

Glossary of Electronic Payment Industry Terms

Introduction

The staff and I have updated and revised our "Dictionary" of terms that you, as business owners, will most likely either read and / or hear in researching merchant services. It is our sincere hope that you take the time to review the definitions contained in our "Dictionary". As always, let us know if you have any questions and we will do our best to ensure you have a full understanding of each term. I wish you all the best in your endeavor to continue to add to your knowledge and understand merchant services.

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Glossary of Electronic Payments Industry Terms.

ABA Routing Number (American Banking Association Routing Number)

See Transit Routing Number.

ACH (Automated Clearing House)

1. A form of electronic payment. Funds or payments can be transferred electronically in two ways: by wire transfer or through an automated clearinghouse. A wire transfer is an online, real-time payment system designed to handle large-dollar, time-critical payments, mostly between large banks. ACH, in contrast to a wire transfer, is designed to be an "electronic check." It is typically used to process high volumes of relatively small-dollar payments for settlement within one or two business days. ACH transactions are settled in a manner similar to the way checks are settled. The clearinghouse takes all ACH files received daily from its member banks, sorts them by the originating bank (ODFI – the bank against which the check was drawn and sends the funds) and the receiving bank (RDFI – the bank where the check was cashed or deposited and receives the funds), totals the accounts, and credits or debits appropriate accounts accordingly. Also see Operator.
2. The network of participating organizations that use the ACH network settle and clear electronic debit transactions through the automated clearinghouse. The ACH is a component of the Federal Reserve System and governed by the rules of the National Automated Clearing House Association (NACHA). The acquirers and issuers use the ACH to send and receive funds as part of the bankcard transaction process.

Acquirer

See Acquiring Bank.

Acquiring Bank or Acquirer

A financial institution, and member of the Visa and/or MasterCard associations, that provides merchant accounts for merchants. This bank is called an acquirer as it acquires sales drafts from merchants and pays the merchant in return. Subsequently, the acquirer receives funds from issuers that in return get paid back by their cardholders.

Agent Bank

A bank that, by agreement, participates in another bank's merchant services program. Usually by turning over its cardholder and/or merchant applications to the member bank administering the bankcard program and by acting as a depository for merchants and/or cardholders. The Agent Bank itself is not a member of the Visa and/or MasterCard associations, but acts as an agent for a member.

American Express

An independent for-profit company that issues cards and acquires transactions, unlike Visa and MasterCard, which are non-profit associations made up of banks that issue and/or acquire.

Approval

A positive response from an issuer that it has validated the cardholder's account and that open credit is available. Approvals are requested by means of an Authorization. An approval is the opposite of a Decline. See Authorization.

Approval Code or Authorization Code

The 6-digit code returned to the merchant by the banking system upon approving a transaction. Also see Approval.

Arbitration

The procedure a member bank can use to resolve a chargeback-related dispute with another member bank on behalf of a merchant and/or cardholder. Arbitrations can also be used to resolve conflicts between members themselves. MasterCard or Visa provide the rules for arbitration and also decide if any fines should be levied against participating members.

Arbitration Filing

A formal case filing submitted after unsuccessful dispute resolution through the chargeback presentment cycle.

Assessments

A small percentage charged on every Visa and MasterCard transaction that is solely allocated for the Associations. It is used by Visa and MasterCard to cover operating and marketing costs. Also referred to as Dues & Assessments or D&A.

ATM (Automated Teller Machine)

An ATM is a device that debits and dispenses cash from a cardholder's account (usually a deposit account). The cardholder must present a PIN in order to process an ATM transaction. Independent regional ATM/Debit Networks such as STAR, Cirrus, Plus and Pulse carry ATM transactions.

Authorization Only or Pre-Authorization

A transaction where the merchant only wants to receive a validation from the issuer that the cardholder's bankcard is valid and has the requested open credit available. There is no sale processed at this time – only a portion of the cardholder's open credit is reserved for this merchant. The sale may be processed later, or is not processed at all. If there is no sale processed, most issuers make the reserved funds available to the cardholder within ten days or so. Car Rental is an example. They perform an Auth Only of the estimated amount the cardholder will pay upon returning the vehicle. This is done to guarantee that funds are available when the exact sales amount has to be processed at a later date. This is the first step in a Delayed Settlement process.

Authorization

An authorization is a request from the merchant to the issuer to charge a cardholder. The issuer validates the cardholder's account and verifies that the requested amount is available. It subsequently responds with either an Approval or a Decline. It then reduces the cardholder's open-to-buy. An Authorization does not automatically Capture the transaction as a Sale. In many cases (as with retail transactions), Authorization and Capture is done at the same time, but they are different steps in the transaction process. In other environments (such as restaurants) the Authorization is done first, then the cardholder adds the tip, and then the transaction is Captured. If an Authorization is not followed up with a Captured Sale within a certain time period, it will drop off. Also see Approval, Decline, Capture and Sale.

Authorization Code

See Approval Code.

Authorization Center

A department usually controlled by the card processor that can electronically communicate a merchant's request for authorization on credit card transactions to the cardholder's bank.

Authorization Fee

A Third-Party Processor charges fees to whoever use its services – one of its services is to facilitate Authorizations and thus there is an Authorization Fee. The amount of the fee differs from how Authorizations are performed. An Authorization via a POS Terminal is much

cheaper than a Phone Authorization. The Authorization Fee is usually part of (or named by ISOs as) the Transaction Fee. It does need to be understood that an Authorization Fee applies even if a Decline is returned.

