

NAMA Cashless Solutions: The Industry Tipping Point

By

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Perhaps the most important announcement of the OneShow involved the introduction of the relationship NAMA formed with Bank of America Merchant Services (BAMS) as its preferred wireless gateway provider and payment processor. NAMA's preferred processor possesses a broad knowledge of card brand rules and regulations and has leveraged that knowledge to customize a program that provides NAMA members access to exclusively negotiated rates across various industry segments (vending, coffee service, and food service).

The NAMA Cashless Solution program is a networked end-to-end solution that is hardware neutral, works with qualified communication suppliers and card associations for payment reconciliation and account management. In addition, NAMA is working to provide members with a broad range of preferential financial services.

Payment Trends

Historically, cashless payments have eluded much of the industry as customers, driven by convenience, reward programs, and innovative financial strategies, migrated from cash to electronic settlement. The Smart Card Alliance estimates there are more than one billion transaction payment cards in the US with about 10,000 transactions per second. J P Morgan estimates the annual volume growth of electronic transactions will continue to increase by 11-16% per year for the next several years.

High volumes of card based transactions require a complex and costly infrastructure designed to capture, authorize, transact, resolve, and manage payment reconciliation. How do card payment fees compare to the actual cost of handling cash payments? Industry research indicates that most cash-bound companies incur 2-5% of revenues in cash management expenses; costs attributable to collecting, separating, counting, auditing, and depositing coins and currency. Some operators claim the cost of cash may be understated when additional security measures (electronic locks/video surveillance), transportation procedures (armored car service), and/or software applications (reconciliation/reporting algorithms) are considered. A similar scrutiny of cashless payment transactions led NAMA to develop its Cashless Solution program.

NAMA Features

The NAMA Cashless Solutions program has numerous benefits, including the following highlights:

- Straight-forward cost-plus pricing methodology
- Specially negotiated transaction processing fees
- Access to gateway-dependent processing incentives
- Vending operator is the Merchant of Record
- No merchant application fees or account setup fees

- No bundled rate pricing or average pricing tiers
- PCI standards applied across processing network
- No monthly minimum on card processing volumes
- Fast access to merchant funds from recent transactions
- Monthly reporting statements for easy reconciliation
- Consolidated statements by card type (Visa, MC, Amex, Discover)
- Dedicated program customer support 24/7

The goal of the program is to enable NAMA members to offer their customers the convenience of cashless payments at a reasonable cost across small and large average transaction pricing in a variety of industry segments.

Program Rates

The NAMA Cashless Solutions program includes favorable rates considered among the best in NAMA industry segments. To understand the NAMA rates, a simple cost-multiplier formula is applied to the transaction amount and deducted from the operator's account at the end of the month. Payments to operators are deposited without rates and fees applied; these are reconciled and clearly stated and reflected on monthly reports. For example, wireless communication costs are computed on a flat rate monthly gateway service schedule of \$9.95 per device; LAN configured devices are slightly less expensive at \$8.50 per device. Processing fees are computed on a cost-plus basis.

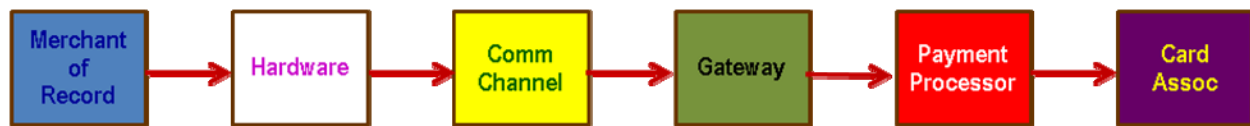
Transaction Fees

Each time a customer uses a credit card or debit card at a NAMA member device, the operator incurs a variety of processing and gateway fees, many of which are difficult to decipher; all of which often results in a reduction of settlement amount. Complex financial networks charge fees to cover expenses associated with transaction processing, data transmissions, fraud protection, receivables aging, account management, technological innovation, and related expenditures. Card acceptance involves at least four participants: 1) Issuing Bank – the financial institution that established a credit or debit account for the cardholder and bears the risk of account fraud and/or default; 2) Acquiring Bank - the financial institution accepting payment for goods and services on behalf of a NAMA member (also referred to as the merchant bank); 3) Card Association – the organization that established contractual requirements for cardholders, operators, issuers, and acquirers; major card associations include Visa, MasterCard, American Express, and Discover; and 4) Payment Processor – provision of connectivity for approving, transmitting, processing, reconciling, and reporting electronic transactions.

