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ADVISOR BUSINESS

33% of Small Businesses Have Been Severely Impacted By Credit Card Fraud – Are Payment Processing Services Truly Secure?

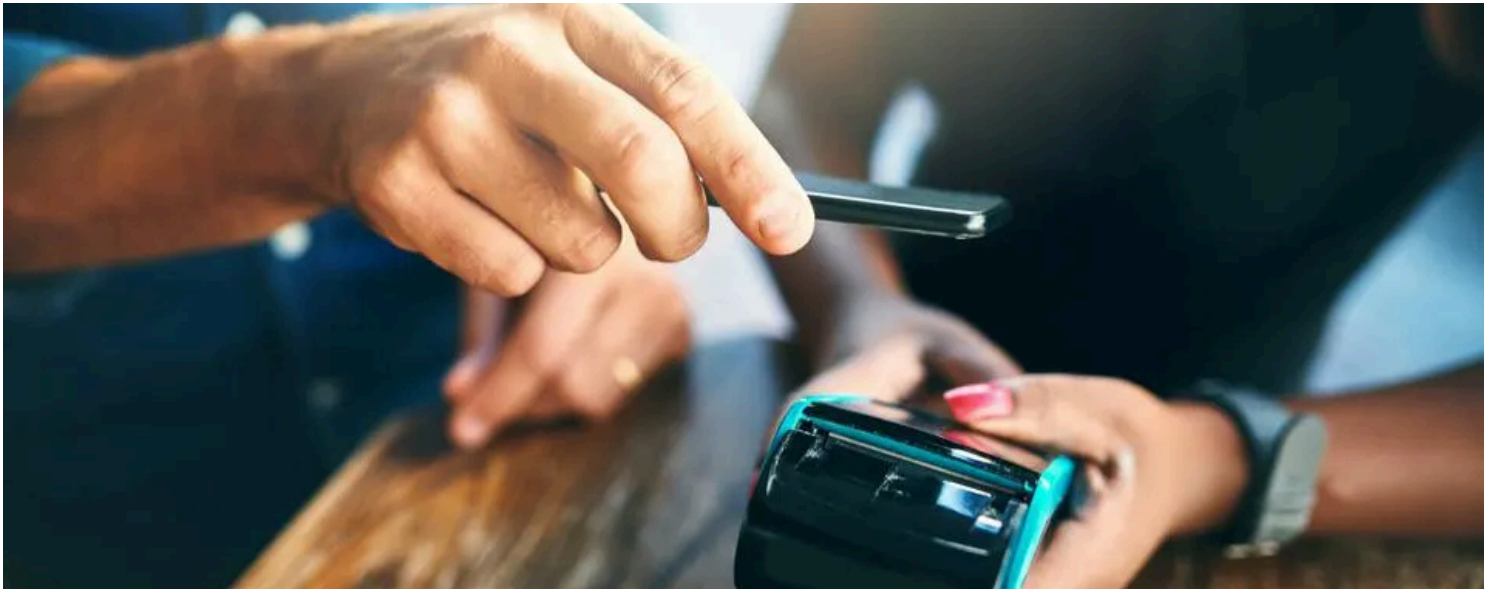
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Key Takeaways

- Nearly half of respondents use Square for payment processing
- Over one-third of those surveyed feel credit card fraud is a major problem for their business
- Over 60% prefer flat-rate or flat-rate with a percentage payment processing

payments, but that type of business is rare. Accepting card payments is convenient—for you and customers—but it means there's a risk of credit card fraud. And while point-of-sale (POS) platforms can help you better facilitate payments, they can bring their own obstacles. In a Forbes Advisor poll, 33% of small business owners said credit card fraud is a major issue. Is the risk worth the reward?

What Is Payment Processing?

To accept credit cards, a business must sign up for a merchant account, have a card reader and an internet connection. [Credit card processing](#) happens when a customer swipes, taps or dips a credit card or debit card or uses a digital payment method, such as Apple Pay with their phone. Data transfers from the card reader to a card network that communicates between the acquiring bank and the issuing bank. The end of the process results in either an approved or declined transaction.

There are some big benefits to accepting credit and debit cards, rather than cash. Card payments are convenient—there's no need to withdraw cash to pay for goods, and consumers can use cards to pay for items online. Average transaction totals go up, too—the [average card payment is \\$112](#), while cash transactions are \$22.

Despite the benefits of accepting and using cards for payment, there are some downsides. Businesses must pay fees to companies that process the payments. Chargebacks could be an issue for some businesses if they happen too frequently. Consumers are concerned about credit card fraud.

There are some security measures in place by payment processors and merchants, so consumers feel safe using their cards at a store or online. The Payment Card Industry (PCI) issued a set of standards that all businesses must follow to maintain compliance or face hefty fines. So, why would 33% of businesses recently surveyed feel credit card fraud is a big issue for their business but more than 80% of respondents say they feel their payment processors are secure?