Automated Clearing House

See ACH.

Average Ticket Size

It is the average dollar-amount of a merchant's sales. Generally used in Underwriting and Risk Management and usually also a factor used in determining suitable rates and fees.

AVS (Address Verification Service)

In 1996, Visa USA and MasterCard International introduced a new automated fraud prevention system that allows card-not-present merchants to confirm a cardholder's billing address while authorizing a transaction. The ability to confirm the billing address is a key indicator of whether or not a card-not-present transaction is valid.

Back-end Processing Platform

A component of a Third-Party Processor or Acquirer that mainly handles the Clearing and Settlement of Transactions.

Balancing or Merchant Balancing

This is the process where a merchant verifies that all transactions are correctly Authorized and Captured in order to perform a Batch Close. Part of this process is to calculate the net amount of the batch that adds all Sales minus Voids and Returns. Restaurant merchants will make sure all tip information is correctly entered.

Bankcard

A financial instrument in the shape of a plastic card that is issued to consumers, companies and government agencies, to be used for purchasing goods without the use of cash. Different types of bankcards are credit cards, debit cards, ATM cards and purchase cards. Technically, the term "bankcard" is only used when speaking of Visa and MasterCard, as at this time they are the only cards that are actually issued by banks. Card products issued by independents such as American Express and Diners Club, are within the industry more commonly referred to as Travel & Entertainment (T&E) cards. JCB and Discover are also independents and their products are simply referred to credit cards.

Bankcard Association or Association

The group of member banks forming either Visa or MasterCard for the purpose of sponsoring a single identity and jointly operating the bankcard plan through the use of common processing and administrative facilities. At the time of this writing, Visa and MasterCard are non-profit organizations that mainly regulate and market their respective brands. It is the member banks, issuing banks and acquirers that realize the revenue of these companies.

BankNet

This is the name of MasterCard's data processing network. All MasterCard Authorization and Settlement information occurs over this network. The first component of this network was INAS (Interbank National Authorization System) over which the Authorizations are processed. INAS provided electronic Authorizations that replaced the early system of Phone Authorizations. The second component was INET (Interbank Network for Electronic Transfer), which was developed later to facilitate Settlement. INET provided electronic Settlement services that replaced the early system of paper drafts/imprints sent from bank to bank.

Base I

See VisaNet.

Base II

See VisaNet.

Basis Point

A basis point is one one-hundredth of a percent. Fractional values under one percent are often expressed as basis points. For example, if you have 0.20%, that would be 20 basis points. A slang term for basis points is "beeps" derived from the abbreviation "BPs."

Batch

A batch is collection of Captured transactions with Approval Codes that reside either on a POS Terminal, an Internet Gateway or a processor's Host system. When the batch is closed, the transactions are submitted for settlement by the processor. Batch Fees are charged to cover both cost and also to encourage a merchant to submit their transactions once per day, rather than throughout the day. The file that contains a Batch of Captured transactions is also known as a Batch Settlement File or Capture File.

Batch Close or Batch Settlement

This is the function of Balancing and submitting a Batch to the processor for Settlement and payment. Batch Settlement and Transaction Settlement are not the same.

Batch Header Fee or Batch Fee

The transaction fee charged for the merchant to close out a Batch.

Batch ID

Once a Batch is closed, it receives a Batch ID. Every transaction in the Batch shares this ID. If a transaction does not have a Batch ID associated with it, the transaction has not been part of a Batch that was closed by the merchant.

Batch Processing

A type of transaction processing operation where related transactions are grouped together and transmitted for processing at one time, usually by the same computer and under the same application. Batch processing is generally regarded as non real-time traffic made up of large files. The response time is not critical for this type of data traffic. An example of this would be an ISP doing its monthly billing cycle and grouping all the transactions onto one file for submission to the processor.

Batch Settlement

See Batch Close.

Bundled Rate

A Bundled Rate is a percentage rate offered to a merchant that provisions for other fees (usually Transaction Fees) and thus the merchant usually ends up with one flat rate per transaction that covers everything. An example would be a merchant that has a its fees set to 1.79% + \$0.30 is now offered a Bundled Rate of 1.99% and no Transaction Fee.

Capture

An action conducted at the Point-of-Sale or Internet Gateway level, where the POS Terminal, POS Software, Gateway or Host collects all particulars of a sale. This collected or captured information includes information off the Magnetic Stripe of a card (cardholder account information), merchant information (such as MCC, MID and TID) and transaction information (such as sale amount, Authorization information, time and date). This information is that used to process the Sale. Captured sales are part of a Batch and

transmitted to the Processor or ATM/Debit Network for Settlement. Also called EDC (Electronic Draft Capture).

Cardholder

A Cardholder is a person, company or government agency that has an active credit or debit card account with which transactions can be processed.

Card Issuer or Issuer or Issuing Bank

Financial institution, or its agent, which issues the credit and/or debit cards to the Cardholder is an Issuer. Examples of large issuers are Chase, CapitalOne, Provident and Bank of America.

Card Not Present or CNP

A merchant environment where the Cardholder and the card are not physically present at the time of the sale. Examples of these are MOTO transactions, most business-to-business and all Internet-based transactions.

