Fall Conference
November 19 – 21, 2013
Merchant Card Processing Overview

Agenda

- Industry Definition
- Process Flows
- Processing Costs
- Chargeback's
- Payment Card Industry (PCI)
- Guidelines for Convenience Fees
- Durbin Amendment
- Euro MasterCard VISA (EMV)

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Industry Definition

- **Issuer –** A financial institution or other entity that issued the Credit Card or Debit Card to the Cardholder.
- **Acquirer –** Financial institution or other entity that enrolls merchant for the purpose of presenting transaction to the Card Assoc, and funding merchants for transactions presented to the Acquirer
- **Card Association –** MasterCard and Visa
- **Consumer –** Any individual who possesses or uses a Payment Device
- **Merchant –** Entity identified on or under a processing agreement permitted to submit payment to Acquirer.
- **Interchange –** The clearing and settlement system for Visa, MasterCard, Discover and Debit Cards, where data is exchanged between Acquirer and the Issuer through the applicable Card association.
- **Foreign network –** Authorization and Settlement network other than Elavon
- **Authorization –** The approval of credit worthiness of the transaction
- **Settlement –** The closing of credit card batches and the start of the movement of funding to a Merchant.

Process Flow

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Process Flow - Authorization

E-Commerce
Transaction aka
Card Not Present

Integrated Point of
Sale or Third Party Vendor
Transactions

Government
Agency
(Merchant)

Point of Sale Terminals

DISCOVER

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MasterCard

Card Issuing
Bank

VISA

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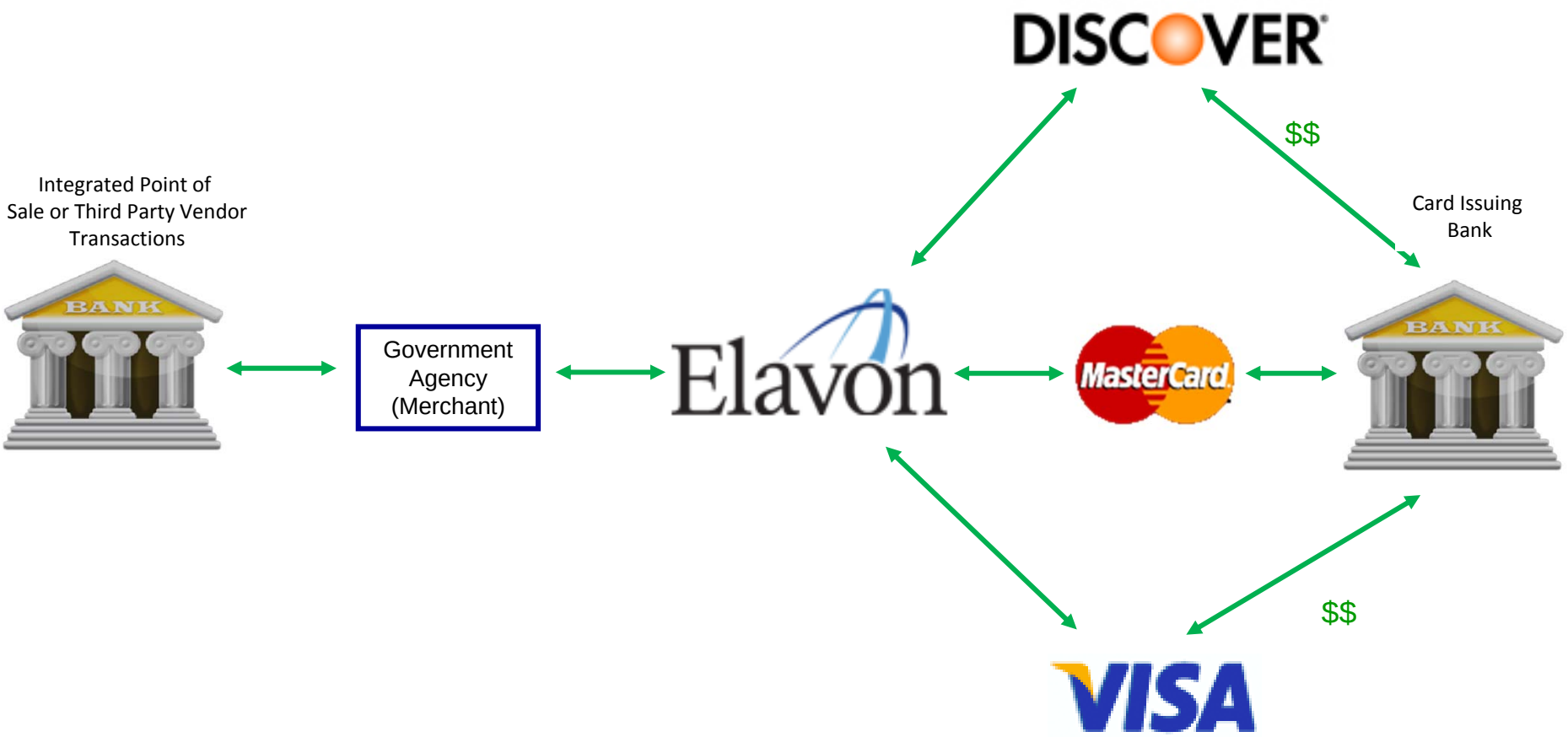
Process Flow - Funding



