



# Payment Processing 101

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*Online donors appreciate multiple payment options*

## Introduction

Charitable foundations survive on the generosity of their donors, so how nonprofits actually get paid matters. It can affect how much, how quickly and how often a charity receives funds.

With the rise in digital technology, ways to donate have increased, which is good news for both nonprofits and their supporters.

In 2013, the 100 biggest nonprofits received 13 percent more of their donations online than the prior year, reports the Chronicle of Philanthropy<sup>1</sup>. Small and medium-sized charities saw an even greater hike of 20 percent over the previous year, as the Chronicle cited from a Network for Good study. Online donors appreciate multiple

payment options, which make donating easier. In a survey of more than 31,000 online shoppers conducted by comScore, 56 percent of respondents stated they expect a variety of payment options on the checkout page<sup>2</sup>. People want choices when making payments, whether they're buying goods and services or donating to their favorite organizations.

Staying up-to-date on emerging payment trends is vital to charities, because such knowledge can lead to greater and more frequent gifts. The ways in which donations are processed online include the fundraising staple of credit card processing and Automated Clearing House, or ACH. Also known as direct

<sup>1</sup> <http://philanthropy.com/article/Online-Fundraising-Goes/146619/>

<sup>2</sup> [https://thenewlogistics.ups.com/cdn/en-us/whitepapers/Online\\_Shopping\\_Cust\\_Experience\\_Study.pdf](https://thenewlogistics.ups.com/cdn/en-us/whitepapers/Online_Shopping_Cust_Experience_Study.pdf)

debit, ACH payments allow for direct bank transfers, which have risen in popularity due to much lower fees.

Simple and efficient payment processing using credit cards or ACH pays off for charities. A payment provider can allow organizations to eliminate manual data entry while offering real-time processing, easy tracking of completed and non-completed transactions and the ability to issue refunds and acknowledge gifts.

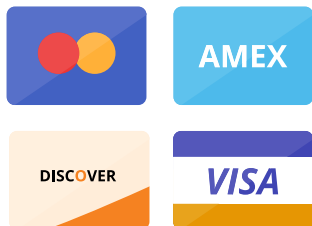
When nonprofits spend less time and fewer resources on payment processing, they're able to devote more time to their mission and donors. That's why it's vital to find a payment processor that truly fits

nonprofits. Charity-focused providers know which payment methods will aid or harm the charity, the size of the donation and the speed in which it's processed. The transaction needs to be straightforward with minimal surcharges that otherwise can whittle gifts. Easy-to-integrate solutions are musts because they let charities control the user experience.

First, let's look at types of processing available to nonprofits, and the advantages and disadvantages of each. Then, let's demystify credit card processing and explain the pros and cons of merchant processing versus aggregation.

## Payment Processing 101 for Nonprofits: A Quick Guide

*Rather than creating roadblocks to giving, the best payment processors accept all major credit cards*



Partnering with a nonprofit-focused service provider is the best way to boost a charity's bottom line.

This type of payment specialist offers software tailored to charities, and avoids additional fees and charges that slice away at gifts. These fees, which are standard at many payment processors, include account setup, chargeback, gateway, cross-border processing and customer support fees. These organizations can also provide fraud tools and the ability to create both recurring and statement fees.

Ideal providers also understand that donors don't want to be transferred

from an organization's website to a third-party site to complete the donation. Indeed, 58 percent of donors abort their payments midway due to security concerns, reports a recent eConsultancy survey<sup>3</sup>.

Rather than creating roadblocks to giving, the best payment processors accept all major credit cards and multiple international currencies, and they allow givers to donate via credit card, direct debit (ACH) via secure online donations through organizations' websites.

So what are key differences in these options?

<sup>3</sup> <https://econsultancy.com/blog/11182-basket-abandonment-case-studies-and-tips-to-help-improve-your-conversion-rates>

## —Credit Card

Credit cards are a well-established payment method for online transactions. The ability to pay by credit card appeals to donors who may take advantage of reward points linked to airline mileage and other perks. Credit cards also allow donors to float balances or pay over time. However, credit card fees may cost nonprofits 2 to 3 percent or more of the gift<sup>4</sup>. Additionally, donors often change credit cards or reach their limit, which can contribute to rejected transactions. Charities may also find themselves expending additional effort to keep credit card info up to date, from card numbers to expiration dates.