Card Present

The scenario where the Cardholder and the card are physically present at the time of the sale. Card-present transactions account for the majority of credit card transactions in the world. Examples of merchants that account for card-present transactions are retailers, restaurants, gas stations, etc.

Cash Advance

A transaction in which a Cardholder obtains cash, Quasi-Cash (such as Traveler's Checks), foreign currency or money orders, at a branch of a Member financial institution or at an ATM. This transaction is then posted against the Cardholder's account. In a "domestic cash advance," the principal office of the issuer and the institution disbursing the cash advance are located within the United States (or other appropriate jurisdiction). In an "international cash advance" the principal office of the issuer and the institution disbursing the cash advance are located in different countries. Only financial institutions and a small group of specific MCCs (such as cruise lines) are allowed to disburse cash advances.

Cash Back

A purchase for more than the amount of goods or services sold, whereby the Cardholder receives the difference in cash. These transactions are only allowed by specific MCCs (such as supermarkets) when a Debit Card is used.

CAT (Cardholder Activated Terminal)

A terminal where the Cardholder swipes their own card and completes a transaction from start to finish without any assistance from a Merchant (such as when one pays at the pump of a gas station). It is also a component of a Gateway where the Cardholder enters all the transaction information and completes the transaction on its own without any assistance from the Merchant.

Chargeback

A type of transaction where the Cardholder disputes a sale with a Merchant. A Chargeback may be as a result of many things. Common causes for Chargebacks are that the merchant did not deliver the goods or services as promised, charged the wrong amount or when the card is unlawfully used as part of fraudulent activity. The Issuer as a result of Compliance failure can also originate Chargebacks. Late presentment (the act of submitting stale dated sales) can also cause an Issuer to originate Chargebacks. At the time a Chargeback is presented to an Acquirer by an Issuer (on behalf of itself or the Cardholder), the Acquirer is obligated to return the funds of the disputed sale to the Cardholder's account until the dispute is settled. Chargebacks are risky for Acquirers. If the merchant is unable to re-pay

the Issuing Bank, after the cardholder has successfully disputed a charge, the Acquirer is left to take any losses.

Chargeback Fee

A fee assessed by a Merchant Service Provider to the Merchant for any incoming Chargebacks.

Chargeback Period

The number of calendar days from the initial transaction processing date during which period the Issuer may exercise its Chargeback right.

Chargeback Reason Code

A two-digit code identifying the specific reason for the Chargeback. These Chargeback Reason Codes are delineated in the Association's Dispute Resolution Rules.

Check Guarantee

A service which guarantees check payment (up to the limit defined for the account) provided that the merchant follows correct procedures in accepting the check. The service determines whether the check writer has previously written delinquent checks. Companies like CrossCheck provide this type of service.

Check Conversion

The act of converting a paper check into an electronic ACH debit. A retailer takes a check from a check writer and runs it through a MICR Reader or Check Imager and hands the check back to the check writer. The check is now converted into an ACH debit and is debited from the check writer's DDA account electronically.

Check Imager

A device that scans and creates an image of a check that is then used to convert the check into an electronic ACH debit. See Check Conversion.

Check Truncation

See Check Conversion.

Class A Certified

When POS equipment and software is certified with, and thus supported by, a Third-Party Processor. The Processor also provides technical help-desk support for this POS product.

Class B Certified

Same as Class A Certified, except the processor does not offer help-desk support for a POS product.

Clearing

A daily action usually performed by the Processor where all Capture files are collected and all transactions for that day are sorted by Issuing BIN, any rejected transactions (invalid BINs or unknown account numbers) are purged, Compliance is performed with Interchange and Interchange categories are assigned, reconciliation reports are produced and prepared for Settlement.

CNP

See Card Not Present.

Code 10

See Referral.

Compliance

The procedure of complying with and/or enforcing the Visa and MasterCard Operating Regulations, Interchange procedures, Dispute Resolution Rules and Association Bylaws.

Confirmation Letter

A letter sent by a Processor to a merchant on a daily or weekly basis to verify batch deposits.

Copy Request

See Retrieval Request.

CPS (Custom Payment Service)

Visa has a program that offers specific cheaper Interchange Reimbursement Fees to merchants that qualify. There are basic Compliance requirements to qualify for these lower fees, such that the transaction must have been approved through the VisaNet Authorization System (Base I), the Clearing Record must identify the Requested Payment Service the merchant desires, etc. Types of CPS categories are CPS/Retail, CPS/Retail Key Entry, CPS/Card Not Present, CPS/Small Ticket, etc.

Credit or Credit Transaction

A transaction that returns funds from the Merchant to the Cardholder. It is the opposite of a Sale. A Credit is issued to a Cardholder only after the original charge has been Captured and Settled. This is also known as a Return.

Credit Card

A plastic payment instrument establishing the privilege of the person to whom it is issued to present it as payment to a Merchant; the card bearer (Cardholder) must reimburse the credit card company (Issuer) the amount of the sale.

CTMF or TMF (Combined Terminated Merchant File)

See MATCH.

CVC2 (Card Validation Code 2)

As of January 1, 1997 all MasterCard issuers placed a three-digit security code on the signature panel of the card. It is transmitted in MOTO and other card-not-present transactions as part of the Authorization process and is used as an anti-fraud device to authenticate cardholders globally. No party to the transaction (Issuer, Acquirer or Merchant) may store CVC2 values in any form, encrypted or otherwise. CVC is another authentication code located on the Magnetic Stripe.