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Processing Costs

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- Association fees
  - Interchange Cost
  - Assessment Fees
  - Miscellaneous Fees

- Acquirer Fees
  - Processing Fee
  - Voice Authorization
  - Chargeback
  - Monthly

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Interchange Costs

- Managed and updated by the Card Associations
- Interchange costs vary in amount based on:
  - Industry type
  - Manner which cards are authorized
  - Timeliness of settling batch for payment
  - Additional Data provided at the Point of Sale
  - Card Product *(Consumer, Check Card, Commercial/Corporate, Rewards)*
  - Card Brand *(VISA, MasterCard, Discover etc.)*

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Interchange Costs – Card Association

Card Association Fee

- MasterCard Assessment fee is 0.11% plus the Network Access Brand Usage (NABU) of $0.0195. The Assessment fee is billed to all settled transactions where the NABU fee is assessed on all authorizations.
- Visa Assessment fee is 0.11% plus the Network Acquiring Processing Fee (NAPF) of $0.0195 on credit card authorizations and $0.0155 on debit card authorizations.
- Visa also has authorization-based fees to promote the merchant proper use of the Card member credit availability.
  - Zero Floor Limit Fee applied to any Visa clearing transaction submitted without proper authorization, ***$0.10 per transaction***
  - Mis-Use of Auth Fee applied to authorizations not matched by a clearing transaction, ***$0.045 per transaction***
  - Account Verification allowing merchant to verify a cardholder account status with zero dollar amount, ***$0.025 per transaction***
- Visa and MasterCard assess International Fees when a non US issued card is accepted.
- Visa will assess a variable Fixed Acquiring Network Fee (FANF) on a monthly basis.

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Controlling Interchange Costs

Remember These Interchange Tips

Consider

- Only One Authorization per Transaction
- Consider Account Verification Status Check according to business need (remember it costs $0.025/trans)
- Avoid processing $1 Pre-Auth with no matching settle transaction (remember it costs $0.045/trans)
- Avoid processing $1 Sale with no matching settle transaction or void (remember it costs $0.045/trans)

Always

- Close Batch Daily if not setup on Auto-Close
- Always follow POS device transaction prompts entering valid data not pressing enter or “0” to by-pass the prompt
- Hand-keyed Transactions – Always Enter Address Verification ((AVS) Zip Code)
- Commercial Cards – Always Enter Sales Tax and Customer Code When Prompted at the Point-of-Sale

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Chargeback’s

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A Chargeback Is…

A transaction disputed by the Cardholder or Card Issuing Bank

- If a Merchant receives a Chargeback, the Acquirer will debit the Merchant's DDA (checking account) or designated Chargeback account for the amount of the Transaction

There are many reasons for chargebacks, but the most common are:

- Returned merchandise
- Terminated services
- Disputes, errors, or fraud

Merchants must be able to provide proof that the disputed transaction is valid and in accordance with the card association regulations or risk having their account debited for the disputed transaction amount as well as chargeback fee

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What Does a Chargeback Mean?

