

Understanding Net Interchange Begins with a Solid Payments Strategy



When it comes to net interchange, do you know if you are maximizing your networks to ensure the highest amount? As one of the largest forms of non-interest income, debit card interchange can have a significant impact on the bottom line.

Monitoring Transactional Fees

Transactional fees are not always upfront and can add up quickly, often cutting into debit card portfolio profitability. As an effective strategy, carefully reviewing how these fees are structured and whether they are reasonable will aid in determining their impact on the health of the institution's debit card portfolio. If debit card usage is increasing but profitability is declining, transactional fees may be the culprit.

Transactional fees are a line item of the overall monthly fees paid to network vendors. When all fees are tallied together, an even smaller net interchange typically results. Most network vendors use a gross interchange rate when discussing the matter but often omit the fees charged to participate in the network. Those caught unaware may not find them and [perhaps] neglect to analyze and negotiate them. This costly oversight may be leaving thousands of dollars on the table each month.

Bundling Fees Clouds Transparency

It is important to realize that financial institutions are not obligated to accept their processor's recommendations, as several processors own networks and bundle their fees. This disadvantage to banks and credit unions allows for discounts in one area but opens the door to increasing prices in another. Fees should be transparent and stand on their own.

Offset large fees by getting creative with revenue streams, like dividends from debit card usage. To accomplish this, create an ecosystem that aligns with the debit network program and supports strategic initiatives.

Check to Ensure Financial Goals are Being Considered

Financial institutions have a choice when it comes to their debit network partner. To achieve the greatest benefit from a debit card program in tandem with improving the bottom line, ask what value the current network provider brings to the bank or credit union.

Understanding the components of a debit network helps determine the profitability of the program and whether to make improvements. As a checklist, consider the following:



- Perform a deep-dive analysis of a potential vendor's net interchange rate.
- Determine how closely strategic direction aligns with goals.
- Decide whether to offer card-free access or card-free cash.
- Account for interchange income minus network expenses to compute net interchange.

While the industry has fewer network vendor partnerships available, a wide variety is eligible for review, and not all are created equal.

With several factors determining interchange rates and fee payments being outside one's control, consider hiring an experienced consultant who can help navigate the complex payments landscape in real time.