CVV2 (Card Verification Value 2)

As of January 1, 2001 all Visa Issuers placed a code on its cards that acts identical to MasterCard's CVC2 code. CVV is another authentication code located on the Magnetic Stripe.

Data Capture

See Capture.

DDA (Demand Deposit Account)

A DDA is an account opened with a bank where deposits can be made and payments can be made on demand – it is more commonly referred to as a checking account. Merchants receive deposits from their transactions into their DDA account by means of ACH.

Debit Card

A financial instrument used by consumers in place of cash. Unlike a Credit Card, Debit Card purchases are deducted from a Cardholder's deposit account, similar to a check. Visa and

MasterCard now offer Debit Cards through banks and other financial institutions. Debit Cards can be used with a PIN (called PIN-based or Online-Debit transactions). In this manner the transaction is processed through a Regional Debit Network. Debit Cards issued by Association Members can be used with a signature instead of a PIN (also know as Signature-based or Offline-Debit transactions). In this manner the transaction is Settled through Visa and MasterCard Interchange.

Debit Network

See Regional Debit Network.

Debit Transaction

A transaction performed using a Debit Card.

Decline

A response made by an Issuer in reply to an Authorization request. The main reasons for a Decline stem from the Cardholder using a card that either has insufficient open credit for the purchase amount, the card is invalid or the account has been closed or frozen.

Delayed Capture

A Delayed Capture is a transaction type that uses the information from an Authorization-Only transaction to Capture transaction information. This is the second step in the Delayed Settlement process and should be used by merchants who do not provide immediate shipment of goods.

Delayed Settlement

This is a two-phase process that utilizes an Authorization-Only transaction and a Delayed Capture transaction to process customer orders. This procedure is recommended when the merchant delivers goods or services more than 48 hours after the good or services are ordered.

Digital Certificate

An electronic identification method used online. It authenticates the consumer, merchant and financial institution. Digital certificates are used during SET transactions.

Discount Rate or Discount Fee

A percentage fee usually paid on every Credit Card transaction. The largest portion of the Discount Fees collected is covering Interchange Reimbursement Fees that are paid by the Acquirers to the Issuers. The small portion goes to the Associations (called Assessments) and most of the remainder ends up with the ISO/MSP.

Draft Capture

See Capture.

EBT (Electronic Benefits Transfer)

The use of a card issued by usually a non-bank entity that has stored value to purchase items it is specifically intended for. An example of this is EBT cards that are issued by the State of California to welfare recipients in order to replace food stamps. The card is then used at participating stores.

EDC (Electronic Draft Capture or Electronic Data Capture)

See Capture.

EDS (Electronic Data Systems)

A company that has an outfit in Westlake, OH that is the Back-End Processing platform for Global Payment Systems. EDS thus provides functions such as Clearing, submitting transactions into Interchange and Settlement.

EFT (Electronic Funds Transfer)

A method of transferring money from one bank account to another by using a variety of electronic methods such as bank wire transfer or ACH.

EIRF (Electronic Interchange Reimbursement Fee)

An Interchange Reimbursement Fee category that was originally established for Merchants using "Electronic" POS Terminals instead of sending "Standard" paper drafts to their Acquirer. Since then new categories were established that were specialized for transactions such as retail, keyed-entry, CNP and MOTO. Transactions that do not qualify for these specialized categories will still clear through EIRF, but the cost for EIRF is higher and the merchant is likely to be surcharged.

Factoring

The purchase of debts owed, or "accounts receivable," in exchange for immediate payment at a discount. In the Bankcard industry, the term is often applied to a Merchant that offers to process Credit Card transactions through their merchant account for another Merchant that does not have a merchant account, sometimes in exchange for a percentage of the transaction or other fee. Factoring of Credit Card debt and transactions is a violation of Association Operating Regulations.

FDIC (Federal Deposit Insurance Corporation):

The Federal program that protects consumers by providing insurance for bank deposits in the event that a bank becomes insolvent. All Association Member banks are also members of the FDIC and transactions are insured up to a certain amount. If the DDA bank is also a member of the FDIC, then deposits are also insured up to a certain amount.

FICO (Fair, Isaac & Co.)

A widely used credit scoring system based (using points on a scale from 300 - 850) developed by a company called Fair, Isaac & Company. Generally a FICO score of 650 and above is acceptable credit. 750 and over is considered excellent credit.

Force Transaction

A Force Transaction is used when a Merchant has either done a previous Authorization Only transaction, or when one has to "Call for Approval" to receive approval from a Processor for a transaction. When you do an Authorization Only transaction or when you call the Call Center for approval, you will be given an Authorization Code. You will need to keep the Authorization Code in your records and enter it in the Force Transaction to complete the Sale.

Front-end Processing Platform

A component of a Third-Party Processor or Acquirer that mainly handles the Authorization and Capture of transactions.

Gateway

A Server-Side (located on a Server, rather than on a merchant's PC or "Client") application (meaning software system) that accepts transaction information from online Merchant web sites and routes them to a Third-Party Processor for Authorization, Capture and Settlement. Gateways have usually two components; one is a CAT (Cardholder Activated Terminal) where the Cardholder enters in his Bankcard information on the Merchant's site - and a Virtual Terminal, which is where the Merchants themselves can enter in transaction information for processing.