For an agency, a chargeback translates into:

- Additional *processing time* and *cost*
- A more *narrow profit margin* for the sale
- And, possibly a loss of funds/revenue

Important Note:

- Carefully track and manage the received chargeback disputes
- Take steps to avoid future chargeback disputes
- Know your re-presentment rights to chargeback disputes
- Always consider taking measures to recover losses from customers who are financially liable for transactions that were charged back to you, the merchant

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Chargeback Info & Tips

While it may not be possible to eliminate Chargebacks entirely -

- Agencies can reduce the occurrences by promptly resolving issues and disputes with the Cardholder
- Agencies should follow the proper established Card Association Authorization and Processing procedures
- Chargebacks can be costly, you can help make every effort to prevent the chargeback

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How to Prevent Chargebacks

Remember to-

- Avoid duplicate processing of a Transaction
- Work with the Cardholder to resolve disputes regarding the quality of merchandise or services rendered
- In web and other non face to face transacting environment, have a clear refund/cancellation policy
- Refuse to process a Transaction when you receive a Declined Code during Authorization
- Call for Voice Authorization if needed
- Call for *Code 10* Authorization if you are still suspicious of the Cardholder, Card or Transaction after receiving an Approval Code

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How to Prevent Chargebacks Cont.

Remember to-

- Verify that Transaction Receipts equal the POS device to eliminate duplicate transactions
- Include a description of goods or services on the Transaction Receipt
- Deliver merchandise or services before charging the Card
- Obtain an Authorization Code
- Include the CVV2/CVC2 and AVS Codes for Card Not Present Transactions if applicable
- Submit Transaction Receipts on the same day Transactions are authorized
- Make sure an Imprint appears on Manual Transaction Receipts or that the relevant Transaction information appears on the Terminal-generated Transaction Receipt

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How to Prevent Chargebacks Cont.

Remember to-

- Do not accept expired Cards or Cards having effective dates prior to the date of the Transaction
- Make sure the signature on the Transaction Receipt matches the signature on the back of the card
- Online resources
  - VISA - http://usa.visa.com/merchants/operations/chargebacks_dispute_resolution/index.html
  - MasterCard - http://www.mastercard.us/merchants/support/rules.html
  - Discover - http://www.discovernetwork.com/merchants/fraud-protection/

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Payment Card Industry – (PCI)

Are you compliant….

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Payment Card Industry - History

- Visa instituted the **Cardholder Information Security Program (CISP)** in June 2001, the program is intended to protect cardholder data—wherever it resides—ensuring that merchants, and service providers maintain the highest information security standard.
- The CISP and related MasterCard Site Data Protection (SDP) programs were implemented to help ensure consumers that the businesses they are dealing with maintain the security of their bankcard account and other personal identifiable information.
- Visa and MasterCard aligned their security requirements in December 2004 to form a Payment Card Industry Standard for Security.
- PCI Data Security Standard requirements can be found at https://www.pcisecuritystandards.org .
- These data security requirements require all entities that store, process, or transmit card data to be compliant with these payment card industry standards for security.
- This program generally requires all merchants who store, process, or transmit card data to complete an annual security questionnaire and have their IP addresses scanned quarterly by a VISA/MC certified vendor.
- Compliance has many benefits: Safe harbor from fines if a location is hacked and the VISA/MC "good seal of approval for" processing, customer confidence and maintain brand reputation.

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What level is your account?

- PCI-DSS is categorized into 4 levels
  - Level I – Any Merchant processing over 6MM Visa transactions annually
  - Level II – Any Merchant processing between 1MM – 6MM Visa transactions annually
  - Level III – Any Merchant processing 20K – 1MM Visa E-commerce transactions annually
  - Level IV – Any Merchant processing less that 20K Visa E-commerce transactions, or less than 1MM Visa transactions regardless of the channel

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12 Guidelines for PCI Compliance

1. Install and maintain a firewall configuration to protect cardholder data
2. Do not use vendor-supplied defaults for system passwords and other security parameters
3. Protect stored cardholder data
4. Encrypt transmission of cardholder data across open, public networks
5. Use and regularly update anti-virus software
6. Develop and maintain secure systems and applications
7. Restrict access to cardholder data by business need-to-know
8. Assign a unique ID to each person with computer access
9. Restrict physical access to cardholder data
10. Track and monitor all access to network resources and cardholder data
11. Regularly test security systems and processes
12. Maintain a policy that addresses information security

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Non-Compliance: Risks, Fines, Fees, Costs, Loss

- Damage to brand/reputation
- Investigation costs
- Remediation costs
- Ongoing compliance audits
- Victim notification costs
- Financial loss
- Fines & Fee
  - Non-compliance (each brand issues separate fines)
  - Re-issuance
  - Fraud Loss
- Data loss
- Chargeback's for fraudulent transactions
- Operations disruption
- Sensitive info disclosure
- Denial of service to customers
- Possibility of business closure
- Potential legal liabilities beyond the Association rules

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4 PCI DSS Self Assessment Questionnaires (SAQ)

In an effort to make the process of becoming PCI DSS compliant more streamline, the PCI Council has developed 4 new SAQ's for merchant validation. New SAQ's are as follows:

SAQ A: Addresses requirements applicable to merchants who have outsourced all cardholder data storage, processing and transmission.