Transaction Flow

There are at least six distinct component parts in a cashless transaction network. The merchant of record is the recognized business entity authorized to accept non-cash payments. The card reader is the hardware that serves as the point of sale device and initiates the transaction. It is designed to capture and secure account and subsequent transaction data. A communication channel is used to move the captured data to the gateway for entry to the payment processor. The payment processor in turn reconciles

the transaction and deposits funds to the merchant of record bank account. The card association oversees the entire process and ensures adherence to its rules and regulations. The flow of data moves from left to right in the following graphic:



Selection Criteria

There are at least ten important considerations when selecting a cashless payment program:

1. How difficult is it to establish a payment processor relationship? The NAMA program is pre-negotiated and there is a dedicated toll-free number for program enrollment (888-317-0971).
2. What is the cost of application and account setup? The NAMA program has no costs associated with application or account setup.
3. Is the processing solution PCI compliant (highly secure) from end to end? The NAMA program only works with PCI compliant gateway providers.
4. Who will be the Merchant of Record for the account? The NAMA program makes the operator the merchant of record.
5. What level of service and support is available to merchants? When the wireless gateway is provided from the NAMA program provider there is dedicated 24/7 technical service and support.
6. What types of cards are accepted and how are transactions reported? Card types Visa, MC, Amex, and Discover are reported individually.
7. Are industry incentives or discounted rates offered by gateway providers? The NAMA program helps to enable access to industry-specific incentives.
8. Will rates and fees be applied on a cost plus or blended basis? The NAMA program is a cost-plus rate program without pricing tiers.
9. When and how are transaction revenues paid to the merchant? In most cases with the NAMA program, revenues are direct deposited within 48 hours of the transaction.
10. What are the communication costs and gateway options? The NAMA program has specially negotiated wireless and LAN configuration rates.

Ongoing Negotiations

NAMA is aware that criticism of electronic transaction processing fall into three key areas: transaction definition, rate transparency, and evolving fees and therefore considers its Cashless Solutions program to be ongoing.

- a. Transaction Definition – the NAMA program includes specially negotiated rates for wireless communication and transaction processing of cashless transactions for NAMA vending, coffee service, and foodservice member. NAMA is also researching ways to restructure multiple product purchasing (multi-vends) in an effort to redefine average transaction pricing that enables even lower processing rates across industry segments.

b. Rate Transparency – due to the various ways each processor describes its individual schedule of fees varies widely and often does not provide a basis for transparent comparison. The lack of rate transparency often leads to complexities and misunderstandings of fee structures. The NAMA program relies on a straight-forward cost-plus pricing scheme that avoids blended rate or average rate pricing.

c. Evolving Fees – regular changes in card association interchange fees leads to unanticipated variances in card processing expense. NAMA is working to ensure that its program remains stable and is sustainable for its members. Interchange updates are automatically passed through as they occur resulting in a more predictable expense model.

Summary

The NAMA Cashless Solutions program is a tremendous member-benefit program that offers vending, coffee service, and foodservice operators access to favorable wireless communication and transaction processing rates. An associate from the preferred processor is ready to assist you....phone **888-317-0971**.

Glossary

Acquiring Bank (or Merchant Bank) – financial institution that enters into an agreement with a vending operator (merchant) to accept and reconcile electronic payments.

Card Associations – Visa, MasterCard, American Express, and Discover Card; set transaction terms and interchange rates for merchants and issuing and acquiring banks.

Chargeback -- a transaction returned to a merchant bank by a card issuer because of a disputed transaction. The merchant bank may then return (i.e. “charge back”) the transaction to the merchant.

Gateway (or Payment Gateway) – a network infrastructure that allows the transportation of electronic payment and transactional data from a point of sale to a processor for settlement.

Interchange Fee -- rate to reimburse the account holder’s bank for expenses associated with transmitting payment to the retailer’s bank; normally this fee is split between the acquiring and issuing banks.

Issuing Bank -- financial institution that distributes electronic payment cards and maintains cardholder relationships (billing and payment collection).

Merchant Agreement – contract between a vending operator (merchant) and a merchant bank containing rules governing acceptance, reconciliation, and settlement of electronic transactions.

Merchant Discount Rate (MDR) – fees applied to each electronic payment transaction in the form of interchange rates, merchant fees and transaction fees.

Merchant of Record – the recognized merchant by the card associations.

PCI Compliance – PCI (Payment Card Industry) -- standards governing security requirements designed to protect cardholder and transaction data.

Payment Processor – entity providing authorization, verification, clearing, and settlement services for merchants and cardholders.

Third Party Processor – a non-processor entity that performs transaction authorization and processing, account record keeping, and other business and administrative functions for issuing and merchant banks.