

Operator's Guide to Accepting Payment Cards



Does your taxi or private hire business take credit or debit payment cards? If so, are you on a plan that is best for you? Do you have a merchant account with a bank? Or do you go through a third party (master merchant)?

If you don't take cards as payment now, are you considering it?

The purpose of this paper is to cover the major aspects of card acceptance for the taxi or private hire operator.

- *Why take cards?*
- *How to use cards to grow your business?*
- *Bank merchant or third party account?*
- *Surcharges*
- *Likely costs*
- *Terminal options*
- *In-car terminals and office systems*

Why take cards?

Your customers are very familiar with paying for most things by card. Probably you are too. So why shouldn't your customer in the back of your vehicle use a VISA or MasterCard card to pay for the journey?

APACS, the UK payments association, tell us that spending on cards has already outstripped payments made by cheques and cash. For 2007, there were a total of 165.4 million cards. This amounts to the average consumer having 4 cards each. In 2007 there were 6.8 billion transactions averaging £45 per transaction. This was a 9% increase on 2006.

Clearly the majority of your customers want to pay with a card!



Apart from the popularity with your customers other reasons to take cards may include:-

1. **Automation.** The taxi and private hire industry have changed how they operate with the introduction of technology. For example; online booking, dispatch, mobile communications, satellite navigation and back office accounting. Accepting cards is essentially automating payment. Cash payments sometimes go “missing”. It is very difficult to lose a card payment.
2. **Cash Flow.** A 30 day invoice can extend to 60 day payment. Trips paid by card at the end of a journey result in payment banked within a week.
3. **Customer accounting preference** – a larger client can simplify their expenses if their employees use corporate cards for journeys.
4. **Pre-paid bookings.** It is possible to accept an immediate fare payment or deposit over the phone at the time of booking.
5. **Security.** Operators minimise cash held by drivers and in the office.
6. **Company image.** Accepting cards is a way of telling the competition, the authorities and the public that your organisation is competitive and up to date. Not a bad thing in these recessionary times.
7. **Cheques.** From July 2011 most banks are removing the guarantee on cheques. This spells the beginning of the end of cheques in the UK.

Payment acceptance by card in the UK taxi and private hire is inevitable. Could you imagine going into any retail shop or restaurant and not have the option of paying by card? In Scandinavian countries a taxi business would not survive if card payment wasn't accepted. It is only time until it is the same in the UK. Excuses like “I only deal in cash” (wink, wink) are wearing a bit thin and are speedily reaching their use by dates!



What sort of account should I have?

Taking payment by credit and debit cards automates collecting money.

The card schemes such as VISA and MasterCard have built up a large international network of card Issuers and transaction Acquirers. These Issuers and Acquirers are almost exclusively financial institutions. In the UK; Barclays Merchant Services, Royal Bank of Scotland Streamline

etc.

The Issuer provides an account for a consumer and issues an account token in the form of a plastic card. The card has all the information to complete a transaction from what is printed on it (raised for use with an imprinter) and/or stored on a magnetic stripe and now within an integrated memory chip.

The bank Acquirer on the other hand has the relationship with the merchant that provides the 'payment carrying consumer' with goods and services that the consumer pays for with their account held by the Issuer.

The Card Schemes (VISA and MasterCard) provide the international electronic network that links all the Issuers and Acquirers together. They also dictate the procedures, rules and standards for their Issuers and Acquirers to conform to so that transactions can take place around the world. These, are very complex, almost as complex as the London PCO regulations!

If you wish to accept card payments there are two basic ways you can do that. You can use;

1. Merchant Account with your bank.
2. Third Party Merchant Account, also known as a fully managed account. The third party who has a merchant account is known as Transaction Aggregator or Master Merchant.

1. Bank Merchant Account

You can apply to your bank for a Merchant Account. This allows you to accept cards in your own right. The bank will lease you a terminal for 3 years (minimum) and will usually charge you a minimum monthly transaction fee of £20 to £30.



The transaction rates for accepting cards are generally dependent on:-

- a. **Type of card.** VISA and MasterCard credit cards attract between 1.3 to 2.6%. Business VISA and MasterCard cards 1.7% to 3.0%. Banks will sometimes merge these rates and provide a single rate for either card. Debit cards such as Maestro will cost 16p to 35p. Business charge cards like AMEX will cost a minimum of 2.85%. Your bank may handle AMEX but more likely you will need to open a merchant account directly with AMEX. In this industry AMEX may account for up to 50% of cards offered for payment.
- b. **Volume of transactions.** Generally you will need to be taking a minimum of £800 per month (in cards) to justify the minimum monthly fee. The more transactions you take, the better the rate.
- c. **Industry.** Taxi and PH are considered low risk. If you were an Off-Licence then your merchant rates would be higher to mitigate the extra risk of accepting possible dodgy cards.
- d. Your **financial standing.** Risky merchants are charged more than solid profitable ones. Some banks ask as a minimum that you have been in business for at least 3 years.
- e. **Bank acquirer.** Rates vary so shop around. You don't need to go with your existing bank. If your bank will cut a bit off your overdraft rate, great! If not, shop around!