SAQ B: Created to address requirements pertinent to merchants who process cardholder data via imprint machines or standalone dial-up terminals only.

SAQ C: Constructed to focus on requirements applicable to merchants whose payment applications systems are connected to the internet.

SAQ D: Designed to address requirements relevant to all service providers defined by a payment brand as eligible to complete an SAQ and those merchant who do not fall under the types addressed by SAQ A, B, or C.

The new questionnaires and further information can be found at:
https://www.pcisecuritystandards.org

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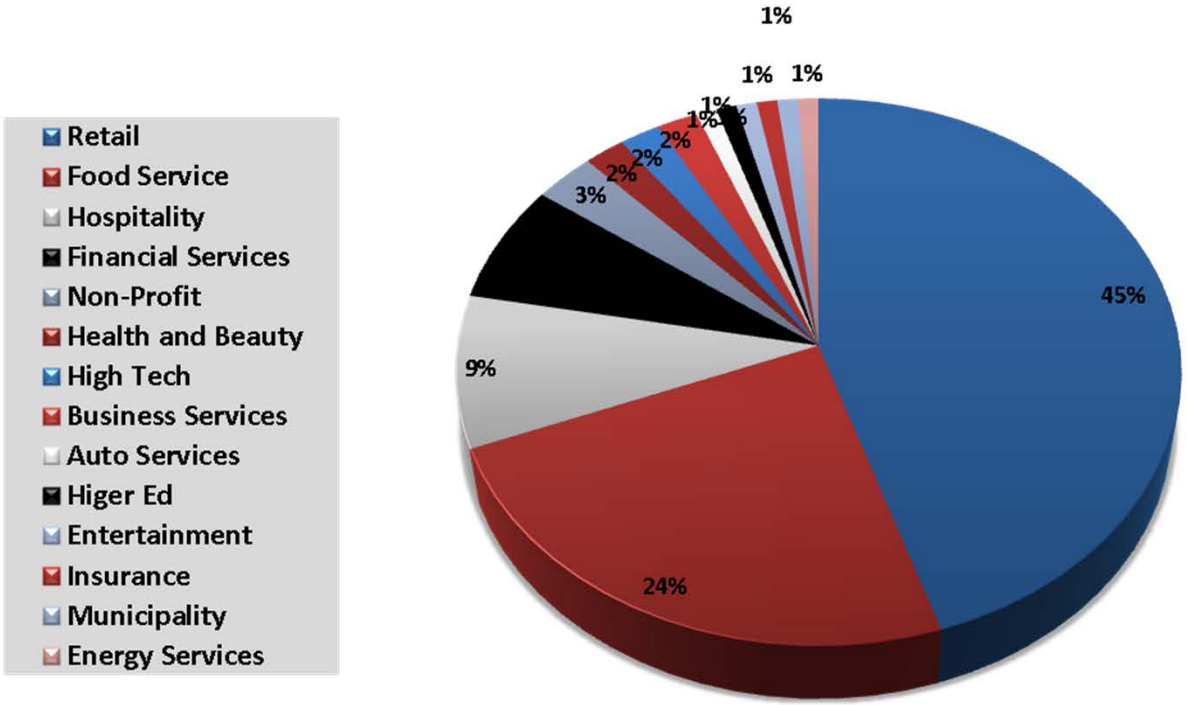
Compromise Statistics

Food Service Industry represents the majority of the compromises

Retail Industry is the next largest industry with compromises



Trustwave data is gathered from more than 300 card compromise cases

** Source of data is from the Trustwave 2013 global security report*

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Guidelines
for Convenience fee

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Service Fee Rules

On **November 5, 2012** Visa announced an expansion to their current Tax Payment Program. The program has been re-named, **"Government and Higher Education Payment Program,"** and allows participating merchants to assess cardholder fees on approved transaction types. Notably, the program allows a variable service fee on Visa consumer debit, Visa consumer credit, and Visa commercial products.