Holdback

See Reserve.

Host

The term Host refers to a computer system, which is usually owned and maintained by the Processor, where the POS Terminal or Gateway connects to (via phone or IP) for Authorizations and Batch Settlement.

Host Capture

Host Capture is where the Batch Settlement File, which contains Authorized and Captured transactions, is built and located on a Host instead of a Terminal. With Host Capture there are certain benefits, such as the size of the Batch Settlement File is not restricted to the POS device memory capacity. Host Capture terminals can also do an automatic Batch Settlement based on a specific time of the day where the Host performs the Batch Close. Also see Terminal Capture.

HTML (Hyper Text Markup Language)

A set of codes that determine how a Web page will appear, including graphics, links, and text characteristics.

ICA (Interbank Card Association)

MasterCard used to be called Interbank Card Association.

Imprint

A manual or electronic process where an "image" of the card is obtained to prove that the card was present at the time of the transaction. An image is either obtained by swiping a card through a card reader (electronic Imprint), or manually by obtaining a physical imprint using an Imprinter otherwise known as a "knuckle buster".

Imprinter

A manual or electric machine which imprints the merchant's plate that contains the merchant's name and ID number on sales drafts as well as the Cardholder's name, card number and expiration date. See Imprint.

INAS (Interbank National Authorization System)

See BankNet.

INET (Interbank Network for Electronic Transfer)

See BankNet.

Interchange

The systems and process that facilitates and regulates the flow of transaction information through the Visa and MasterCard data networks between all Association Members. It mainly is used to perform Authorizations and Settlements. Other types of transactions that flow through Interchange are Chargebacks and Retrievals. Also see Interchange Reimbursement Fees, VisaNet and BankNet.

Interchange Reimbursement Fees

Fees collected by the Acquirers and reimbursed to the Issuers for all Visa and MasterCard transactions processed through Interchange. There are many levels or categories of Interchange, based on Merchant Type (MCC) and the manner transactions are submitted into Interchange. Another factor is what type of Bankcard is used, such as Consumer Card, Commercial Card, Signature Card, Check Card, etc. Examples of types of Interchange Fees are CPS/Retail, CPS/Card Not Present, Merit I, Commercial Electronic and EIRF and Consumer Standard.

Interchange Plus or Interchange Pass-through

A pricing structure usually used for larger Merchants. It passes through all Interchange Reimbursement Fees and Assessments, "plus" additional Basis Points. Authorization Fees are either included in the additional Basis Points charged, or are added separately on a per-transaction basis.

ISO (Independent Sales Organization)

An ISO is a company that is registered with Visa USA and sponsored by one or more of its Members to sign up Merchants for Merchant Services. ISOs pay an up-front registration fee and annual fees to Visa USA. ISOs may provide various levels of service (depending on the ISO itself) – some of these services are Customer Service, Risk Management, Statements, Technical Help Desk, etc. The MasterCard equivalent of Visa's ISO is the MSP or Member Service Provider.

ISP (Internet Service Provider):

A firm that provides access to the Internet, including Web browsing and e-mail. ISPs often offer connections that can be accessed by dialing a telephone number through your computer's modem or use cable lines for access.

Issuer

See Card Issuer.

Issuing Bank

See Card Issuer.

IVR (Interactive Voice Response)

A method where the Authorization and Capture is done via the phone by dialing into the Processor's automated phone system that prompts a Merchants through the process of completing the Sale.

JCB (Japanese Credit Bureau)

An independent Credit Card company that is headquartered in Japan.

Keyed Discount Rate or Keyed Rate

The Discount Rate generally assigned to Merchants which process transactions where a POS device does not read the Magnetic Stripe, where the card information is Manually Entered or any transaction where the card is not present (e.g. Gateways). Keyed Discount Rates are higher than Swiped Rates as there is usually no card and/or Cardholder present at the time of sale, in which case the transaction has larger risks associated with it.

Keyed Transaction

See Manually Entered.

Lease

A way for the Merchant not to purchase equipment, but instead make smaller monthly payments for a certain amount of time with a buyout opportunity at the end of the Lease.

Lease Documentation Fee

A fee charged by a leasing company or ISO/MSP for processing the paperwork of a lease.

Magnetic Stripe or Mag Stripe

A strip of magnetic information affixed to the back of a plastic Credit Card or Debit Card. The Magnetic Stripe contains essential Cardholder and account information, including certain security devices to curb fraudulent transactions.

MAPP (MasterCard Automated Point-of-Sale Program)

MAPP is a front-end processing platform that used to be part of MasterCard. National Data Corporation (NDC) and MasterCard's MAPP joined in 1996 to form Global Payments, Inc. MAPP is also known as Global Central (located in St. Louis, MO) and functions as a front-end Processor for Global Payments, Inc.

Manually Entered

The act of entering card information into a POS device or Gateway by means of keying or typing in the card number, expiration date, ZIP code and CVV2/CVC2 instead of swiping the card where the Magnetic Stripe is read.

MasterCard

An association of banks that governs the issuing of MasterCard credit cards, and acquiring of MasterCard credit card transactions. MasterCard is a non-profit organization.

