Here's How To Avoid Making Costly Mistakes With Cross-Border Payments

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Over the last 18 months, there have been significant increases in card processing fees. They disproportionately affect companies that sell their goods and services across international borders.

In light of the increase of these fees and in preparation for future ones, the BlueSnap team is offering merchants information on how these cross-border interchange fees work, how they affect your company, and how you can avoid these fees and lessen the impact these costs have on your business.

How do cross-border interchange fees work?

Whenever someone buys your goods or services using a card, you pay a card processing fee. The majority of the fee, which varies by type of cards, is the interchange fee. You may not realize there may be up to 1% additional cost for a **cross-border interchange fee**. This fee is added on top of the interchange fees and has increased over the last 18 months.

When does the cross-border interchange fee apply? The card networks classify a transaction as "cross border" when the customer uses a card issued in a different country or region from where the payment is processed.

Here's an example, let's say a US online business sells a $100 item to a shopper in France who pays with a Visa card issued in France. The business will pay up to 1% in incremental fees for that order from France versus if the shopper was in the US and using a Visa card issued by a US bank.

If that same French shopper uses the *same* Visa card at an Italian ecommerce site, that Italian merchant will *not* pay a cross-border interchange fee. For the purposes of card payments, Visa considers Italy and France to be in the same region.

How much can cross-border interchange fees cost my business?

Let's use the example of a US online business that sells $200 million worth of goods. If 25% of their sales come from shoppers outside of the US, that would mean that $50 million of that revenue could be subject to cross-border interchange fees.

If the business processes those non-US transactions in the US, then the business would pay up to 1% in incremental fees on those transactions. This could mean $500,000 in extra cross-border interchange fees.

How do you minimize cross-border interchange fees?

To minimize cross-border interchange fees, businesses need to process card transactions in the region where the shopper's card was issued. This means that the business needs to connect to local banks in each region where they have a legal entity and route every card transaction to the bank that matches where the card was issued. The more global their operations are, the more connections they need. On average international businesses use five different payment gateways to route cross-border transactions to local banks.

However, this can be resource intensive for businesses. The costs of developing and maintaining those connections along with integrating additional services such as eWallets and fraud prevention can quickly offset the savings from processing payments locally. The alternative is to integrate with a payment processing provider with a global bank network.

BlueSnap is one of few payment processors that automatically routes cross-border transactions to a local acquiring bank following the card network rules. Our technology considers the card type, where it was issued, the currency, and the transaction amount. Based on that data, we route the transaction to a bank that will regard it as a local transaction. With a network of 30 worldwide banks, BlueSnap can localize almost any payment. We call this Intelligent Payment Routing. Very few payment processors do this because, from a technological standpoint, it is extremely difficult. Using the Intelligent Payment Routing means you can ditch the five gateways and just use BlueSnap.

In addition, we have pre-built features that help businesses increase sales and conversion such as account updater, eWallets and popular bank payment methods. Because they are built in the All-in-One Payment Platform, customers do not need to develop and maintain additional integrations.

What about foreign transaction fees?

There's more to this story. Even if you avoid cross-border interchange fees, your business or your customers still might have to pay a **foreign exchange fee.**

Let's go back to the example of the French shopper who buys from a US online business.

There are two scenarios:

- The shopper pays the foreign exchange fees: If a foreign customer buys from a site in US dollars and pays with a card issued by a French bank, then the shopper will pay a foreign exchange fee. Over time, these charges are likely to lead to a decrease in sales on the site.
- The business pays the foreign exchange fees: If the shopper buys from the site and pays in euros then the bank will charge a foreign exchange fee to the business in US dollars. The foreign exchange fees vary based on the currencies used in the transaction. Let's assume that for US dollars and euros it is 1%, then that $200 million business with 25% international sales would incur another $500,000 dollars in fees. However, if the payments are processed in the currency and the country or region where the shoppers are, then there is no such fee.
  That is another key advantage to using BlueSnap. We accept 100 shopper currencies, so you don't pay foreign exchange fees. We also settle in 17 different currencies, which is useful if you operate in multiple countries or run an online marketplace with merchants dispersed around the world.

What if I'm seeing low authorization rates on cross-border payments?

Depending on where a card transaction is routed, the bank may be more or less likely to authorize the transaction. For example, a French bank is likely to authorize a transaction made with a card issued in France. Why? It's familiar with the card and issuing bank. It perceives a lower risk of fraud.

However, an American bank isn't as used to seeing transactions made with French cards. The American bank is more likely to deny the transaction because it perceives a higher probability of fraud, and therefore a higher level of financial risk. The same is true for any cross-border transaction between any two regions.

So, when BlueSnap routes a French card transaction to a French bank — instead of an American bank — the authorization rate increases by 3% to 6%. And, in the event of a declined transaction, we automatically reattempt the transaction by routing it to another bank in that region (rather than hoping the shopper will reattempt the purchase).

Higher authorization rates mean more sales; continuing the example, a business with $50 million in cross-border transactions could see authorization rates increase by 5%, generating $2.5 million in incremental revenue. And it also offers a better customer experience.

But wait, why are card networks raising fees on cross-border commerce specifically?

There are a few reasons. At least 54% of American shoppers reported making an online purchase from a foreign site, and eCommerce totals are expected to reach at least $1 trillion in 2020. Approximately 67% of shoppers spent 10% or more of their monthly online spending toward cross-border commerce. As companies ramp up cross-border sales, the card networks see a good opportunity. They are businesses, too.

Second, as cross-border commerce rises, banks that issue cards face a higher risk of fraud. The Nilson report states that global card fraud losses will exceed $35 billion by the end of 2020. Cross-border sales, and Card Not Present (CNP) transactions in general, are especially hard to verify. The increased cross-border interchange fees help banks cover the risks.

Third, some countries have placed a hard cap on card processing fees, so the card networks have looked for other ways to grow revenue. In the European Union for Card Not Present transactions, the interchange rate is capped at 1.15% for debit cards and 1.50% for credit cards. Other countries, including Australia and the US, have caps to protect businesses in their jurisdictions.

However, there are no caps on cross-border interchange fees. And there are no business councils or governing bodies that advocate for cross-border merchants. So, the card networks have the latitude to change those fees. To be clear, they are often justified in doing so. But there tends to be no dialogue about it or regulatory oversight for it.

Can you sum this up briefly?

There are three big takeaways:

1. **We can help you avoid cross-border interchange fees.** If you sell $50 million worth of goods cross border, you pay an extra $500,000 compared to selling those same goods in your home country. By using BlueSnap's All-in-One Payment Platform, you avoid those fees. We route your cross-border card transactions to one of our acquiring banks in our global network. That localizes your transactions, so you save that $500,000.
2. **We can also eliminate your foreign transactions fees**. By offering the local currencies for transactions and settlement, we can save your businesses (or indirectly your customers) $500,000.
3. **We can increase your transaction authorization rate by 3% to 6%**. Improving your authorization rate can translate into 3% to 6% more in sales as well as a better buying experience for your international customers, increasing your revenue by about $2.5 million.

Bottom line: This is a great opportunity for your business to sell internationally. The important thing to keep in mind with cross-border transactions is that you need to be adequately set up to mitigate costs and optimize revenue. We can help you reduce costs and complexity with our All-in-One Payment Platform.

Interested? To get in touch with us, home.bluesnap.com/talk-to-sales

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