## —ACH

ACH transactions are essentially paperless checks. This payment method is also called direct debit, preauthorized debit or electronic funds transfer. ACH is a straightforward payment method for charities and donors, and it allows organizations to

receive funds directly from customers' bank accounts. This can be arranged as one-time or recurring payments, which can be a time-saver that appeals both to the donor and the recipient nonprofit.

Direct debit payments typically cost less per transaction than credit cards because they do not include the interchange fees of credit cards. Flat fees mean larger donations cost no more in fees than small ones. Additionally, fewer transactions are rejected compared to credit cards, saving money for organizations.

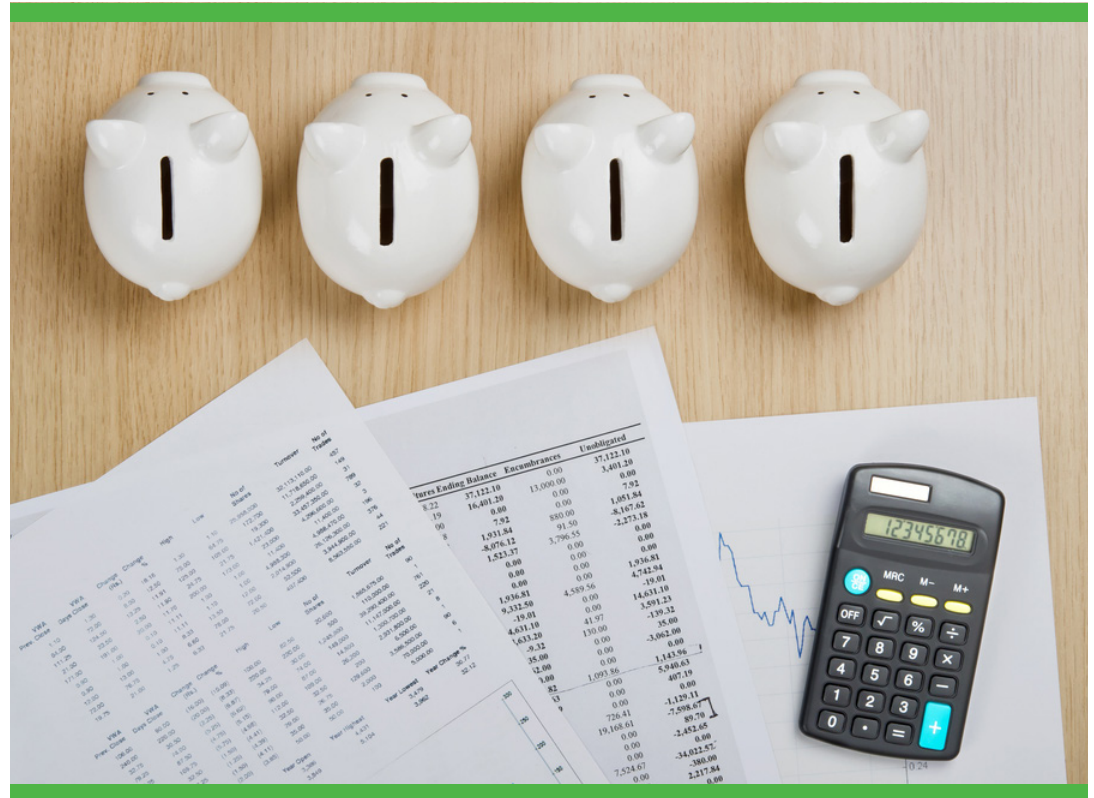
For the donor, ACH offers peace of mind. It's easy to use, can be integrated into an online donation form and is convenient. Thus, donors will be more likely to set up recurring payments, which can reduce necessary fundraising efforts, allowing nonprofits to devote resources to other tasks.

*Direct debit payments typically cost less per transaction than credit cards*



<sup>4</sup> <http://www.wsj.com/articles/american-express-in-court-mon-day-in-antitrust-case-1404352997>

# Demystifying Credit Card Processing For Nonprofits



*Credit card merchant accounts can be quick to set up, and charge simple, straightforward fees*

Some donors may prefer to pay by credit cards. Merchant fees may vary and charities risk the rejection of donations due to a customer's insufficient funds. Yet this process is not fraught with peril as one may fear.

