Credit Card Processing Overview

New Agent Development Training
First Data Learning Organization
Objectives

At the end of this presentation you will be able to...

• Describe the credit card transaction, authorization and settlement process.

• Identify the “players” involved in the transaction, authorization and settlement process.

• Describe each player’s role in the transaction, authorization and settlement process.
Agenda

• Introduction
• Credit Card Transaction Terms
• Authorization flow
• Clearing flow
• Settlement flow
• Review
• Questions
Introduction

• When a cardholder uses a credit card to purchase merchandise, the transaction moves through a process that involves authorization, clearing and settlement.

• Each step of the process involves an exchange of transaction data and money that must be settled and balanced.

• This process ends when the cardholder pays for the merchandise listed on his/her monthly statement.
Terms to Remember

• Cardholder – An individual to whom a credit card company has authorized to use its card.
  • Merchant
  • Acquirer
  • Visa / MasterCard Associations
  • Issuer
Terms to Remember

• Cardholder

• Merchant – A retailer (or any other person, firm or corporation) that (pursuant to a Merchant agreement) agrees to accept credit cards, debit cards, or both when properly presented.

• Acquirer

• Visa / MasterCard Associations

• Issuer
Terms to Remember

- Cardholder
- Merchant
- Acquirer – A financial institution authorized and licensed by a regulatory organization (Visa/MasterCard Association) to accept credit cards or debit card transactions from the Merchants and submits those transactions into the interchange directly or indirectly and settles on the Merchant's behalf.
- Visa / MasterCard Associations
- Issuer
Terms to Remember

- Cardholder
- Merchant
- Acquirer
- Visa & MasterCard Associations - Comprised of thousands of banks worldwide that set and maintain processing rules.
- Issuer
Terms to Remember

• Cardholder
• Merchant
• Acquirer
• Issuer – A member of Visa/MasterCard Associations who contractually issues credit cards. Usually a financial institution, such as a Citi, Chase, etc.
Credit Card Process

• **Step 1 - Authorization**
  • Obtained from the Issuer at time of purchase

• **Step 2 – Clearing**
  • Transaction data sent processed through the acquirer to be sent to issuer for posting to the monthly credit card statement

• **Step 3 - Settlement**
  • Funds are paid and collected
  • The Acquirer pays the merchant, the Issuer pays the Acquirer, and the Issuer collects (bills) the cardholder
What is Authorization?

- Cardholder makes a purchase using a credit card.
- The merchant must obtain authorization for the purchase from the Issuer.

How does it work?
Authorization Flow

1. Cardholder makes a purchase using credit card
Authorization Flow

1. Merchant swipes card through a POS device
Authorization Flow

3 POS device sends authorization request along with card data to Acquirer
Authorization Flow

The Acquirer (First Data) routes the authorization request to the Associations.
Authorization Flow

Transaction is routed to the issuer
Authorization Flow

6

If transaction meets criteria, Issuer authorizes transaction
Authorization Flow

7

Associations forward the authorization response to the Acquirer
Authorization Flow

8 Acquirer sends approval / decline code to merchant’s POS device
Authorization Flow

Merchant completes transaction with Cardholder
Clearing

How does the merchant get paid?
Clearing

• What is Clearing?
  – The exchange of transaction data between members (Acquirer & Issuer) through Interchange
  – Process of collecting a transaction from an Acquirer in the Merchant's currency and deliver it to the Issuer in the cardholder's currency
Settlement

• The merchant needs to be paid for the transaction
• The Acquirer needs to be paid
• The Issuer needs to be paid
• New Terms:
  – Net Settlement = Sales Draft Amount Less Fees
  – Acquiring Bank = The bank that facilitates transaction clearing and funds movement on the merchant’s behalf

How does it look?
Settlement Flow

1. Merchant closes POS device
Settlement Flow

2. First Data receives transaction data
Settlement Flow

First Data pays Merchant

3
Settlement Flow

Data sent to Associations
Settlement Flow

Transaction data sent to Issuers
Settlement Flow

Cardholder is billed
Settlement Flow
Terms to Remember

- Cardholder
- Merchant
- Acquiring Processor
- Visa/MasterCard (Associations)
- Issuer or Issuing Bank
Knowledge Check

What are the 3 steps to Credit Card Processing?
Knowledge Check

What are the 3 steps to Credit Card Processing?

1. Authorization
2. Clearing
3. Settlement / Funding
Knowledge Check

Which roles can First Data potentially play in the process?
Knowledge Check

Which roles can First Data potentially play in the process?

– Issuing Processor
– Acquiring Processor
Knowledge Check

• What step transmits the transactions to First Data to begin the settlement process?
  A. Credit card is swiped through POS device
  B. Terminal dials for authorization
  C. Merchant batches out (closes) POS device
  D. Cardholder pays their credit card bill
Knowledge Check

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Thank You!