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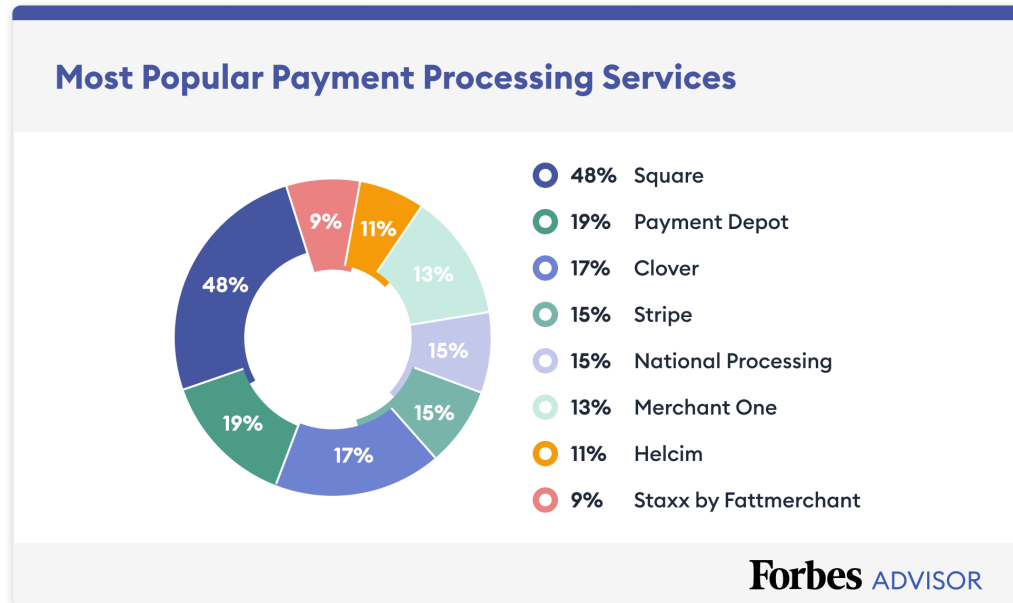
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A **POS** is the modern version of a cash register—the software and hardware make it possible for you to accept card payments. For most businesses, a **POS system** is vital to run day-to-day operations. This is how you'll take credit and debit card payments, contactless payments and gift cards. Typically, you can also add a cash drawer to your system for cash payments.

Most POS systems include business management tools that are helpful for retailers, e-commerce businesses and restaurants. Some features you'll see in POS systems are inventory and vendor management, loyalty programs and light customer relationship management (CRM) software.

Payment Processing Is a Crowded Market But Square Reigns Supreme

Perhaps one of the reasons small business owners feel their payment processor is safe is because a majority of them use Square, a well-known processor that updates its tech frequently. Square offers hardware that allows customers to swipe (traditional credit card payment method), dip (for chip cards) or tap (contactless payments).



Note: About 2% of small and medium businesses (SMBs) surveyed said they also use PayPal to accept payments.

Square: Affordable and Easy To Use

Nearly 50% of those surveyed said they use Square to process payments. When you look at the reasons respondents like their payment processor, the two most common answers were ease of use and low processing fees—two descriptions often used for Square. Square can turn your mobile device into a payment processor with a small card reader, or you can purchase Square's hardware for a countertop point-of-sale (POS) solution. Its hardware and processing fees are affordable, especially for new and small businesses.

More Than a Quarter of Businesses Have Been Hit by Credit Card Fraud

To say credit and debit card payments are popular would be an understatement. In fact, **85% of people preferred to use card payments** in 2021—that's 4% higher than in 2020. It should come as no surprise then that 100% of the small business owner and manager respondents in our survey

According to security.org, nearly 50% of American adults have been [victims of credit or debit card fraud](#)—and more than 30% have had it happen to them numerous times. The total of all these fraudulent charges could've come to about \$8 billion. Many of those charges are stopped by consumers noticing unauthorized use of their credit card, so they can dispute the charges before the transaction even goes through.

How Payment Processors Can Protect Customers

One of the ways small business owners can protect their customers is to stop accepting swiped cards and instead accept [contactless credit cards](#) and chip cards. A contactless card—commonly referred to as a “tap” card—uses radio frequency identification (RFID) and near-field communication (NFC) to make it possible to make a card payment by tapping one's card on a POS system that allows it. A “chip” card uses a microchip that encrypts data. Both types of credit and debit cards are much more secure than traditional swipe cards.

According to Square, contactless payments surged recently—[74% of Square users accept contactless payments](#), which is up 10.2 points from February 2020 to February 2021.

Chargebacks Are a Problem for More Than 30% of SMBs

A [chargeback](#) is sometimes necessary if a consumer doesn't receive an item, if there was unauthorized use of one's credit card or even if an item doesn't match the description by a company. Chargebacks can hurt a business, especially if they happen often. Businesses usually pay a fee to the acquiring bank, which typically costs \$20 per chargeback, but could be as high as \$100. If chargebacks are frequent, a business owner could lose their merchant account or processing fees could increase.

Almost one-third of those who took the Forbes Advisor poll said they often get chargebacks. Unsurprising, more than 50% of respondents agree that chargebacks have a negative effect on their company. Over 40% of the small business owners said they rarely or never get chargebacks.

