Back to Basics: Credit Card Processing 101

Thursday, June 24, 2010
2:00 - 3:00 pm Eastern Time

Hosted by ASAE Business Services, Inc. and Chase Paymentech

Your Presenters:

Cord Wilson
Strategic Account Manager
Chase Paymentech

Cord manages six strategic partner portfolios including ASAE. In addition, Cord is responsible for eight front-end and two full-service third party relationships.

He has been with Chase Paymentech for 14 years with responsibilities that include new client launches, contract administration, business management support, client compliance, and overall partner success.

Before joining Chase Paymentech, Cord worked in the mortgage banking industry for several years.

Lori Frigillana
Partner Marketing Strategist
Chase Paymentech

Lori manages marketing efforts for associations, automotive, franchise, and travel and entertainment industries.

She has been with Chase Paymentech for four years with responsibilities that include strategizing ways to drive development of new business opportunities for partnership programs, managing multi-channel initiatives ranging in size and scope, developing traditional marketing and eMarketing plans for clients, and defining program metrics to determine ROI.
Overview

- Describe the payment processing cycle and the organizations involved
- Review common terminology used by the payment processing industry
- Explain the fees your association is charged on credit card payments
- Outline the essentials of Payment Card Industry (PCI) Data Security including new PCI compliance requirements
- Examine future methods of alternative, mobile, and e-commerce payments
- Q&A

Polling Question

How does your association process most credit card transactions?

- Stand alone terminal
- Software
- Website
- Wireless
- Other
Card Processing Overview

1. Consumer hands bank card to Payment Processor’s merchant to initiate a purchase.
2. Payment Processor electronically accesses payment (Visa/MC/Discover) networks for authorization and capture.
3. Other payment network (AMEX/JCB) transactions submitted to appropriate issuer for settlement.
4. Bankcard transactions forwarded to Payment Processor for clearing with Visa/MC/Discover.
5. Debit of transaction amount sent to Issuer.
6. Transaction amount less interchange paid by issuer to Payment Processor.
7. Merchant receives credit for transaction amount less discount rate.
8. Transaction amount less interchange paid by Issuer to Payment Processor.

Cycle begins here.

Credit Cards - The Players

<table>
<thead>
<tr>
<th>Player</th>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cardholder =</strong></td>
<td><strong>Your Members</strong></td>
<td>• Use credit cards to make purchases</td>
</tr>
<tr>
<td>(or anyone who purchases services or products from your association)</td>
<td></td>
<td>• Responsible for reviewing statement to ensure all activity is correct and authorized</td>
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<td></td>
<td></td>
<td>• Pay balance according to terms and conditions of cardholder agreement</td>
</tr>
<tr>
<td><strong>Merchant =</strong></td>
<td><strong>Your Organization</strong></td>
<td>• Accepts credit cards, checks, stored value cards, or alternative payments as payment for goods and services</td>
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<tr>
<td>(the association or nonprofit)</td>
<td></td>
<td>• Obtain authorization numbers for every transaction</td>
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<td></td>
<td></td>
<td>• Settle transactions within the required timeframes</td>
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<td></td>
<td></td>
<td>• Provide all cardholders with receipts</td>
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<tr>
<td><strong>Acquirer</strong></td>
<td></td>
<td>• An organization or financial institution that provides payment processing services directly to the merchant</td>
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<tr>
<td></td>
<td></td>
<td>• Perform a credit review on all merchants</td>
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<tr>
<td></td>
<td></td>
<td>• Ensure that cardholder transactions are submitted to the cardholder or “issuing” banks</td>
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<td></td>
<td></td>
<td>• Fund merchants, as well as bill and collect merchant fees</td>
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<td>• Assume all risk associated with the merchants they sign</td>
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Credit Cards - The Players (Cont.)

<table>
<thead>
<tr>
<th>Player</th>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front-end Processor</td>
<td>• Front-end processors provide a point of connectivity for the merchant to authorize or settle transactions</td>
<td>• Provide connectivity to the card association</td>
</tr>
<tr>
<td>Card Association</td>
<td>(not the kind of association that association execs are used to)</td>
<td>• Card Associations maintain the central authorization and settlement systems which enable banks and processors to exchange information on their merchants and cardholders</td>
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<td></td>
<td></td>
<td>• Provide support services for their member institutions and educational materials for merchants</td>
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<tr>
<td>Issuer</td>
<td>• A bank or financial institution that issues cards to cardholders</td>
<td>• Ensure that cardholder transactions are accepted and posted to their accounts</td>
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<tr>
<td></td>
<td></td>
<td>• Collect cardholder payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Assume all cardholder risk</td>
</tr>
<tr>
<td>Back-end Processor</td>
<td>• Ensure the merchant is funded their money</td>
<td>• Back-end processors receive batches of transactions from front-end processors</td>
</tr>
<tr>
<td></td>
<td>• Create and distribute the merchant’s monthly statement</td>
<td>• Submit these batches to the associations for settlement with the issuing banks</td>
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Merchant Pricing Components

Discount Rate
- The Discount Rate is a % charged to a merchant by the acquiring bank for processing a transaction. It is usually a percentage of the transaction amount. The rate is typically based on transaction volume and average ticket. The discount rate includes interchange, assessment fees, and merchant processing fees.