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Service Fee Rules Cont.

By registering for the Visa program, qualified agencies within these Merchant Category Codes (MCC) will be allowed to assess a "Service Fee" in card-present and card-not-present environments (unless otherwise prohibited by local or state legislation).

- MCC 9211 Court Costs
- MCC 9222 Fines
- MCC 9399 Miscellaneous Government Services
- MCC 9311 Tax Payments

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Service Fees at a Glance

	SERVICE FEE PROGRAMS			
	MC Government & Education Convenience Fee Program	Visa Government & Higher Ed Service Fee Program	Discover	American Express
Fee Structure (Tiered, Fixed Amount or Fixed %)	Tiered, Fixed Amt. or Fixed %	Tiered, Fixed Amt. or Fixed %	Tiered, Fixed Amt. or Fixed %	Tiered, Fixed Amt. or Fixed %
Allowed for Recurring Payments	YES	YES	YES	YES
Eligible Environments	MOTO / Electronic Commerce / Face to Face	MOTO / Electronic Commerce / Face to Face	MOTO / Electronic Commerce / Face to Face	MOTO / Electronic Commerce / Face to Face
MCC's Eligible	9311 - Taxes 9211 - Court Costs 9222 - Fines 9399 - Miscelaneous Gov Svcs	9311 - Taxes 9211 - Court Costs 9222 - Fines 9399 - Miscelaneous Gov Svcs	All	9311 - Taxes 9211 - Court Costs 9222 - Fines 9399 - Miscelaneous Gov Svcs
Registration Required	YES	YES	NO	NO
Registration Fee	NO	NO	NO	NO
Registration Lead Time (prior to implementation)	N/A	45 Days	45 Days	45 Days
Cardholder Disclosure of Fee on Reciept	YES	YES	YES	YES
Allowed for Debit Cards	YES	YES	YES	YES
Authorized & Settled as Separate Transactions	Recommended*	Required	Required	Required
PCI DSS Compliant for eligibility	YES	YES	YES	YES

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Durbin Amendment

Dodd - Frank Act

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Durbin Provisions

- Minimum Purchase Amounts – Merchant may now apply a minimum fee not to exceed $10.
- Maximum Purchase Amount – Government Agencies and Higher Education Institutions are now permitted to set a Maximum amount
- Debit Interchange Regulations – Require that Debit Interchange fees be “reasonable and proportional” to the incremental cost to the issuer processing the transactions. The Federal Reserve will establish standards for assessing whether Debit Interchange Fees (general use reloadable prepaid cards are exempt) are “reasonable and proportional.”

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Euro MasterCard VISA (EMV)

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EMV – What is it?

- EMV stands for Europay, MasterCard and Visa, a global standard for inter-operation of integrated circuit cards (IC cards or "chip cards") and IC card capable point of sale (POS) terminals and automated teller machines (ATMs), for authenticating credit and debit card transactions.
- Cardholder data is more secure on a chip-embedded card that utilizes dynamic authentication, rather than on a static mag-stripe card
- U.S. EMV standards also include support for NFC (Near Field Communication) contactless payments.

