


# Inside Merchant Services

Your guide to managing electronic payments

## Increase online sales by accepting alternative payment brands



Similar to how credit cards have boosted retail sales for years, today's emerging alternative payment brands allow merchants to grow e-commerce revenues by providing additional convenient payment options to millions of potential buyers.

Through Capital One Merchant Services (COMS) and payment platform provider Cardinal-Commerce, you can begin accepting customer payments from more than a dozen of these online payment services — including brands such as PayPal™, Google™ Checkout and eBillme™ — through a single integration process.

### Rise of alternative brands

With the explosive growth in online shopping, more consumers continue to register with alternative payment brands. They enjoy the convenience of accelerated checkouts and the ability to make online purchases securely without providing credit card numbers or other personal data over the Internet. Many brands don't require users to have a credit card, and some don't even require a bank account. Others offer deferred payment or promotional discounts.

As a result, the major alternative payment brands boast millions of registered users — many of whom might visit your Web site but not make a purchase because they don't have a credit card or prefer not to use one to buy online. Alternative payments are expected to account for 30% of e-commerce volume by 2012, according to the 2009 edition of the *CyberSource Online Fraud Report*.

Merchants can convert many of these Web site visitors into loyal customers, and increase sales volume, by offering one or more of the alternative payment brands as a payment option on their sites. Furthermore, transactions using alternative

payment brands typically are less expensive for merchants than traditional methods because they incur lower transaction fees.

### Quick, easy implementation

Adopting alternative payment brands through COMS can be faster, more convenient and less costly than executing direct integrations with the brands. For starters, we give you a dedicated integration manager to guide you through the implementation process. Your integration manager can offer advice on which alternative brands might serve you best and provide you with the forms you need to fill out for each brand you are adopting.

We offer a hosted platform solution that positions you to accept more than a dozen popular payment brands through one integration process. You can start with one or two brands and later add as many others as you like, at no additional cost. What's more, we execute all the brand system updates for you, reducing your information technology (IT) costs.

The only requirement for using the Cardinal-Commerce platform is that your company have a proprietary shopping cart where you can access the development code, rather than one that's "off the shelf."

Implementation takes no more than a few weeks. Before you know it, visitors checking out at your Web site will be able to click on PayPal™, Amazon Payments™, Green Dot®, Mazooma™ or other brand icons to initiate payments without a credit card.

Customers will appreciate the security, convenience and promotions afforded by the alternative payment brands, and your company will enjoy online sales from customers who may have never patronized you in the past. ■

### Spring 2009

Also in this edition ...

Interchange powers payment system



# Interchange powers payment system

The ability to accept card payments creates value for merchants — from increased sales to faster checkouts to improved risk management — and so it comes at a price. Part of that price is interchange.

Interchange fees are sometimes misunderstood and criticized. It's understandable that merchants want to make the most of each sale and may view transaction fees as a threat. But the fact is that interchange provides necessary funding to maintain the sophisticated networks that allow financial institutions to connect to merchants and cardholders around the globe.

## What is interchange?

Interchange is a fee that the merchant's financial institution (acquirer) pays to the cardholder's financial institution (issuer). This fee covers a portion of the expenses the issuer incurs to create the benefits that merchants enjoy when they accept card payments. Acquirers typically pass these fees through to their merchant customers as part of their service charges.

## How are these fees established?

Interchange fees are set in a highly competitive environment in which merchants are free to choose among a wide variety of payment cards and networks. Fees vary — and are monitored and adjusted on a regular basis — as each payment system attempts to achieve a balance between the needs of cardholders and those of merchants. Interchange also varies based on factors such as type of merchant, cost of the sale, payment product type, the processing technology the merchant uses, and region or country. If interchange fees are too high, merchants may

hesitate to accept cards. If fees are too low, issuers are less able to provide benefits to consumers such as grace periods, fraud protection and rewards.

## How do merchants benefit?

In the 1920s, merchants operated two-party payment card systems in which they issued cards directly to customers. But because each merchant had to administer these systems on their own and bear the associated costs and risks, they were inefficient.

Today, we have four-party systems that also include acquiring and issuing financial institutions. In these systems, payment is guaranteed the instant the transaction takes place and merchants don't participate in billing and collection. That's all handled by the card issuer, supported in part by interchange fees. Merchants avoid costs related to funding, credit losses, billing/collection, customer service, fraud prevention and losses, data processing, compliance and account acquisition.

The bottom line: Interchange affords merchants the opportunity to obtain the benefits of card acceptance at costs far below those they would incur if they operated their own two-party card-acceptance systems.

To learn more about interchange fees, visit [mastercard.com](http://mastercard.com) to access a MasterCard white paper, "Benefits of Open Payment Systems and the Role of Interchange," or [visa.com](http://visa.com) to read a Visa brochure, "Interchange. What It Is. How It Works." You can also direct questions to COMS Customer Support at 888-754-4371, Option 5. ■

## FOR MORE INFORMATION

### Call

1-866-698-9848

### Click

[www.capitalonebank.com/merchantservices](http://www.capitalonebank.com/merchantservices)

### E-mail

[merchantservices@capitalonebank.com](mailto:merchantservices@capitalonebank.com)

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Merchant Services  
2245 North Loop 336 West, Suite B  
Conroe, TX 77304