

Taxicab Drivers Riled Up Over 5% Credit-Card Fee

By [GEOFFREY A. FOWLER](#)

San Francisco taxicab drivers are up in arms about being forced to absorb a 5% service charge to process credit-card payments.

Rules that went into effect last April shifted the fees from five of the largest cab companies in the city to drivers. Since then, several hundred drivers have protested at City Hall and some say they have been telling passengers they only take cash or claim their card equipment is broken. Some drivers have begun carrying their own lower-fee processing technology, such as smartphone readers made by Square Inc.



San Francisco taxi driver Barry Korengold takes a credit-card payment from customer Andy Waranoff using Square, a card reader that attaches to a smartphone and charges a 2.75% processing fee.

Following the initial kerfuffle, the city's Municipal Transportation Agency hired an outside consultant, which last month recommended a series of changes to the city's rules. Those recommendations, currently being weighed by MTA officials, include establishing a minimum fare for credit-card use and banning driver-owned equipment like Square.

Behind the dispute, say drivers, are escalating fees on their thin-margin business and poor relations with large cab companies.

John Han, a taxi driver for the past 10 years, has lately been asking his passengers to avoid paying with cards. "That adds up, and it hurts us," he says.

San Francisco's 5,000 cab drivers are technically independent contractors but must work with cab companies. Drivers say the cab companies treat them more like regular employees such as waiters. And yet, says 39-year-old Mr. Han, "if restaurants charged the waitstaff 5% on every credit-card transaction, waiters and waitresses would probably get very upset."

Until last spring, a 1997 San Francisco law required cab companies to cover the processing fees for credit-card payments. That changed at the request of the largest taxi

firms, which argued their gate fees—the minimum amount each driver must pay the company for a cab—weren't sufficient to cover the growing use of cards.



The Square card reader.

"This is an expense that is burdensome and causing problems," says Jim Gillespie, general manager of Yellow Cab Cooperative Inc., the city's largest cab company. It processes more than \$3 million per month from credit cards, about 35% of the company's revenue, he says.

"We felt that we needed to change the model," he says. Other major cities pass the fees to drivers, he told city officials in a letter last year.

In a pilot program last spring, the MTA allowed the five cab companies to pass along to drivers credit-card processing fees of as much as 5%, if the companies also upgraded other in-vehicle technology such as back-seat monitors.

The fee became a sticking point for San Francisco's cab drivers, many of whom argue 5% is too high, especially since other merchants typically pay 2% to 3% on credit-card transactions.

The study conducted for the MTA by consulting firm Nelson Nygaard found that 5% is an industry standard based largely on the fee charged by processors of credit-card transactions in New York City, but that the processors' actual cost with banks range from 2.35% to 3%. (It also found anecdotal evidence that credit-card use can increase tips for drivers between 2.5% and 3.2%, but cautioned further research was needed.)

Tariq Mehmood, a taxi driver who helped arrange a protest in May that attracted hundreds of drivers, says the extra two or so percentage points being charged on transactions is a "trick to take money out of the driver's pocket."

A spokesman for Yellow Card Services, the company that processes cards for Yellow Cab, says a 5% fee is common in the industry but declined to comment further. Yellow Card is owned by George Anderson, a longtime tech consultant for Yellow Cab who still

receives a consulting fee for consulting work, according to Yellow Cab general manager Mr. Gillespie. None of the 5% fee goes back to Yellow Cab, he says.

Mr. Anderson, reached via email, didn't answer questions about his relationship with Yellow Cab, and said only, "Card processing is a small part of the story."

Pete Bartolik, a spokesman for VeriFone Systems Inc., which processes payments for San Francisco's DeSoto Cab Co., says a 5% fee has become standard in most of the cities where it processes cab payments. "It covers not only the cost of the credit-card transaction, but also the wireless fees, the equipment in the front and back of taxis, and also provides for additional management tools," he said.

One San Francisco cab company, Green Cab, decided to continue eating the processing costs itself. "We simply feel that this is an unfair charge and that it has negative repercussions," said Mark Gruberg, a member of the company's board of managers. "When drivers are forced to pay these charges, they are reluctant to take credit cards, and that has an impact on service."

As an end run around the fees, dozens of drivers have begun using technology from San Francisco start-up Square, which makes a small white card reader that attaches to smartphones. Square charges merchants 2.75% to process payments on the go, but drivers must pay for their phones and data charges themselves.

Cab driver Barry Korengold, 54, says he has been using Square since the spring to avoid the 5% fee. "I think it is worth having a smartphone anyhow when you drive a cab," he says. In total, he saves about \$35 a month in processing fees by using Square, he calculates.

Some cab companies complain the use of Square could lead to poor customer service. With Square, if a customer has a problem, his "recourse doesn't involve the taxi company or one of our vendors but instead an outside party that doesn't have any way to know if the credit-card user was overcharged or if they even rode in a taxi," says Athan Rebelos, general manager of DeSoto Cab.

A Square spokesman says, "Taxi drivers are among our most active and most loyal users, with thousands of drivers around the country using Square as a simple, cost-effective way to get paid for their work."

The MTA's Nelson Nygaard study recommended the city formally prequalify credit-card processors to be used in the industry to find the lowest rates and minimize the costs for drivers. It also recommended the MTA require use of installed in-vehicle equipment for processing credit cards for security and customer-service reasons.

An MTA spokeswoman says the agency "substantially agrees with the consultant's recommendations" and is now conducting a best-practices study before making any

decisions. She adds the agency is willing to consider Square as a potential processing technology, after being assured of the technology's track record by the company.

The agency expects to complete this next study, which is also looking into issues such as increasing the number of cabs on the road, in late 2012.

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