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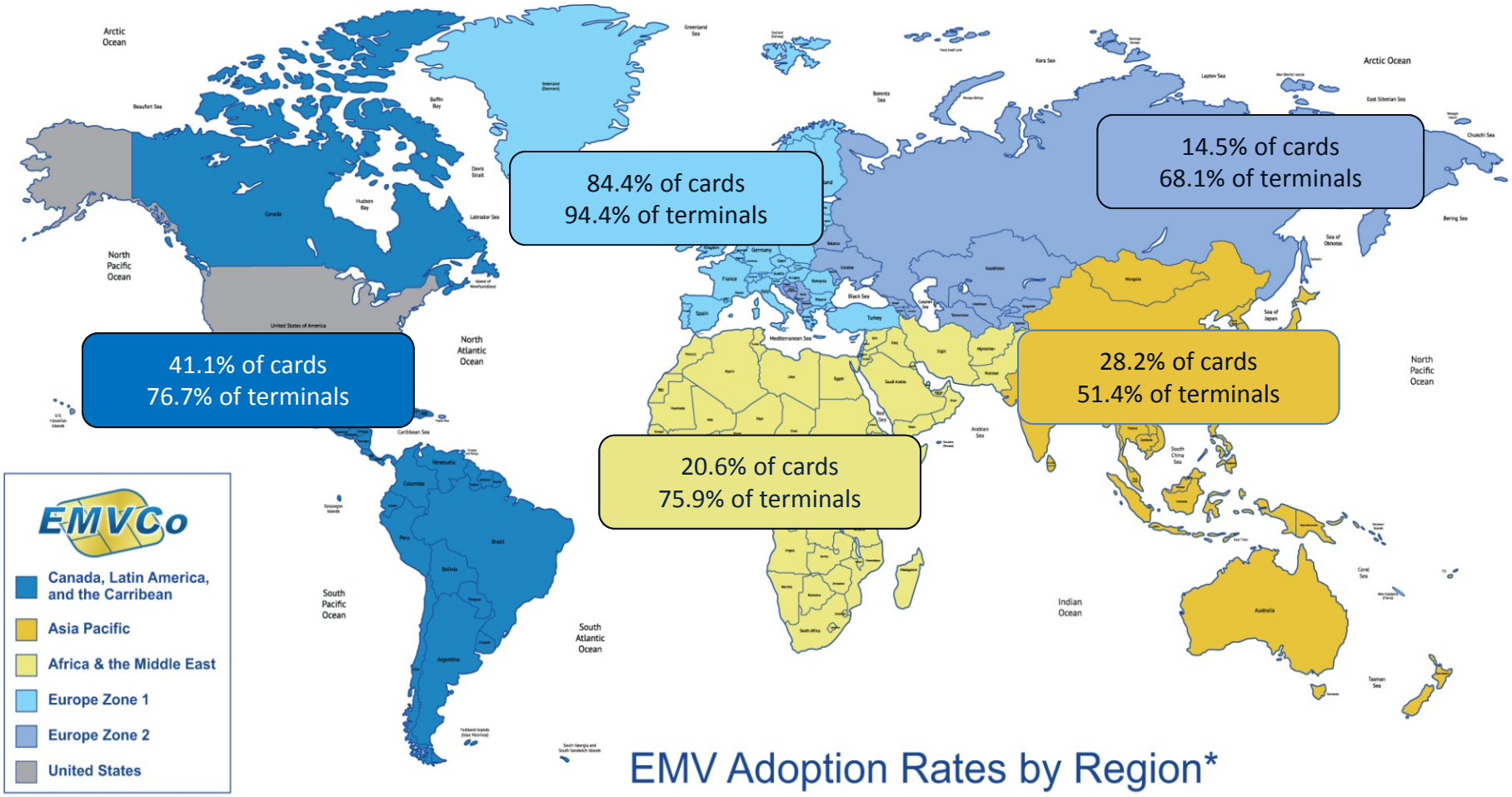
Regional EMV Technology Penetration



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Fraud Reduction in the UK

- Fraud on debit and credit cards fell by more than 25% from 2008 to 2010
- Counterfeit card fraud —skimming and cloning—fell by over half
- Fraud on lost and stolen cards is at their lowest levels in 10 years

Source: The UK Card Association

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EMV Implementation Timeline (U.S.A)

- **2013: Acquirer Chip Processing Mandate**
  Acquirers and processors must support the ability to process EMV transactions and NFC contactless payments.

- **2015: Liability Shift from Issuer to Merchant**
  Merchants of any size, will be liable for domestic and cross-border counterfeit fraud committed at the point of sale if they are not using a compliant EMV & NFC POS solution.

Following the "Shift"

A **non-compliant merchant** is liable for fraud that occurs on any chip card used on a magnetic swipe terminal.

A **non-compliant issuer** is liable for fraud that occurs on any magnetic stripe card used on a chip card-enabled terminal.

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The Impact of EMV in the U.S.

Virtually *every* organization in the payment stream will be impacted: merchants, POS software VARs, terminal/peripheral manufacturers, gateway providers, and processors/acquirers.

Every payment application, point-of-sale solution, payment terminal/peripheral, and processor network must be replaced/updated, certified, and installed.

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Get Ahead of the Curve

As agencies procure hardware in the short term, consider the following:

Does the device…

Support contact and contactless presentment?

Support PIN entry?

Support EMV?

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Questions?

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