

Industry Glossary

ABA Routing Number

The American Banking Association (ABA) routing number is a unique, bank-identifying number that directs electronic ACH deposits to the proper bank. This number precedes the account number printed at the bottom of a check and is usually printed with magnetic ink.

ACH

Automated Clearing House is an electronic payment Network that exchanges funds via Electronic Funds Transfer (EFT) throughout the U.S. Over 98% of the nation's banks including the Federal Reserve belong to the ACH. ACH is the paperless funds transfer system maintained by the Federal Reserve or other entities that have networks to exchange electronic funds transfer items.

ACH Associations

Provide rules and guideline for the efficient operation of the ACH Network. There are 36 regional ACH associations whose memberships include financial institutions and affiliates. NACHA, the National Automated Clearing House Association forms the governing foundation for the regional associations.

ACH Network

The ACH network was established in the 1970s to facilitate direct deposit of military payroll and other federal payments. The network is made up of four central clearing facilities. In addition to three private sector facilities, the Federal Reserve became a central clearing house under the Monetary Control Act of 1980. The Monetary Control Act required the Federal Reserve to make its center clearing services available to all financial institutions and required it to price those services. The Federal Reserve now processes 1/3 of all paper checks, and around 80% of all ACH transactions.

Acquirer

Any bank, financial institution, and public or private company that maintains a seller's credit card processing relationship and receives all transactions from the seller to be distributed to the credit card issuing banks.

Acquirer Payment Gateway

System operated by an acquirer for the purpose of providing electronic commerce services to merchants who interface with the acquirer for authorizing and capturing transactions.

Acquirers Association

A regional, independent and nonprofit organization that provides training, education and networking opportunities for professionals working in the acquiring side of the bankcard industry, including financial institutions, ISOs, MLSs, equipment vendors and providers of value-added services.

Address Verification Service (AVS)

The Address Verification Service (AVS) is a system designed by bankcard processors to aid in the detection of suspicious credit card transaction activity. AVS matches billing address information provided by the cardholder with the cardholder's billing address on file at the credit card issuing bank.

Agent

People who sell bankcard services to merchants on behalf of ISOs, acquirers and processors. Also known as merchant level salespeople (MLSs) and independent sales agents (ISAs), most agents are independent contractors. Others are paid employees of ISOs, acquirers and processors.

Agent Bank

A bank that participates in another bank's card issuing program. This bank turns over the merchant applications to the processing bank and acts as a depository for merchants.

American Express

An organization that issues cards and acquires transactions, unlike Visa and MasterCard, which are bank associations.

Associations

Visa and MasterCard are members of the associations. They establish and administer rule and regulations for the credit card industry.

Auth Only (Pre Auth)

A transaction in which the merchant does not intend to charge the cardholder until a later date. For instance if the merchant is running a

bar tab he may want to see if a \$100.00 charge is good, so he would obtain a pre auth to verify an open to buy.

Authorization

The request to charge a cardholder for goods or services. Authorization must be settled in order to post the authorization to the cardholder's account. If not processed within a certain time frame authorizations will be cancelled. The time period is usually from 3-7 days.

Automated Teller Machine (ATM)

An unattended, magnetic stripe-reading terminal that dispenses cash; accepts deposits and loan payments; enables a bank customer to order transfers among accounts and make account inquiries.

Average Ticket (AT or A/T)

The average amount of each sale made by a merchant.

B

B2B

Business-to-business commerce.

Basis Point

One one-hundredth of a percent (.0001). Discount rates are expressed as basis points.

Batch

A collection of credit card transactions saved for submitting at one time, usually each day. Merchants who do not have real-time verification systems must submit their transactions manually through a POS terminal. Batch fees are charged to encourage a merchant to submit his or her transactions at one time, rather than throughout the day.

Batch ID

Once a batch is settled, 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 settled.

Batch Processing

A type of data processing where related transactions are transmitted as a group for processing.

Batch Settlement

An electronic bookkeeping procedure that causes all funds from captured transactions to be routed to the merchant's acquiring bank for deposit. Batches are settled from the terminal either manually or on auto-close.

