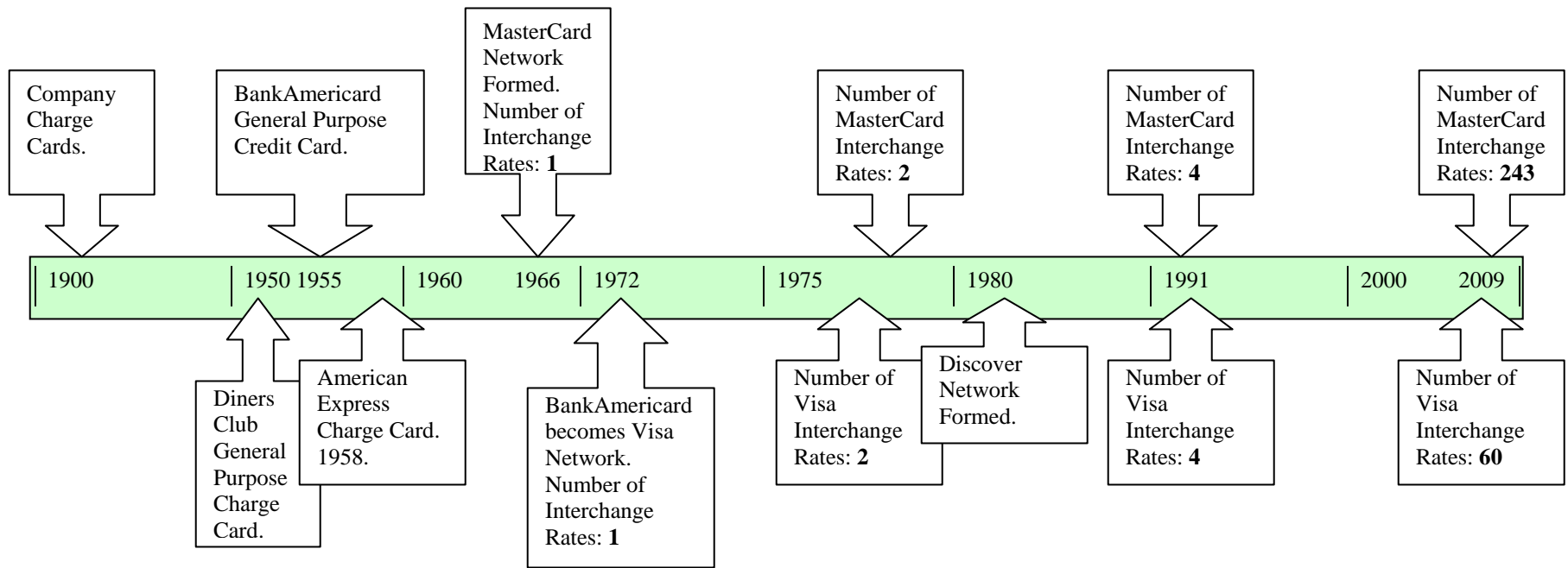


# Accepting Credit Cards 101

- Payment Cards: A Brief History and the Invention of Interchange.
- The Key Players: The Associations, Member Banks, Processors, Service Providers, Agents, Cardholders, and Merchants
- Interchange: Card Types & Merchant Categories, Card Data & Settlement, and How It All Fits Together
- Card Data Security & Chargebacks: PCI Compliance, Reason Codes, and Retrieval Requests.
- Looking Ahead: Regulating Interchange

# V/MC: A Brief History



# The Invention of Interchange

- Visa and MasterCard act as the arbiter or go-between in multiple two-sided markets: between Issuing Bank and Acquiring Bank and between Cardholder and Merchant.
- Each side of the market needs the other side to “Buy In” in order for the market to function.
- Visa and MasterCard seek to satisfy each side of the market in the most efficient way possible to keep all sides buying into the market: to maintain the physical networks that allow the market to function, to enforce the rules and regulations of the market, and to promote the use of the card brand to increase the size of the market (to the benefit of all sides).
- The Interchange pricing system allows all of these needs to be met: inducing Issuing Banks to join one card brand or another, paying for upkeep of networks and increases in security, downgrades for late or inaccurate transactions, funding rewards programs to increase the size of the market/network (benefiting Acquirers and Merchants).