The above costs do not cover the cost of terminals. This has to be added. As a merchant you are responsible for all administration. Bank merchant statements generally do not provide individual details of each transaction.

2. Third Party Merchant Account (or fully managed account).

In the UK, the regulated nature of the taxi and private car industry has a tendency to promote individual owner drivers. The Acquirer banks look at potential turnover when opening merchant accounts. As a result, the card industry allows third party companies to operate as Transaction Aggregators (also known as Master Merchants). These Transaction Aggregators enable



smaller organisations or individuals who would not normally qualify as merchants to accept cards. This amount may seem high but the Aggregator takes most of the risk and generally bundles in the service and administrative costs.

Unless the operators starts with a good base of card transactions (£800 plus per month), using a fully managed service could be the way to start taking cards. Aggregators can generally offer shorter contract periods (12 months). This allows operators to test the card take-up of their client base before committing to a 3 year merchant service from an Acquirer bank. Some Aggregators, who specialise in the private hire industry, can assist the operator/driver to find the best merchant rates and service from the range of acquirer banks once the monthly transaction base grows.

As with bank Acquirers, the transaction cost above do not include terminal rental/leasing or purchase.



Transaction Capture

Once you have decided to accept payment cards, the next decision is how to capture the transaction. In the taxi and private hire industry transactions are usually captured in the office at the time of booking; or in the vehicle - usually at the end of the journey. The office system will also suit account customers who book by telephone or online via the web. Pre-payment by card reduces the risk of “no shows” substantially.

Office captured transactions are not usually Chip and PIN and are considered as Card Not Present or Mail Order Telephone Order (MOTO) by the card industry and attract higher merchant rates. The most common type of office terminal dials the bank via the telephone network. Newer generation systems are integrated into online computers which can also provide dispatch and telephone services. Booking systems where the customer orders online via web site can also capture card payment.



The factors which affect what type of transaction capture to use depend on convenience, security and cost. Generally, you pay for what you get. Although a full-blown mobile Chip & PIN terminal will cost you more, it does lower the chance of a disputed transaction which usually means a chargeback. It also says to your customer that you are professional about accepting their credit card securely.

A chargeback is where a person disputes a transaction on his credit or debit card statement. They notify their card issuer who passes it onto your merchant acquirer bank. You need to be able to prove that the transaction took place. Usually your copy of the printed receipt is enough. Chargebacks are unfortunately part of the business and can cost you, not just when the customer recovers the cost of the transaction, but with the administrative time you spend providing the bank with the evidence that the transaction actually occurred. Fortunately, the industry is not prone to a high number of chargebacks so, until it does, lower cost methods of capturing a transaction may suffice.

From 2010 the Acquiring banks have differentiated between Chip & PIN and Card Not Present or non qualified transactions. These non qualified transactions attract an additional merchant fee of up to 0.85%. This has put further pressure on taxi and PH operators to introduce Chip and PIN machines into their cars.

The choice generally for in-car Chip & PIN terminals are;

1. Integrated

AutoCab International has introduced full Chip and PIN facilities into by adding an industry compliant PIN Pad to their Minos/Zeus range of data terminals. The data terminal calculates the fare and passes it to the PIN Pad. The customer just follows the prompts and the transaction is sent and authorised by the Bank Acquirer on line. The data head handles the communications. The transaction is integrated into the systems accounting system. This is exactly the same process that the big supermarkets use on their tills and requires very little driver interaction.

2. Mobile Terminal

Mobile terminals operate in a similar fashion to mobile phones. They communicate via the GPRS mobile phone network. Generally the terminal is portable, has a rechargeable battery and a printer. The driver



inserts/swipes the card and manually keys in the amount. The terminal itself connects to the acquirer bank for authorisation.

Non compliant or non qualified methods of in-car card acceptance are as follows;

Manual Acceptance - Driver writes down the card details or uses an imprinter (Zip Zap machine) and passes them at some later date to the office that processes them through an electronic card terminal. Not only is it slow but the transaction is not authorised. It is frowned upon by the card industry as it is unsafe and virtually indefensible if the transaction is disputed. Transactions are usually converted to electronic format by a Transaction Aggregator using a terminal. It is very low cost but high risk and not particularly professional.