In fact, with the right service provider, credit card merchant accounts can be quick to set up and charge simple, straightforward fees. The best providers offer customizable fraud prevention tools and Level 1 PCI compliance that guarantees the highest level of security to both donor and merchant.

Ideally, providers should combine a payment gateway and merchant account so charities don't have to deal with multiple vendors or rate

structures. Being Web-based rather than manually processed, transaction errors and time loss due to manual keying data entry is avoided. The ideal gateway is securely integrated into the charity's donor database, online fundraising or event management system.

It's important to use a payment processor that offers 24/7 online reporting, allows unlimited users, requires no hardware or software, has full refund capability and allows transactions to be processed individually or combined in a batch. Also important to consider is the level of customer care the company provides and in what ways you can reach out to them if and when you need technical assistance.





*Minimize the amount of personal information donors must provide*

Other things to keep in mind when setting up credit card transactions:

**—Don't require donors to set up an account before donating.** People may refuse to provide information to save time and avoid spam. Minimize the amount of personal information donors must provide and the number of fields they must fill, as some potential givers will quit mid-stream rather than complete a lengthy or arduous donation process. That's also why account signups should be done after payments are finished. Eleven percent of U.S. adults abandoned online purchases to avoid registering or supplying excessive information, Forrester Research found, according to Entrepreneur magazine. And 36.75 percent of consumers abandoned a purchase because the process was too lengthy, reports a survey by eCounselancy.<sup>5</sup> Envision checkout as a sprint: quick and smooth, versus an endurance race with hurdles.

**—Don't redirect people from an organization's website to a separate checkout page.** Donors may be concerned they're giving to a malicious cause or that the new page is insecure. The eConsultancy study found 58 percent of consumer respondents dropped out of the checkout page due to security worries.<sup>6</sup>

**—Make payment instructions clear.** This ensures users don't get frustrated and quit the process.

**—Forms should be glitch-free.** A separate eConsultancy/TolunaQuick survey found 54 percent of people abandon their transaction if they experience technical issues.<sup>7</sup>

**—Choose a processor that clearly states your organization's name on credit card statements.** This will reduce the chance of disputed charges, thus reducing the nonprofits' workload.

**—Ensure online forms are responsive and mobile-friendly.**

Making sure Web users can donate quickly and easily is essential, as is optimizing forms for use on mobile technology. Failure to do so can cost organizations much-needed donations.

All these measures add up in dollars. When charities can process donations efficiently and easily, nonprofits are freed to help others and can boost their bottom lines more successfully.

5 <https://econsultancy.com/blog/11182-basket-abandonment-case-studies-and-tips-to-help-improve-your-conversion-rates>

5 <http://www.entrepreneur.com/article/228169>

6 <http://www.wsj.com/articles/american-express-in-court-monday-in-antitrust-case-1404352997>

6 <https://econsultancy.com/blog/11182-basket-abandonment-case-studies-and-tips-to-help-improve-your-conversion-rates>

7 <https://econsultancy.com/blog/11182-basket-abandonment-case-studies-and-tips-to-help-improve-your-conversion-rates>

# Merchant Processing Vs. Aggregation



*Having your own merchant account makes it easier to handle high-volume transactions, with fewer delays*

When setting up payment processing, a charitable organization must decide whether to obtain their own merchant account where the funds are deposited directly into their own bank account or an aggregated one, in which the funds are first deposited into a 3rd party's account, which is dispersed later to everyone who shares that account.

## **Your own Merchant Account:**

Charities that adopt merchant processing manage earnings for their individual business.

**Pros:** Having your own merchant account makes it easier to handle high-volume transactions, with fewer delays. Donations are deposited directly into the merchant's bank account without the funds first

being held by a third party. There is significantly less risk when the funds go directly from the donor account to the charity account than if it is being handled by a third-party aggregator that may be processing for high-risk companies and go bankrupt. Also having your own merchant account gives charities control over what appears on the donor's statement.

**Cons:** Most applications take 24 to 48 hours to approve, while aggregator approval can take minutes. A bad credit history can disqualify a nonprofit from being approved for a dedicated account.

Merchant accounts may charge setup and maintenance fees and early termination penalties.



