InterPayments

Surcharging: Build or Buy Considerations

Your organization has decided to implement a surcharging solution. This is a big step, but it's also just the first of many critical decisions that will come to define the success of your surcharging program.

If you develop finance or processing software in-house, the next major choice is whether you should build a solution internally or trust an implementation from a third-party partner. Successful organizations educate themselves on the intricacies of surcharging and the strengths of each option before making an informed decision.

The following should be kept in mind as you consider your options:

Technology and ISVs

Any third-party technology being considered should be able to integrate with your existing payment processing systems. If it can't, you could be looking at a much bigger project: a full replacement of your payments workflow.

The primary benefit of an in-house solution is compatibility with existing systems. But modern payment technology is highly integrated, so any solution would also need to support the independent software vendor (ISV)-provided products that work with your payments platform. Depending on your position in the payment flow, this could include multiple hosted payment applications, accounting, and ERP systems.

The best surcharging partners should already have expertise with this kind of integration.

Critical Questions:

1. **How core is surcharging to my product?**
2. **What technologies in my payment platform need to be made compatible with surcharging?**
3. **If I'm building this in-house, what is the opportunity cost? What else could my development team build with that time?**
4. **If I'm looking at a third party, does their solution already integrate with payment technologies that I use? How does this change the schedule of my project?**

Compliance

Surcharging compliance is an iceberg. It may seem like a small challenge – just don't surcharge above the maximum rate – but significant hurdles hide just below the surface. Any compliant solution must take into account:

- Rules set by each card network – Visa, Mastercard, Discover, and American Express
- National laws everywhere you operate
- State and territory regulations everywhere you operate
- Millions of card types with different rate tables
- Per-transaction rate impactors like level processing and scale discounts

Compliance regulations often conflict with each other – Visa rules can conflict with American Express rules and/or state legislation, for example. When this happens, a legal determination must be made on which rule to follow.

Regulations also change frequently. These changes can happen in a variety of ways. They can happen suddenly, as has happened twice in 2023 – first when Visa updated card rules to decrease the maximum allowed surcharge from 4% to 3%, and second when New Jersey updated state law to allow surcharging the full cost of acceptance, but no higher. Changes can also come through the court system, as has happened many times in the last decade when state bans on surcharging are found to be unconstitutional. These changes almost always occur with immediate implementation, so unless you are following the news you can fall out of compliance without even noticing.

Without this best effort approach to keeping up with compliance, surcharging becomes extremely risky Surcharge solutions that are not kept up to date by their developers are likely to face the most aggressive compliance actions, because compliant solutions are available and could have been used instead.

Critical Questions:

1. **Where is my surcharging compliance information coming from? Are my sources comprehensive?**
2. **If I'm building in-house, is my team able to handle the ongoing work required to stay compliant?**
3. **Does my legal department understand the risks of non-compliance?**
4. **If I'm looking at a third party, what are their compliance guarantees?**

BIN List Management

A comprehensive, up-to-date table of bank identification numbers (BINs) is an essential part of any surcharging system. At minimum, they are needed to differentiate between cards that can and cannot be surcharged, like certain types of debit card. BIN tables provide thousands of BINs as well as the requisite data interpretations.

But contrary to popular belief, no one BIN table can be used as a single source of truth. Available tables are never fully accurate, nor do they cover all card types, and they are often incomplete. There is also cost associated with acquiring BIN tables and keeping them up to date.

BIN table best practices include sourcing lists from multiple vendors, updating these lists several times a year, and maintaining a system that reconciles and interprets the list data at every transaction.

Critical Questions:

1. **How can I be sure the BIN lists I'm using are accurate and up to date?**
2. **If I'm building in-house, where are my BIN lists coming from? How should we keep on top of changes to the lists?**
3. **If I'm looking at a third party, what are they doing to provide maximum BIN list accuracy?**

Costs vs Returns

Any approach you move forward with will come with costs. Differences in implementation will also impact both the rate of return and the total return. The cost table included at the end of this paper can give you a sense of the expense associated with a do-it-yourself solution.

Note that it goes against card rules and many laws for a merchant to profit from a surcharge – their maximum revenue from a surcharging solution is equal to a full offset of the cost of accepting credit cards. If you are a merchant looking to recoup the cost of building a solution in house, this is important to keep in mind. It is possible to recoup the cost of a third-party solution via the surcharge.

Critical Questions:

1. **What are the associated costs with in-house development compared to a third party? At what point does each break even?**
2. **If I'm building in-house, what is the cost to maintain the solution, keeping in mind compliance,**
3. **BIN list updates, and ongoing maintenance?**
4. **If I'm looking at a third party, what is the revenue split between me and the partner?**

Surcharging Build and Maintenance Costs

Upfront Research and Development	Cost (Hours*)
Legal review: United States (includes individual state law)	>100 hours of counsel
Legal review: Canada (includes individual state law)	>100 hours of counsel
BIN file collection, (at least 2) testing, and reconciliation	6-12 months of project management and engineering
Surcharge workflow scoping	>3 months of proect management
Development	>6 months; small team
Non-compliance crisis planning	>40-80 hours of project management

Ongoing Maintenance	Cost (Hours*)
Legal review of regulatory changes, legal interpretation of surcharge exception events	10 hours/month of counsel
Ongoing development maintenance: New features; Regulatory updates; Bug fixes/technical debt	40 hours/week of engineering
Ongoing project updates: New features: Regulatory updates; Quarterly business review; Non-compliance event management	40 hours/week of project management

**Estimates based on best surcharging practices from InterPayments, development and BIN table management practices from sources including Netflix.*

Once you have the answers to all of these questions in mind, you can weigh them against the priorities and strengths of your organization and make a decision. For example, a company with less of an appetite for risk may choose to engage a third party for the compliance benefits, while an organization with a strong development department might find economies of scale by building in house.

For further assistance on any decisions associated with surcharging, InterPayments is always ready to help. Reach out to our team for more information.

InterPayments is a payments technology innovator focused on helping merchants reduce the burden of costly interchange fees and markups.

Interested in using InterPayments for the surcharging needs of your merchants?
Talk to us today.

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