BIN (Bank Identification Number)

The 6-digit range of numbers assigned by the Federal Bureau of Standards and used by card companies to identify their financial transactions. The Discover® range begins with '6' (6xxxxx), the MasterCard® range begins with '5' (5xxxxx), and the Visa® range begins with '4' (4xxxxx).

Bundled Rate

A discount rate that includes communications costs as well as transaction fees. Also referred to as a flat rate.

Buy Rate

The acquiring bank's fee; it is equal to interchange (which is paid to the issuing bank) plus the acquiring bank's markup. Think of it as the wholesale price of a transaction to which processing and other fees are added to come up with the cost to a merchant.

C

Capture

The submission of a credit card transaction for processing and settlement. POS terminals and real-time processing software capture transactions to submit to merchant account providers or credit card processors.

Card Issuing Bank

The financial institution that issues a credit card to a consumer. They are responsible for billing and collections to the cardholder.

Card Validation Code (CVC)

This is a tool used by MasterCard to prevent fraud. It requires that a number usually located on the back of the card above the magstripe be entered in to verify the card is present and authentic.

Card Verification Value (CVV or CVV2)

Card Verification Value Service is used by Visa and is a three digit

security number indent printed on the back of Visa cards to help validate two things: that the customer has a genuine visa card in their possession and that the card account is legitimate.

Card-not-present

A merchant environment where the cardholder (and the card) is not physically present at the time of purchase. Typical card-not-present transactions take place in businesses focused on mail order/telephone order, business-to-business, and Internet-based transactions.

Card-present

A situation where the cardholder (and the card) is physically present at the time of purchase.

CDPD (Cellular Digital Package Data)

Wireless network owned by AT&T and Verizon.

Chargeback

The act of reversing a sale made by the merchant. This can happen for many reasons including procedural and fraud. The process usually begins with a dispute from the cardholder.

Check Conversion or Truncation

The process of scanning and electronically transmitting the MICR line of a check from the POS terminal to the paying bank for settlement. The check is processed similar to a credit card transaction and is ACH debited from the customer's checking account.

Check Guarantee

Service that guarantees the amount of a check written to the merchant. Check guarantee companies will set the merchant's check limit and provide approval codes. If the check is returned the check guarantee company will refund back to the merchant the amount of the bad check. This service can usually be programmed on the merchant credit card terminal.

Check Imaging

The process where the retailer can scan, capture and store an exact image of the consumer's check, enabling it to be downloaded should the need arise due to a returned ACH.

Check Reader

A hardware device that the check is passed thru in order to read the routing and account number and transmitted to the terminal for processing. Check readers are used to decreased user error and speed up processing time.

Check Verification

A service that verifies that the check writer has no outstanding bad checks in their database. If the check is returned the merchant is responsible for collecting the insufficient check.

Close Batch

The process by which transactions from the merchant are sent to the processor for payment.

Credit Cards

Can be issued by banks and nonbanks and are associated with such brand names as AMEX, Discover Financial Services, MasterCard, JCB International Co. Ltd. and Visa.

Credit or Return

A return of funds posted by the merchant back to the cardholder. These funds will be take from the merchant's bank account and posted by to the cardholder's account.

D

Debit (Off-line)

An ATM card used to purchase goods or services. The amount is debited from the cardholder's deposit account at their bank. DOES NOT require a PIN (personal identification number) for use. These are called a check cards.

Debit (On-line)

An ATM card used to purchase goods, services or obtain cash. The amount is debited from the cardholder's deposit account at their bank. Requires a PIN (personal identification number) for use.

Decline

A response from the issuing bank that they will not approve the transaction.

Discount rate

This is the percentage of the total transaction amount that is charged to the merchant to accept the credit card sale. Discount rates vary depending on the type of business and how the card is accepted. Discount rate includes dues and assessments and interchange.

Draft/Sales Draft:

A record (usually paper) used to document that goods or services were purchased.

DUKPT

Derived Unique Key Per Transaction. Pin pad key management method.

E

Electronic Benefits Transfer (EBT)

The electronic transfer of insurance, food program or state benefits.

Electronic Funds Transfer (EFT)

Electronic Funds Transfer is the transfer of funds from one bank account to another bank account utilizing the ACH Network.