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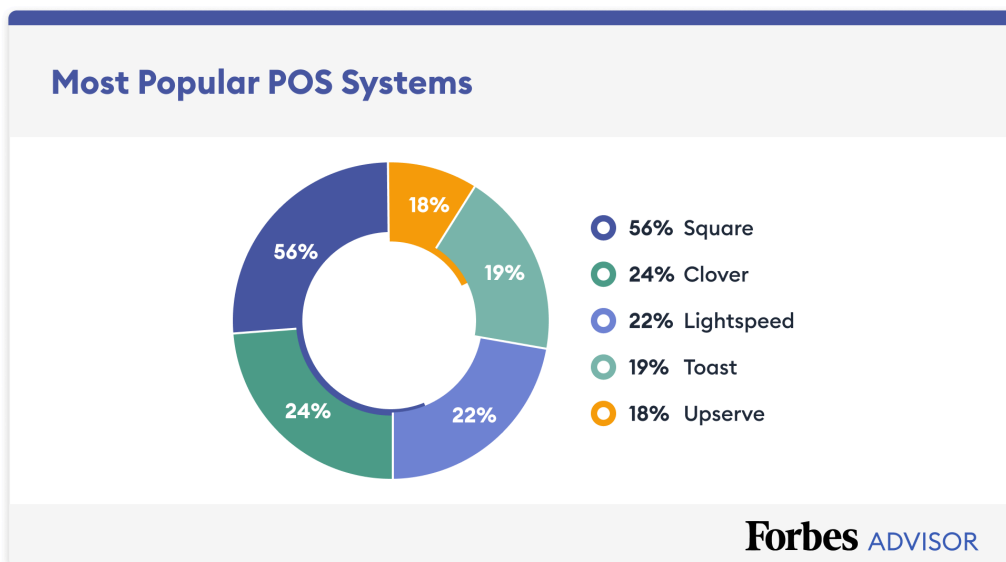
hardware)		
Free trial	90 days	
Key features	Versatile POS, invoicing, employee management	POS built specifically for restaurants, payroll, online ordering, team and inventory management
		Inventory management, custom reporting, advanced cashier functionality, accounting integrations

For POS Users, Mobile Is Paramount

For retailers and [restaurants](#), a countertop POS or POS terminal is fairly common: 46% of respondents said they use one for their business. Sixty percent of the professionals polled currently use [mobile POS](#) to accept payments. Whether used alone or in conjunction with a POS terminal is unknown, but suffice to say mobile POS has become an important part of doing business today.

Square Is the Most Popular POS Among Those Surveyed

More than 50% of respondents said they use Square as their POS. Square is known for its mobile POS functionality and being easy to use. It also offers hardware to turn an iPad into a countertop terminal that's popular among retailers and restaurateurs. And for those who don't want to use a tablet, Square offers an affordable all-in-one terminal that lets you accept card payments and print receipts.



Payment Processors Are a Necessity for All Businesses

Payment processing isn't free for businesses and, for the most part, businesses accept that this is one of the costs of doing business. Although most of the SMBs surveyed agreed that monthly costs and processing fees are too high, 61% said the fees credit card processors charge are fair.

There are interchange fees that go to the banks that issue the cards and the credit card networks, such as Visa or Mastercard. Transaction fees go to the payment processor, such as Square or Stripe. Then, there's the hardware you need to process payments, but these card readers are sometimes provided for free with an account. In any case, there are always going to be processing fees that average 1.3% to 3.5% per transaction.

Other fees, such as chargebacks, can stack up too. [Merchant services providers \(MSPs\)](#) offer different pricing models: flat rate, interchange-plus, subscription and tiered, all of which vary in

Flat-Rate or Flat-Rate Plus Percentage Processing Is Preferable for 64% of Respondents

A flat-rate pricing model usually comes with no monthly fee—Square made this model popular. It's a bit pricey if you do a large volume of sales, but your monthly processing fees are predictable because of the static charges. Interchange-plus usually comes with a low monthly fee, base cost of interchange fees and low percentage and markup costs. Helcim and National Processing use interchange-plus pricing.

Subscription and tiered pricing models can be much more expensive with high monthly payments and higher percentage costs but likely lower markups per transaction. Businesses with higher sales may prefer these models for lower overall cost.

Survey Methodology

Forbes Advisor commissioned this online survey of 750 United States adults who were either small business owners or senior staff members. Market research company OnePoll conducted the survey following best market research practice with a margin of error of +/- 2.2 points and 95% confidence. The OnePoll research team is a member of the Market Research Society (MRS) and has corporate membership with the American Association for Public Opinion Research (AAPOR). For the complete survey methodology, please contact pr@forbesadvisor.com.

Frequently Asked Questions (FAQs)

- + **Are businesses liable for credit card fraud?**
- + **What happens to the merchant when you dispute a charge?**
- + **What is friendly fraud?**
- + **What is a mobile POS system?**
- + **What is the main advantage of mobile point-of-sale devices?**
- + **What are features of a POS system?**

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