

The Payment Processing Universe

Credit Card Payment Processing Industry Basics

There are multiple steps and several entities involved from initiation to completion of a transaction that are essential to the payment processing universe. Here are the steps within the process and some essential terms you need to know in order to understand how credit card transactions are processed:

Credit Card Processing Stages

STAGE

1

Authorization

- Card holder presents physical or virtual credit card to make a purchase
- Card holder swipes, waves or dips card at point of sale (POS) processor terminal
- Card details are sent to acquiring bank via internet connection
- Card network clears payment request from issuing bank
- Bank/processor forwards details to credit card network
- Credit card network clears payment

STAGE

2

Authentication

- Issuing bank receives payment request
- Issuing bank validates credit card number, checks available funds, matches billing address on file, and validates CVV
- Issuing bank approves or declines and appropriate response is sent through the same channels
- After authorization, issuing bank places hold for purchase on cardholder account
- Merchant provides customer receipt

STAGE

3

Clearing and Settling

- Merchants send approved authorizations in batch to acquiring bank or processor at end of day
- Acquiring processor routes info to credit card network for settlement
- Credit card network forwards each approved transaction to appropriate issuing bank
- Within 24-48 hrs of transaction, issuing bank transfers funds
- Credit card network pays acquiring bank and processor respective percent from funds
- Acquiring bank credits merchant account for cardholder purchases, less merchant discount rate
- Issuing bank posts transaction info to cardholder account.
- Cardholder receives and pays bill

Essential Payment Processing Terms

Acquiring Bank/Acquirers

An acquiring bank, also known as an "acquirer," supplies the merchant account that allows the merchant to accept cards, as well as serves a back-end role to facilitate the exchange of funds between card-issuing banks and merchants.

ISO/MSP

An independent sales organization (ISO), also known as a member service provider (MSP), is a formal designation that a company must have to process credit cards under its own name.

Processor

A processor handles the request from the gateway and executes it by taking money from the customer and depositing it in the merchant account.

Payment Gateway

A payment gateway is responsible for receiving payment data from the front-end system, encrypting it, communicating with the bank, and bringing the authorization to the front end.

Merchant Account

A merchant account is a business arrangement between an organization and credit card processor that allows merchants to accept payment cards from customers

PCI Compliance

This term refers to the Payment Card Industry Data Security Standard requirements that organizations must meet. Noncompliance can result in penalties or suspension of ability to accept card transactions.

POS

The point of sale (POS) is a system that processes sales and integrates with a payment processor to complete purchases.

Credit Card Processor

Also referred to as a third-party processor, these organizations handle the details of processing credit card transactions.

Credit Card Terminal

A credit card terminal is a wired or wireless electronic device that enables merchants to accept credit/debit cards at the point of sale and uses the internet to process card information.

Processing Fees

Also called qualified merchant discount rates, these are the fees merchants pay for each credit or debit card sale and are predetermined by the merchant service provider. These often include interchange feeds, assessment or service fees, and payment processor markups.

There is so much to know and understand within the payment processing universe. The right partners and providers can make a world of difference. Partner with Secure Payment Solutions.