Encryption

A method of protecting data. Encryption transforms readable information using an algorithm (called a cipher) and makes it unintelligible to anyone except those who possess a key that converts the information back into readable form. See also end-to-end data encryption.

Expiration Date

Date after which a card can no longer be used. Most network-branded cards have an expiration date. Some closed-loop cards expire after a certain period of inactivity or after a certain date, although this is becoming increasingly rare.

F

Factoring

When a merchant processes sales through his or her merchant account on behalf of another merchant. Laundering violates the terms of merchant agreements. Also called draft laundering and factoring.

Force

A transaction from which the merchant received a voice authorization. This allows the merchant to post the sale and settle the transaction. Also known as a post authorization.

G

Gateway or Payment Gateway

A payment gateway is a combination of hardware and software that provides merchants with the ability to perform real-time credit card authorizations from a website over the Internet. It's the link between a merchant website and the processor.

Gift Card

A prepaid card that is loaded with a specific amount that the cardholder can spend at the sponsoring retailer.

Group Negative File (GNF)

Internal Negative database of Merchants cancelled or declined which have had collections issue

H

HAWK Alert

Alert on a signor's personal credit reporting (i.e., Consumer Fraud Alert placed on the Credit Report of the individual; Alert from the Bureau which advises that the SS# entered has been used in a fraud event or death benefits claim, etc...)

High Risk

A merchant that is considered a high risk based upon the credit, product, method, ticket size or volume. Examples of high-risk merchants are telemarketing, adult and travel related industries.

I

Imprint

A physical impression of the customer's credit card. This proves that the card was present when the sale was made. The imprint is made with a device called an imprinter. Note: An imprint can be created electronically by using a magnetic-stripe-reading terminal at the point-of-sale.

Independent Sales Agent (ISA)

People who sell bankcard services to merchants on behalf of ISOs, acquirers and processors. Also known as merchant level salespeople (MLSs) and independent sales agents (ISAs), most agents are independent contractors. Others are paid employees of ISOs, acquirers and processors.

Independent Sales Organization (ISO)

An organization registered with Visa and sponsored by an acquiring bank to sell VISA card acceptance services; also refers to an organization that works with and does business under the name of such a registered ISO. ISOs may also service merchant accounts once they are registered, dependent upon the contract with the acquirer. MasterCard uses the term "member service provider" to describe ISOs. However, it is common within the payments industry to use the term "ISO" when referring to independent sales organizations registered with either or both card brands.

Interchange

The fee paid to the card issuing bank by the card acquiring bank by way of the processor. Interchange is the base fee to which all other acquiring and processing fees are added to come up with the merchant discount rate. Interchange rates vary widely based on card type, transaction amount, risks and retail sector. It is assessed on all Visa- and MasterCard-branded cards, even PIN-based debit cards. In certain circumstances interchange flows in reverse, such as following a chargeback.

Issuer

A bank that issues credit cards to consumers.

L

Lease

A contract between a lessor (lease company) and lessee (merchant) allowing the lessee to use the equipment for a specified time period.

Lease Factor

A number that is used to compute the gross funding amount of a lease. Factors are based upon lease term and credit rating of the merchant.

Lessee

The renter of the property described in the lease (the merchant).

Lessor

The owner or controller of the equipment being leased (lease company).

Loyalty Card

A retailer or brand specific card that has cardholder benefits used to build brand or store loyalty. Cardholders are usually given an award or discount based upon number of visits or dollars spent.

M

Magnetic Ink Character Recognition (MICR)

The row of numbers printed at the bottom of a check that identifies the financial institution, account number, and check number. A check's MICR line can be scanned into a MICR reader, which translates it into a format that can be sent electronically.

Magnetic Stripe

A stripe on the back of a credit card that contains magnetically encoded cardholder information. The name of the cardholder is stored on Track I. The account number and expiration data are stored on Track II.

Mail Order/ Telephone Order (MOTO)

A category of card-not-present transactions involving purchases made through mail order or telesales companies. In this type of transaction, the merchant typically has a card terminal and manually keys in required card information for transmission to the appropriate authorization network. Interchange rates for these transactions are among the highest.

