and **Merchant Services Program Management**.

Jack Henry™ and Merchant's PACT (MPACT) have partnered to provide seamless access to highly customized consulting and program management services designed to enable simplified, highly competitive, cost-effective acquiring strategies for financial institutions of all charters and asset sizes.

MPACT offers unique industry expertise and an open platform that provides access to every major payment processor with pre-negotiated, non-exclusive agreements that provide banks and credit unions with the most favorable terms possible. MPACT also leverages core data integration to develop the actionable, dynamic insights financial institutions need to improve the overall performance of acquiring strategies and merchant programs.

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