MATCH (Member Alert To Control High-risk merchants)

A database that MasterCard maintains with the names and other identifying information about company principles whose merchant accounts were terminated due to violation of their merchant processing agreements. Visa also utilizes this file. A merchant on the CTMF is in bad standing with the Associations and mainly its Acquiring Members. The acquiring community is strongly urged not to open a merchant account until the person is removed from the file. The system has been recently renamed as MATCH (Member Alert To Control High-risk merchants).

MCC

See Merchant Category Code.

Member

A financial institution that is a member of the Visa and MasterCard associations and is licensed to issue bankcards to Cardholders or to acquire for Merchants.

Merchant

A retailer, wholesaler or any other person, firm or corporation having met the qualifications of MasterCard and Visa that (pursuant to a Merchant Processing Agreement) agrees to accept Credit Cards, Debit Cards or both when properly presented.

Merchant Account

An account established by a merchant in order to receive the proceeds of credit card purchases. A merchant account is not the account where these funds are deposited into, that would be a DDA account. The merchant account is the account through which the acquirer processes the merchant's transactions and is basically a managed line of credit. By establishing a merchant account, the acquiring bank agrees to pay the merchant for valid credit card purchases in exchange for the right to collect on the debt owed by the consumer.

Merchant Balancing

See Balancing.

Merchant Bank

See Acquirer.

Merchant Category Code or MCC

A code assigned by an Acquirer to a Merchant to identify the merchant's principal trade, profession, or line of business. This four digit code is similar to a SIC (Standard Industry

Category) code. For instance, 5812 is a Restaurant. The merchant's MCC can have an impact on how their transactions clear through Interchange.

Merchant Processing Agreement or MPA

A written agreement between the merchant and the acquiring bank containing their respective rights duties and warranties with respect to acceptance of the bankcard and matters related to the bankcard activity.

Merit III and Merit I

Refers to MasterCard Interchange Reimbursement Fee categories for specific transaction types. Merit III is generally a retail card-present transaction and has a low Discount Rate, where Merit I is generally a CNP transaction and has a higher Discount Rate. Transactions that do not qualify for these categories will be downgraded and a higher Discount Rate is applied. There are many more MasterCard Interchange Reimbursement Fee categories besides Merit III and Merit I.

MICR (Magnetic Ink Character Recognition)

Characters, such as the transit routing and account numbers on the bottom of a check, are printed with ink containing particles of magnetic material. These characters can then be read when fed through a MICR reader and subsequently transmitted over the ACH network.

MICR Reader

See MICR.

MID (Merchant ID Number)

A number assigned to a Merchant to identify the Merchant to the ISO, Third-Party Processor and Acquirer, and also to the host computer when using a POS Terminal or Gateway to process transactions.

Mid-Qualified Surcharge

See Non-Qualified Surcharge.

Monthly Discount

A merchant account set-up where Discount Fees are charged at the end of the billing cycles as opposed to Daily Discount where Discount Fees are collected from daily deposits.

Monthly Minimum

A minimum fee assessed to the account in the event where the total yield of Discount Fees and Authorization Fees does not reach this specific amount. For example, if a merchant generated only \$18.00 in rates and fees, and the merchant has a monthly minimum of \$25.00, then the merchant will be charged the rates and fees, plus a \$7.00 minimum adjustment – making the monthly minimum \$25.00.

MOTO or MO/TO (Mail Order / Telephone Order)

A transaction environment where the card is not present. The cardholder provides the card information over the phone or via mail and the merchant manually enters the transaction. MOTO merchants and transactions fall under more restrictive rules and more expensive Discount Rates than retail (Card-Present) merchant, as there is a much higher opportunity for disputes and fraud. Also see Card-Not-Present.

MSP (Member Service Provider)

The MasterCard equivalent of an ISO. See ISO.

NACHA (National Automated Clearing House Association)

The association that governs the rules and regulations of ACH transactions and its members.

Non-Bankcard Fee or T & E Card Fee

A Per-Item Fee charged for each non-Visa and MasterCard transaction (such as American Express, Discover and Diners Club). Non-Bankcard mainly refers to American Express, Discover and Diners Club.

Non-Qualified Surcharge

A surcharge added to the Discount Rate for transactions that fall outside of the regular and approved method of the merchant's transactions. For instance, if a retail merchant does not swipe the card but instead manually enters it without using AVS, then the transaction generally is assessed a Non-Qualified Surcharge. Should the merchant manually enter the transaction and use AVS, the transaction is assessed a Mid-Qualified Surcharge.

ODFI (Originating Depository Financial Institution)

See ACH.

Open-To-Buy

The amount of credit available at a given time on a credit card holder's account.

Operator

A central clearing facility that provides distribution and settlement of ACH transactions. ACH operators clear debits and credits electronically, rather than through the physical movement of checks. Currently there are four ACH Operators: the Federal Reserve System, which clears approximately 80% of all ACH transactions, VisaNet ACH, New York ACH, and American ACH.

Original Draft

The actual bank copy of the forms used in the transaction.

Per-Item Fee

A fee that is assessed on a "per-item" or "per-transaction" basis. It must be understood that this fee is assessed on all settled transactions as opposed to an authorization fee, which is assessed on all Authorization requests the merchant generates. Thus one can charge an authorization fee as well as a per-item fee on the same transaction. Typically, this per-item fee is specifically on offline debit transactions, as the DPI portion of debit Interchange is often more than on credit Interchange.

Phone Authorization

See Voice Authorization.