Manual Entry

Cardholder credit card information that is entered manually rather than swiped through the credit card terminal.

Member Alert to Control High-Risk (MATCH)

System used to track merchants in order to manage risk.

Member Bank

A financial institution that is a member of Visa and/or MasterCard

International. They are licensed to issue cards and/or accept merchant drafts.

Merchant

A business that accepts credit cards for goods or services.

Merchant Agreement

The written contractual agreement between a merchant and processor/acquirer containing their respective rights, duties, and warranties with respect to the acceptance of credit cards.

Merchant Identification Number (MID)

A number that numerically identifies each merchant to the merchant processor for accounting and billing purposes.

Merchant Service Provider (MSP)

An organization registered with Visa and sponsored by an acquiring bank to sell VISA card acceptance services; also refers to an organization that works with and does business under the name of such a registered ISO. ISOs may also service merchant accounts once they are registered, dependent upon the contract with the acquirer. MasterCard uses the term "member service provider" to describe ISOs. However, it is common within the payments industry to use the term "ISO" when referring to independent sales organizations registered with either or both card brands.

Merchant Statement

A summary produced and mailed at specified intervals, usually monthly, which details debits and credits to the merchant depository account.

MERIT

Qualification levels for MasterCard transactions. Standard, Merit I, Merit III, Merit III – being the highest rate.

Monthly minimum

This is a fee that is imposed if your credit card charges (Discount Rate) do not add up to their monthly minimum amount. For example, your monthly minimum is \$25 a month. If your discount rate was 2.25% and you processed \$1000.00 in credit card volume, \$22.50 is charged to the account plus an additional \$2.50 (the difference of the \$25.00

minimum and actual discount fees).

N

Non-Qualified

A term that describes a transaction that did not interchange at the best rate due to card type (Business, Commercial, Corporate, Government or International Card), or because it was entered manually, not settled in a timely manner, or the data set required for the best interchange was not provided.

O

Offline

Mode when the merchant is not connected to the processor.

P

Payment Application Data Security Standard (PA DSS)

Established to help software vendors and others develop secure payment applications that do not store prohibited data and to ensure their compliance with the PCI DSS. Payment applications that are sold, distributed or licensed to third parties are subject to PA DSS requirements.

In-house payment applications developed by merchants or service providers that are not sold to a third party are not subject to PA DSS requirements but must still be secured in accordance with the PCI DSS.

Payment Card Industry (PCI) Data Security Standard (DSS)

Established by the major payment brands, including American Express Co., Discover Financial Services, JCB International Co. Ltd., MasterCard Worldwide and Visa Inc., the PCI DSS is now managed by the PCI Security Standards Council.

The PCI DSS is designed to enhance payment account data security worldwide and consists of 12 requirements governing security management, policies, procedures, network architecture, software design and other areas critical to the protection of cardholder data.

Failure to adhere to the standard (by any party that handles card information, including merchants and ISOs) can result in hefty fines.

Often shortened to PCI.

Payment gateway

The code that transmits a customer's order to and from a merchant's bank's transaction-authorizing agent — usually a MAP (merchant account provider). See also payment gateway provider.

Payment gateway provider

A company that provides code and/or software for an e-commerce site to enable it to transfer information from its shopping cart to the acquiring bank, and on through the rest of the credit card transaction. See also payment gateway.

Personal Identification Number (PIN)

Personal Identification Number used by a cardholder to authenticate card ownership for ATM or debit card transactions. The cardholder enters his/her PIN into a PIN pad. The PIN is required to complete an ATM/debit card transaction.

Pin Entry Devices (PED)

A device used to enter a customer pin number.

Point of Sale (POS)

The time and place a sale takes place. Also refers to the devices used to transmit the credit card transaction.

Point of Sale (POS) terminal

A small device that allows you to slide the credit card through to make a charge. This is what most retail stores have. It is fast, easy and accurate to make a charge on a customer's credit card within seconds. It is also known as a terminal machine.

Pre-Auth

The process of authorizing a card and reserving funds against the open to buy before a service is rendered by the merchant.