Phone - Driver phones into the taxi or central office or a centre using a Voice Recognition System. This is slow and not very professional. Customers often object to having their credit card details read out loud on a phone and getting a manual receipt. Transaction is then authorised online. It is low cost and slow but safer than Manual Acceptance.

Mobile phone or PDA - Card details are entered by the driver manually and authorised online. This is quite slow and prone to keying-in mistakes. Manual receipt or better still coupled with a card swipe reader and printer. PDA units are supplied in the industry as dispatch terminals and have other functions such as GPS and telephony. Costs can therefore be quite reasonable as the card transaction capture is just an additional function.

A bank or Service supplier earns income by supplying both the terminal with support services and the merchant rates. Often, the cost of the terminal is offset by the merchant rates.



Payment Cards - Surcharges

Unlike the retail sector, in the taxi industry (and to a lesser degree for private hire) there has been a history of charging the customer



a surcharge for accepting payment by credit cards. This surcharge is sometimes called a processing or transaction charge and usually ranges between 5 to 12.5% of the fare.

Although the card industry generally frowns on the practice, it is legal and accepted in other industries. The legality is contained in “The Credit Cards (Price Discrimination) Order 1990”. It says that merchants can charge more for credit card transaction than for cash transactions. The travel industry for example adds an extra charge. If you book an airline ticket online you are likely to have a credit card fee added on to the end price.

The justification for the taxi driver surcharging is to cover the cost of providing the credit payment facility in the cab. The most common surcharge is 10%. Many drivers who accept cards pay this entire surcharge over to their payment services provider. These providers often supply terminals and payment processing in return for the income of the surcharge. Some providers charge a monthly fee for the terminal/services and have a lesser transaction fee. This means that the driver keeps the difference to pay for the monthly terminal charge. Which service provider provides the best deal depends on the transaction values and volume. For low transaction numbers it is better for the driver to hand over the full 10%. For higher transaction numbers it is more cost effective for the driver to share the surcharge and pay for the terminal/service separately. When looking for the best deal to suit you, make sure you confirm that the service provider exempts any customer tips from the transaction charges.

The viability of a surcharge for taxi card payment is debatable. Due to competitive pressures, UK retailers generally do not surcharge and some taxi customers are quite negative about paying it on top of their fare. Business people who can reclaim expenses are obviously less sensitive. Some council taxi authorities however have already set a maximum of 5% surcharge on card transactions. How long a 10% surcharge can be justified in the industry is anybody's guess?

The New World of Mobile Phone Apps Payment



In the dim dark past, taxis were hailed by the customers waving in the hope that the driver would stop and take their fare. Taxi ranks provided set places where taxis might be found. Since the



advent of the telephone, taxi drivers slowly clubbed together and set up call centres where customers could call in and book a vehicle. A new breed of private hire cabs developed that could legally only accept prior bookings rather than kerbside hailing. Over the years the central call centre developed various methods of communicating these telephone bookings to the cab drivers. Radio and eventually the use of mobile phones and now smart phones direct drivers to their fares.

Smart phones and the apps that drive them are rapidly changing the way that customers book their fares. Instead of hailing or phoning for a cab, the customer just places a booking via an App on their smart phone or via a personal computer. With technology, the driver also uses an App on a smart phone to accept the fare. Unlike licensed taxis which use meters, the customer gets an instant price based on the start and end of the journey along with how many passengers and how much luggage. A central computer calculates the fare, selects the closest free driver with the right vehicle and provides both parties with information about the other to ensure that the journey is completed. The customer App can ask for payment using a pre-registered customer card or an online transaction on the spot. The company running the system pays the driver by direct credit into their bank account.

The result will be the eventual acceptance by the industry of card payment. There is a showdown coming between the licensed taxi industry and businesses using the new technology. The regulators will also have to catch up to the 21st century and embrace the customer acceptance of the technology. The law commission have not supported the amalgamation of private hire and taxi licensed cabs but we hope that will soon change.

With this new era, will the taxis have to reduce their currently expensive payment charges? The answer is **yes**. Mobile smart phones and personal computers will drastically eat into roadside hailing and telephone trade. Once card transactions have taken over from cash in the industry, in line with retailing, the higher cost of the online transactions will be replaced by cheaper face-to-face transactions for all drivers to remain competitive.





Author Background: *Ken Hansen has been in the payment card industry since 1982. He has founded and grown a number of companies including VeriFone in Europe (world's leading payment terminal supplier) and BritPay Limited. His experience includes assisting the introduction of payment systems in many parts of the world. (kenh@britpay.co.uk)*

BritPay Limited has been supplying the Taxi and Private Hire industry with payment card solutions for over 3 years. The company has a broad range of card acceptance solutions that can be tailored to suit both individual drivers and large fleet operators.

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