PIP (Plural Interface Processing)

The split dial capability of a POS Terminal that allows it to process American Express transactions directly through the American Express network, thereby eliminating any Non-Bankcard Fees or Authorization Fees assessed by an ISO, Third-Party Processor or Acquirer.

PIN (Personal Identification Number)

A number used by a cardholder to authenticate card ownership for ATM or Debit Card transactions processed through an ATM or Debit network, such as Interlink or Star. The cardholder enters his/her PIN into a keypad called a PIN-Pad.

PIN-Pad

See PIN.

Point-Of-Sale

The place and time at which a transaction occurs.

POS

See Point-Of-Sale.

POS Terminal or Point-Of-Sale Terminal

An electronic device used for the Authorization and Capture of Credit Card transactions. If the credit card is available, the merchant can swipe the card through the terminal.

Post Authorization Capture

See Delayed Capture.

Posting or Post

The process of recording debits and credits to individual Cardholder account balances. In case of a Merchant, it is the recording of debits and credits to the Merchant's Merchant Account.

Pre-Authorization

See Authorization Only.

Pre-Authorized Sale or Prior-Authorized Sale

A transaction for which Authorization was obtained at an earlier time, e.g. when a Merchant has to call for authorization before services are rendered (hotel reservation, auto rental, etc.). Also see Auth Only.

Processor

See Third-party Processor.

Quasi-Cash

A financial instrument that in itself is not legal tender cash, but does carry a cash value when presented at certain retail locations or financial institutions. Examples of Quasi-Cash are Travelers Checks and Money Orders.

RDFI (Receiving Depository Financial Institution)

See ACH.

Real-Time Authorization

An Authorization performed as the Cardholder makes their purchase.

Reconciliation

An exchange of messages between two institutions (Acquirer, Issuer, or their Agents) to reach agreement on their financial net positions (balances).

Recurring Fees

Fees charged usually on a monthly or annual basis for maintaining a Merchant Account. Examples are Annual Fees, Statement Fees and Gateway Fees.

Recurring Transaction

A transaction in which a Cardholder has given a Merchant permission to periodically charge the Cardholder's account.

Referral or Referral Message

The message displayed on the POS Terminal when an electronic attempt for Authorization is denied and must be Authorized by calling the Voice Authorization Center or Interactive Voice Response (IVR) system. Also known as a Code 10.

Regional Debit Network

A data transport network that supports PIN-based Debit Card and ATM transactions within a certain region. Examples of a Regional Debit Network are Interlink, Star, Shazam, Maestro and NYCE.

Reject

Any transaction that could not be completed due to a number of reasons. The unfinished transaction request is then returned to the originator. Examples of Rejects are attempts to debit funds from a checking account (to collect fees) and there are non-sufficient funds in the account to cover the transaction.

Replacement Authorization

An Authorization used when a previous Authorization was approved and a subsequent authorization is required because the amount of the transaction is now different from the originally approved amount.

Representation

When the Acquirer re-presents a transaction to the Issuer through Interchange after the Issuer originated a chargeback. The object of a representation is to reverse the chargeback.

Response Code

A one-letter code that indicates whether a transaction was approved or declined.

Reserve or Rolling Reserve, Holdback

A percentage portion of the revenue from a Merchant's transactions, held in reserve by the merchant account provider to cover possible disputed charges, chargeback fees, and other expenses (mainly used for high-risk merchants). After a predetermined time, holdbacks are turned over to the merchant or used to offset losses. A rolling reserve works in a way where a reserve is held every month for usually six months. On the seventh month, the first month's reserve is released to the merchant and so on until there is no longer a reserve. Merchant Account providers almost never pay interest on reserves.

Retrieval Request or Request For Copy (RFC)

A request from a Cardholder or Issuer for the sales draft and other documentation concerning a transaction. A Retrieval is usually initiated when the transactions is disputed, looks suspicious, or is not recognized by the Cardholder. An unanswered RFC results in a Chargeback or may still result in a Chargeback when it is established that the sale was illegitimate.

Return

See Credit.

Reversal

A transaction from the Acquirer to the Issuer informing the Issuer that the previously initiated transaction cannot be processed as instructed, i.e., is undeliverable, unprocessed or cancelled by the receiver. (Back to the Top)

RFC (Request For Copy)

See Retrieval Request.

Risk Management

The process of mitigating loss exposure by managing Merchant Accounts on certain parameters, such as transaction volume, transaction velocity and transaction methods.

Rolling Reserve

See Reserve.

Sale

The process where the Merchant submits an Authorized transaction to the Acquirer.

Secure Server

A Web server or other computer connected to the Internet that is capable of establishing encrypted communication with clients, generally using SSL or SET. A Secure Server accessed via the web is usually recognized by displaying https:// in the URL bar as opposed to http://.

SET (Secure Electronic Transaction)

A system for encrypting e-commerce transactions. Developed by Visa, MasterCard, Microsoft, and several major banks, SET combines 1,024-bit encryption with digital certificates to ensure security.

Settlement

Not to be confused with Batch Settlement, which is sometimes also referred to as Settlement. Transaction Settlement refers to the process where the Third-Party Processor or Acquirer formats and sends the daily completed transaction information to the Issuers, Acquirer (in the case a Third-Party Processor is involved) and other entities, so that actual funds may be transmitted via ACH in order for all involved in the transactions (including the Cardholder and the Merchant) to achieve their net position for that day.