Dissecting the Discount Rate

Interchange
- Interchange is the name given to fees paid by the acquiring bank to the issuing bank on every sales transaction. There are scores of interchange “levels” which are based on the risk of the transaction type. The greater the risk, the higher the interchange fee.

Transaction Qualification (or Interchange Qualification)
- Each transaction is reviewed by the associations for compliance with interchange processing requirements and then “qualified” at a particular interchange level.

Assessment Fees
- Assessment is the fees charged by the payment networks (Visa/MasterCard) for sending transactions to the card-issuing bank through their network.

Rate Blending (Bundling)
- Most small businesses classify under rate blending billing. Rate blending takes all the individual fees and assessments, and charges the merchant one fee per month, rather than breaking it down.
What Determines Interchange Fees?

- Interchange fees are based on:
  - Merchant type and average ticket amount
  - If the card is physically present
  - If the card’s magnetic stripe is read or if the transaction is hand-keyed
  - Type of card (i.e. reward and corporate)
  - Time and amount of settlement
  - Other factors

Interchange Best Practices

- **Authorization**
  - Ensure valid authorization for each transaction
  - Obtain electronic authorization for best qualified rates
  - Obtain AVS on Card-Not-Present (CNP) transactions
  - Use CVV2/CVC2/CID validation to help prevent fraud

- **Settlement**
  - Settle transactions within 24 hours
  - Ensure all required data fields are filled
  - AVS, CVV2, CVC2 or commercial card data when applicable
Credit Card Transactions - Types

- **Card Present** transactions occur when the cardholder and the card are present at the point-of-sale.

- **Card-Not-Present** transactions occur when the cardholder and card are not present at the point-of-sale (i.e. Internet, mail and telephone orders).

Alternative Payments

- Alternative payments are non-bank card payment methods.
- They may include gift card, private label, on-the-spot credit, ACH (electronic checks), or hybrids of various payment methods.
- Merchants choose alternative payments to reduce payment costs, increase sales, reach new customers, and offer payment choices to their customers.
- Consumers choose alternative payments to alleviate security concerns, convenience, access to credit and incentives.
Polling Question

How confident are you that your organization is fully up-to-date on PCI compliance?

- Very confident
- Confident
- Somewhat confident
- Not confident
- Do not know what it takes to be PCI compliant

Payment Card Industry Data Security

- PCI DSS - 12 standards to protect cardholder information
- Card brands aligned to support these standards
  - Applies to ALL entities that process, store and/or transmit cardholder information
  - Never store full track data
  - All merchants are obligated to comply
- Individual card brands’ data security program requirements
  - Deadline for compliance
  - Validation and registration
  - Fines for non-compliance
Merchant Security Requirements

<table>
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<tr>
<th>Requirements</th>
<th>12 PCI Data Security Standards</th>
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</table>
| Build and maintain a secure network | • Install and maintain a firewall configuration to protect data  
• Do not use vendor-supplied defaults for system passwords and other security parameters |
| Protect cardholder data             | • Protect stored data  
• Encrypt transmission of cardholder data and sensitive information across public networks |
| Maintain a vulnerability management program | • Use and regularly update anti-virus software  
• Develop and maintain secure systems and applications |
| Implement strong access control measures | • Restrict access to data by business need-to-know  
• Assign a unique ID to each person with computer access  
• Restrict physical access to cardholder data |
| Regularly monitor and test networks | • Track and monitor all access to network resources and cardholder data  
• Regularly test security systems and processes |
| Maintain an information security policy | • Maintain a policy that addresses information security |

The Payments Industry Keeps Moving Forward

- Mobile emerges as the next big thing in payments (again)
  - Mobile payments make modest gains
  - Mobile commerce begins to take off
  - Mobile acceptance achieves “hype” status

- New alternative payments come to market, though at a slower pace
  - PayPal Platform X APIs
  - Prepaid and cash options
  - Social Media
  - Online PIN debit
  - Mobile
More About Mobile Acceptance

- **Smartphone as terminal**
  - Mobile web or app-based virtual terminal interface allows merchant to key in payment information
  - Add-on magnetic reader allows phone to act like a regular terminal
  - Touch screen signature capture
  - VeriFone, Square, others...

- **Mobile terminals**
  - Often resemble regular POS terminals
  - Use mobile data infrastructure (cellular)
  - Exadigm, Way Systems, other traditional terminal manufacturers

- **Touch-tone capture**
  - Dial-in interface allows merchant to key in card data
  - Can be done from virtually any phone

What We Are Watching In 2010

- Will security and fraud control remain in the spotlight?
  - New PCI requirements
  - New fraud management tools
  - Continued evolution of products and techniques

- Will the hype of Mobile payments continue? Will new business models be forged?

- Will alternative payment ideas continue to grow? Or do merchants and consumers have enough choices?

- Will interchange debates flare up again? Will they include PIN debit this year?
Questions?

To submit your questions:
1. Type your questions in the box located in the lower left corner.
2. Click the “Send” button.

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