## Aggregation

Aggregators pool merchants, or charities, all together in their own merchant account. This enables smaller nonprofits to accept credit and debit card transactions without needing to apply for their own individual merchant account.

**Pros:** Aggregators tend to have straightforward rates and less red tape in the early stages of account setup, making for faster applications. They also enable smaller and newer organizations to accept payments despite not having strong enough credit to get their own merchant accounts approved.

However, aggregators still have to know who the merchant account holders are, as well as their risk levels. They review these organizations in stages, as tiered screenings enable aggregators to approve accounts within minutes and charities to process payments within hours as long as the proper paperwork is submitted.

Aggregators may also be a good fit

for smaller or new nonprofits because they offer the all-in-one service needed.

**Cons:** The deposit of donations to the merchant or charity may be slower since transactions are first routed to the aggregator, and then transferred to nonprofits' accounts. It's important to note contract terms to learn the speed and frequency of disbursement. Aggregators will go through the same process as merchant providers to know their customers, but generally after the account is set up and processing has begun. As a result, they may hold onto funds indefinitely until they are satisfied with the risk profile and chargeback rates. This can significantly impact a charity's cash flow.

Aggregators may also cap transaction totals. Aggregators are limited by the volume of transaction they can do as determined by Visa and MasterCard, and if breached, the charity will need to apply for a merchant account anyway.

Finally, traditional aggregators' one-price-for-all approach may benefit smaller charities but not larger ones.

*Aggregators tend to have straightforward rates and less red tape in the early stages of account setup*



# Interchange Plus vs Flat Rate

*Having the ability to choose between the various options gives nonprofits greater flexibility*



When comparing fees, it's important to examine correct pricing structures. Some processors may charge interchange rates, which are associated with credit card sales. Interchange Plus charges may differ depending on the specific type of card being used. With this type of fee structure, nonprofits get paid in net deposits.

Other payment processors charge flat rates. As the name implies, flat rates come with fees for credit and debit card transactions that remain static,

ensuring the same percentage regardless of card used. With this fee structure, nonprofits are paid in gross deposits.

Another thing to consider when looking at rates is whether the payment processor is collecting fees on behalf of the integrated application or software provider. The rates may seem higher at a glance, but it's usually part of the service provided by the software or the result of the direct integration of the payment processor.

## Gross Vs Net Deposits

Another important point of difference between payment processors is how the funds are deposited. Some processors deposit the funds before debiting their merchant fees, which is known as making gross deposits, whereas others deposit the funds with their fees already debited, which is known as net of fees. It's important to consider how this may impact internal reconciliation procedures. Additionally, if fees are debited separately in the gross deposit format, then it's

beneficial to know when and how those fees are debited.

Before selecting a payment processor, nonprofits should make sure the organization can accommodate both Interchange Plus and flat rates, as well as both gross and net deposits. Having the ability to choose between the various options gives nonprofits greater flexibility if their needs change in the future.

# Portability



*Ensuring a payment processor provides credit card data portability lets nonprofits avoid vendor lock-in*

Another key factor for nonprofits to keep in mind relates to transferability of card data. For example, if a nonprofit is using a payment processor's token system, it needs to determine whether the processor will return card data and recurring schedule data if it decides to change systems or utilize a new payment processor altogether.

Ensuring a payment processor provides credit card data portability lets nonprofits avoid vendor lock-in while also making it easier to follow best practices relating to PCI compliant data transfers that improve security for cardholders.

# Conclusion



*Nothing should get  
between donors'  
generosity and  
nonprofits' causes*

Giving donors multiple payment options is an industry best practice, but it shouldn't erode the ultimate goal of raising funds to help others. Security and streamlined payment processing benefit both donors and nonprofits. That's why the ideal payment partner should understand nonprofits' needs fully. Greater comprehension of and concern for charity missions lead to minimized surcharges, more flexibility and faster donation handling.

For many nonprofits, ACH is a must. Given that most major banks offer ACH processing, nonprofits first should check their existing banking relationships. Look for a rate structure that is straightforward.

The next step is to find the ideal service provider with the end goal of a safe, efficient and cost-effective payment method that will boost online fundraising efforts. After all, nothing should get between donors' generosity and nonprofits' causes.



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