Setup Fees

Fees charged for establishing a Merchant Account, including application fees.

Shopping Cart Program

A software package that runs as part of a website to collect and record purchasing decisions by a visitor. Shopping cart programs are stored on web servers.

SIC Code

Refers to Standard Industry Classification. These codes are four digit numbers used to identify business type. Also see MCC.

Smart Card

A plastic card containing a computer chip that can store electronic "money". Unlike a credit card, a smart card can only spend out the dollar amount its owner has already put into the card account. It's similar in function to a prepaid calling card but is available for all purchases. Smart Cards can also be used for loyalty card purposes, where the customer can accrue points from certain merchants and then collect certain benefits with these points.

SSL (Secure Sockets Layer)

A system for encrypting data sent over the Internet, including e-commerce transactions and passwords. With SSL, client and server computers exchange public keys, allowing them to encode and decode their communication.

Standard

The lowest (and most expensive) Interchange Fee category at which a Visa or MasterCard transaction clears through Interchange.

Suspended Batch

A state in which a Batch of transactions is not submitted to Interchange because of problems noticed by the Host computer. Suspended Batches requires human intervention to fix the problem and achieve Batch Settlement.

Suspended Transactions

A state in which one or more Transaction is not Settled by the Back-end Platform (after Clearing through Interchange) for various reasons.

Swipe Discount Rate or Swipe Rate

The Discount Rate assigned to a merchant that processes transactions where a POS Terminal reads the Magnetic Stripe. Swipe Discount Rates are generally lower than Keyed Discount Rates because the merchant can match signatures and perform other checks for fraud or misuse.

T & E Card

See Travel and Entertainment Card.

T & E Card Fee

See Non-Bankcard Fee.

Terminal

See POS Terminal.

Terminal Capture

The process where the POS Terminal Captures Transactions to form a Batch in the Terminal memory (as opposed to on at the Host). At the end of the business day the Batch is closed and submitted to the Host. Also see Host Capture.

Terminal ID (TID)

The number assigned to a credit card transaction device (such as a POS terminal). It identifies the merchant's equipment to the processor and bankcard data transport networks. A TID is also used for payment gateways and other software applications.

Third Party Processor or Processor

A Third Party Processor is a provider of communications, authorizations, and settlement services, and is contracted for and by the Acquirer and any of its Independent Sales Organizations (ISOs). A Third Party Processor clears the Visa and MasterCard transactions and submits them directly into the Visa and MasterCard Interchange networks. Amex and Discover transactions are routed directly to these card companies for clearing (a.k.a. outclearing) by the Third Party Processor. Third Party Processors may also handle the issuing of statements, risk management and reporting.

TID (Terminal ID)

See Terminal ID.

TMF

See MATCH.

Transaction Fee

The transaction fee is a bundled fee that usually (but not always) includes the per-item portion of interchange and the cost for Authorization, Capture and Settlement. On the Operations side, this fee is usually called an Auth Fee instead of a Transaction Fee. The Auth Fee applies to every authorization attempt, even when the transaction is declined.

Transit Routing Number

A nine-digit identification number assigned to a financial institution necessary to authenticate and transmit automated clearinghouse (ACH) transactions. Also known as an ABA (American Banking Association) Routing Number. The first two numbers of the Transit Routing Number identify in which Federal Reserve region the branch is located (e.g. California is region 12, hence all Transit Routing Numbers of California branches start with 12).

Travel and Entertainment Card

Credit cards that typically require payment in full each month, e.g. American Express, Diners Club/Carte Blanche.

Truncation or Check Truncation (a.k.a. Check Conversion)

This refers to the capture and delivery of the MICR line check data (the transit routing number and DDA account number printed on the bottom of a check) to the ACH network. This MICR data is transmitted electronically with the receipt of file constituting legal payment. These days MICR readers are replaced with Imagers (which make a high-resolution image of the check instead of just reading the MICR line). Simply put, it is the conversion from a paper check to an ACH payment.

Underwriting

The Merriam-Webster Dictionary definition is geared more towards the insurance industry and states: "To set one's name to (an insurance policy) for the purpose of thereby becoming answerable for a designated loss or damage on consideration of receiving a premium percent; *also* : to assume liability for (a sum or risk) as an insurer. In the case of the bankcard industry it is the action of an ISO or Acquirer setting their name to a merchant account and thereby answering for risk and/or losses on the account, and in exchange receiving a higher percentage of the discount rate charged to merchants.

Visa

An association of banks that governs the issuing and acquiring of Visa products. It is comprised of about 20,000 members worldwide. All members are financial institutions.

VisaNet

The name of Visa's data transport network. The VisaNet authorization system is called Base I, and the settlement system is called Base II. VisaNet also entered into a joint venture with TSYS to form Vital (a Third-party Processor), sometimes Vital is also referred to as VisaNet.

Voice Authorization or Voice Auth

A transaction authorization that is provided by a phone operator, usually when an issuer sends a "Please Call" message to the merchant instead of an authorization number.

Void or Same Day Void

The reversal of an approved and captured transaction, one that has been authorized but not submitted to the Host for Settlement. Settled transactions require processing of a credit in order to be reversed. A Void does not remove any hold on the customer's open-to-buy; these usually fall off after a week, depending on the issuer.