# The Key Players

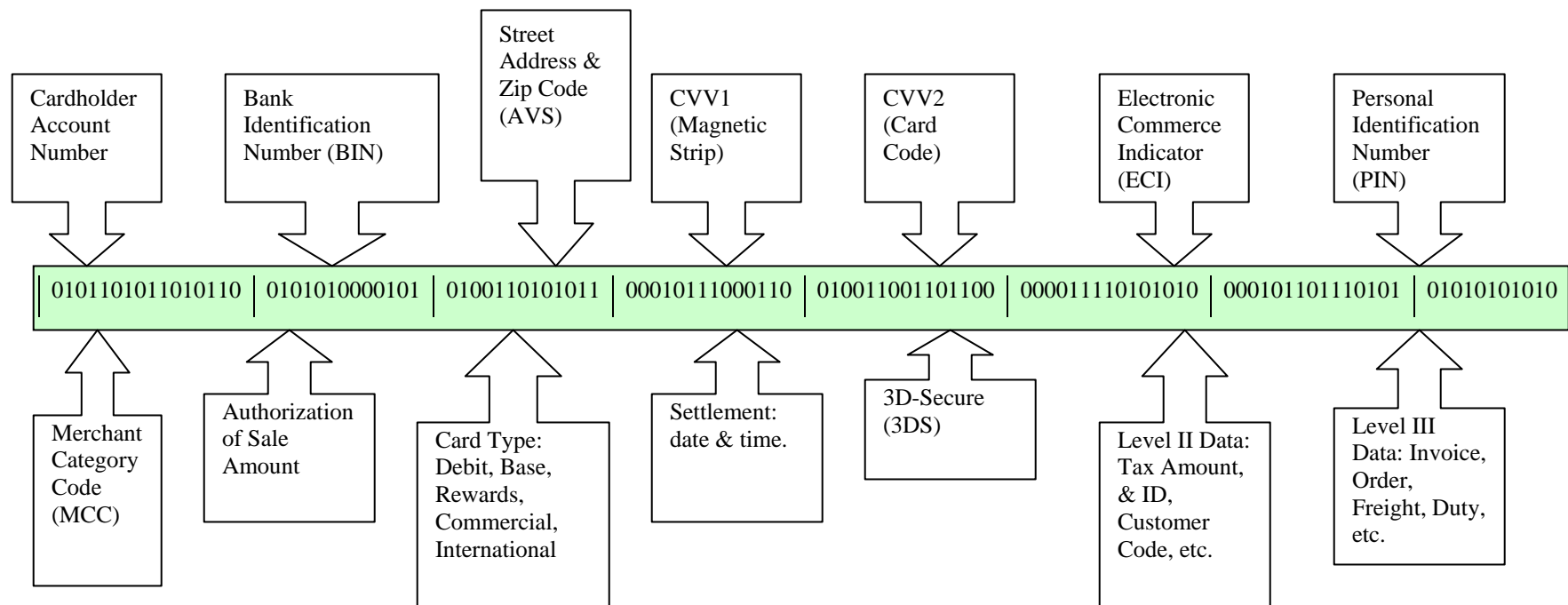
- The Card Associations (V/MC) sign up Member Banks to service both sides of the Network. The Associations charge annual membership fees to Member Banks and the entities sponsored by the Member Banks. The Card Associations also charge Dues & Assessments on all transactions processed through the Network.
- Issuers are Member Banks who issue credit cards. Issuers receive Interchange payments when their cards are taken as payment, and also charge cardholders interest and fees for using the card.
- Acquirers are Member Banks who sign up merchants to accept cards as payment. Acquirers charge annual and transaction fees to Payment Processors that are sponsored to act on their behalf in the Card Associations.
- Payment Processors operate the physical networks for payment processing, manage risk, and ensure card data security. Payment Processors charge fees for Processing Services, usually a mark-up over Interchange.

- ISO/MSPs are service providers registered by the Card Associations and sponsored by Payment Processors and Acquirers to sign up merchants to accept payment cards. ISO/MSPs charge fees for Processing Services, usually a mark up over Interchange or the fees charged to them by their Payment Processor/Acquirer.
- Agents are unregistered independent contractors sponsored by ISO/MSPs to sign up merchants to accept payment cards. Agents charge fees for Processing Services, usually a mark up over the fees charged to them by their ISO/MSP.
- Cardholders receive payment cards from Issuers and use them to make purchases.
- Merchants accept cards as payment and pay fees to their ISO/MSP for Processing Services, these can be a price that includes Interchange, Dues, & Assessments, or a fixed mark up with Interchange, Dues & Assessments “passed through” to the merchant.

# Interchange

- Card Types: Debit, Base, Rewards, Commercial, International. Each Card Type carries its own Interchange Rate.
- Merchant Category Codes (MCC): Retail, Restaurant, MOTO, E-commerce, Lodging, etc. The MCC determines the Interchange Rates available to the merchant.
- Card Data: information about the card, cardholder, and sale that is sent with the transaction and interacts with the Card Type and MMC to determine the Interchange Rate charged on the transaction.
- Settlement: occurs when a merchant batches out authorized transactions and the Issuing Bank transfers funds to pay for the cardholder's purchase. The time between authorization of the sale and settlement can affect the Interchange Rate. Most often if settlement is late, the transaction will be Downgraded to a higher Interchange Rate.

# How it All Fits Together: The Transaction String



# Card Data Security

- Payment Card Industry Data Security Standard (PCI DSS) compliance covers ALL merchants and service providers who transmit card data or accept cards as payment. Merchants and service providers MUST complete a Self-Assessment Questionnaire (SAQ) to validate PCI DSS Compliance.
- SAQ 1.2 A, Type 1: All transactions out-sourced with only paper reporting. 13 Questions.
- SAQ 1.2 B, Type 2: Only paper processing (imprinter) with only paper reporting. 23 Questions.
- SAQ 1.2 B, Type 3: Transactions processed through a stand alone dial out terminal connected to a phone line, no data stored electronically. 23 Questions.
- SAQ 1.2 C, Type 4: Transactions processed through an IP-connected terminal not connected to any other system within the network, no data stored electronically. 41 Questions.
- SAQ 1.2 D, Type 5: All others. 223 Questions.



# Chargebacks

- **Chargeback:** A return of funds by the cardholder's issuing bank. It reverses a previous authorization and settlement of funds from a cardholder's account. US Federal Reserve Regulations afford this right of reversal to US credit card and debit cardholders. Cardholders can initiate chargebacks for an extended period of time after the sale, from 3 months to 2 years.
- **Chargeback Reason Code:** Provides the rationale behind the chargeback (technical, clerical, cardholder dissatisfaction, fraud, etc.) and the required media that the merchant and acquiring bank must provide in order to dispute the chargeback.
- **Retrieval Request:** A request from a cardholder's Issuing Bank to a merchant's Acquiring Bank for specific details of a credit card transaction between the two parties, such as cardholder name, card number, date of the transaction, transaction amount, authorization number, merchant name, merchant location, and cardholder signature (if available).

# Regulating Interchange

