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Unlocking The Future:

How AI is reshaping merchant services costs

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As technology advances, more businesses turn to artificial intelligence (AI) to optimize payment processing, improve customer service, and reduce costs. AI significantly impacts merchant services by improving authorization rates, lowering payment processing fraud, and increasing chatbots' effectiveness in answering queries. Although, whether the benefits from lower payment processing costs will be passed on to merchants remains to be seen.

Reshaping the payment processing landscape

AI has the potential to significantly reduce costs for payment processors. As AI continues to develop, it will likely have an even more substantial impact on the payment processing industry regarding payment routing, forecasting and automation.
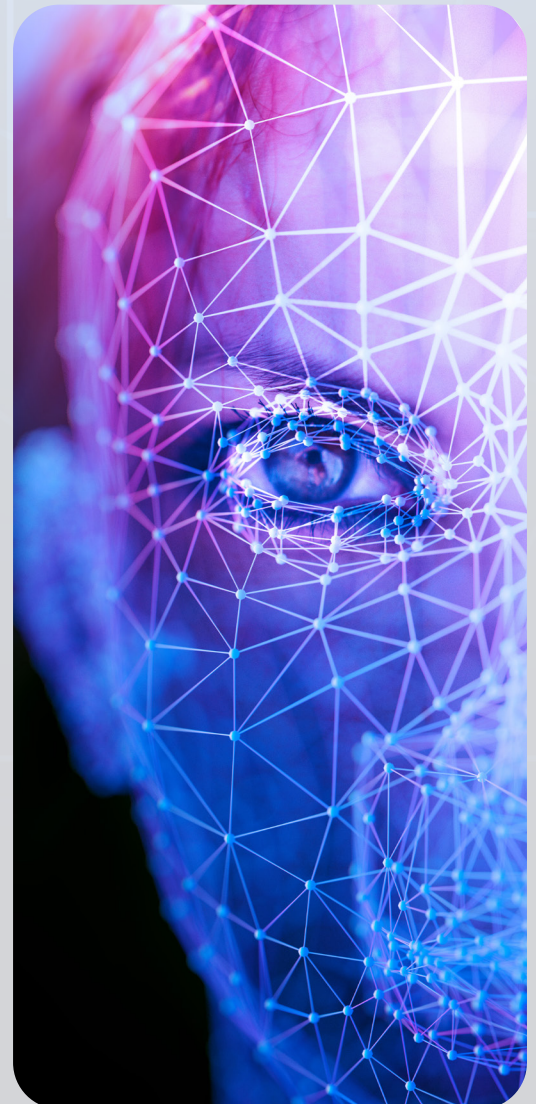
Payment optimization and routing:
AI algorithms can analyze transaction data and optimize payment routes to ensure the most cost-effective processing methods are used. By intelligently routing payments through the most efficient channels, payment processors can reduce fees and enhance operational efficiency.

Predictive analytics and forecasting:
AI can analyze historical transaction data, customer behavior, and market trends to generate insights and forecasts. This enables payment processors to anticipate demand, optimize resource allocation, and make data-driven decisions that can help reduce costs and improve overall performance.

Process automation and efficiency:
AI can automate manual and repetitive tasks involved in payment processing, such as data entry, invoice matching, and settlement processes. By reducing the need for manual intervention, AI improves operational efficiency, minimizes errors, and reduces costs associated with human labor.

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Improving risk and fraud detection

AI can enable payment processors to improve risk management, fraud detection and reconciliation.

Risk assessment and credit scoring:

AI algorithms can evaluate customer data, including credit history, transaction behavior, and other relevant factors, to assess creditworthiness and determine risk levels. This helps payment processors make informed decisions about accepting or declining transactions, reducing the chances of losses due to defaults.

Fraud detection and prevention:

AI-powered algorithms can analyze vast amounts of data, identify patterns, and detect anomalies that may indicate fraudulent transactions. AI machine learning systems can continuously learn and adapt to new fraud techniques, helping minimize false positives and negatives. This reduces the costs associated with manual fraud investigations and chargebacks.

Automated transaction reconciliation:

AI can streamline reconciling payment transactions by automatically matching and verifying data across multiple systems. This eliminates the need for manual intervention and reduces errors, saving time and effort in the reconciliation process.

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Streamlining customer service and personalization

AI can enable payment processors to automate customer services and query management more effectively. As a result, this will lower costs as less human intervention is required.

Customer service automation:

AI-powered chatbots and virtual assistants can handle routine customer inquiries and support payment-related issues. By automating these tasks, payment processors can reduce the need for human intervention, resulting in cost savings and improved efficiency.

Personalized marketing:

AI can also reduce costs associated with acquiring and retaining customers through personalized offers and promotions. By analyzing customer data, AI can predict which products or services customers will most likely be interested in and offer personalized recommendations. This can lead to higher conversion rates and fewer lost sales. With more personalized promotions, businesses can reduce the need for expensive mass marketing campaigns, resulting in cost savings.

PayPal uses AI to accelerate productivity and lower costs

PayPal has used AI for several years to improve payment authorization and reduce fraud. President and CEO of PayPal Dan Schulman commented in May 2023,

> **With new advanced generative AI, we can accelerate our productivity initiatives. We expect AI will allow us to lower costs for years to come.**

PayPal has been using AI for years to improve its business model and lower costs:

Payment authorization rates:

PayPal uses machine learning models to improve the authorization rates of transactions by predicting and solving the issuer declines more effectively.

Fraud prevention:

PayPal uses AI to monitor transactions for signs of fraud. This includes looking for patterns of behavior associated with fraud, such as multiple transactions from the same IP address or transactions using the same credit card.

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Will the cost benefits of AI be passed on?

Whether payment processors pass on cost improvements to merchants remains to be seen. Merchant services are complex, and costs can vary depending on various factors, including market competition, contractual agreements, and business strategies. Although merchants have several practical tactics that they can use to ensure they share in the benefits of improved payment processing costs.

Negotiation power:

Larger merchants or those with significant transaction volumes may have more negotiating power. They can leverage their bargaining position to request lower fees or negotiate better commercial terms with payment processors to benefit from AI-driven cost improvements.

Competitive market:

In a highly competitive market, payment processors may choose to pass on cost improvements to merchants to retain valuable merchants and customers. Merchants with cost benchmarking data can show their existing payment processors whether they receive fair value and evidence that competitors offer better terms. As a result, the incumbent payment processor often improves commercial terms to avoid losing the customer to a competitor.

As AI continues to develop, it will likely have an even greater impact on the payment processing industry. AI has the potential to revolutionize how payments are processed, and it will likely lead to significant cost savings. However, ensuring that these benefits are passed on to merchants is less clear and likely to require negotiation and benchmarking to ensure this takes place.

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Contact us

Contact us for further information and testimonials on how Bankbrokers can help you. In addition, how industry specialists have helped review merchant services options and solutions to lower costs and offset the impact of rising inflation.

Our team of friendly experts can help your business secure the support you need.

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