Processor

A large data center that processes credit card transactions and settles funds to merchants. A processor connects to the merchant on behalf of an acquirer via a gateway or POS system to process payments electronically. Processors edit and format messages and switch to bankcard networks. They provide files for clearing and settlement and

other value-added services.

R

Receipt

A hard copy of the description of the transaction that took place.

Recurring Payment (RP)

A transaction authorized by the cardholder to occur for a specific amount at a specific time. For example, a monthly health club membership.

Retrieval Request

A request from a cardholder's bank for information about a charge, which is being disputed. Retrieval requests usually precede a chargeback.

Return

A sale that is being credited back to the cardholder.

S

Self-Assessment Questionnaire (SAQ)

A document used as a validation tool by merchants and service providers to demonstrate compliance with the PCI DSS.

Updated in 2008, it is designed to simplify and streamline the assessment process and aid small and mid-sized merchants who are not required to have on-site PCI compliance assessments. The new SAQ comes in four versions with questions tailored specifically for different categories of card acceptors.

Settlement

The process of transferring funds for sales and credits between Acquirers and Issuers, including the final debiting of a cardholder's account and crediting a seller's account.

Shopping Cart

A software program used for Internet websites. The shopping cart totals up orders, tax, add shipping costs and transmit information to the merchant's payment gateway in order to process the sale.

Signature Debit

A Visa Debit or Debit MasterCard transaction authorized by a cardholder's signature; to the casual observer it looks just like a credit card transaction.

Split Funding

A funding arrangement in which the lease company pays the equipment vendor for the leased equipment when the lease is funded.

SSL

Secure Socket Layer. A method of encryptions to secure information traveling over the Internet. SSL is now the predominant security protocol for online transactions. Messages between the merchant's server and the consumer's browser are automatically encrypted (scrambled) when sent and then decrypted (unscrambled) when received.

Standard Industry Codes (SIC)

Special numbers assigned by the Card Associations to Seller types for identification and tracking purposes. MasterCard® uses MCC (Seller Category Code), while Visa® uses SIC (Standard Industry Codes).

Surcharges

Any additional charges to a merchant's standard processing fees. They are a result of non-qualified transactions of different communications methods.

Suspended Batch

A state in which a batch of transactions is not released to interchange because of problems noticed by the host risk system. Requires human intervention to fix the problem and settle the batch.

Swiped Card

Credit card information that is transferred by swiping or sliding the credit card through a card reader. Swiped cards are used in retail and other card-present situations. The information magnetically encoded in the magnetic stripe includes secret data that helps validate the card.

T

Terminal

The device by which a transaction is transmitted to the acquiring bank.

Terminal ID (TID)

An identification number assigned to a terminal which, when sent to the download computer, identifies a group of terminal specific parameters to be sent along with the application program.

Terminated Merchant File (TMF)

Terminated Merchant File. This is a file that Visa and MasterCard contribute to in order to keep track of merchants that have funds due, excessive chargebacks, or have committed fraud.

Ticket Only

A sale transaction for which a voice authorization is obtained.

Transaction

An act between a seller and a cardholder that results in either a paper or an electronic representation of the cardholder's promise to pay for goods or services received from the act. The action between a cardholder and a merchant that results in financial activity between the merchant and cardholder's account.

Transaction Fee

A fee charged for each transaction processed by the merchant. This is in addition to the percentage discount fees.

Triple DES (3DES)

New data encryption standard for pin pads, POS devices and ATMs adopted by the card associations.

Truncation

In ACH it normally refers to stopping or truncating a paper check as in POS or lockbox check truncation and turning that paper check into an electronic item.

U

Underwriting

Merchant underwriting & approval policy helps control credit risk. The policy is effective in designating and targeting merchants who meet the acquiring banks processing criteria. The policy also acts as a an agreement between the third party billing agent & the acquiring banks as to what information is needed from the merchants to measure the merchant against the acquiring desired list of criteria. The policy also

outlines and lists what information is needed from the merchant, for the merchant's agreement.

V

Value Added Reseller (VAR)

Third party, which enhances or modifies existing hardware or software, adding value to the services provided by the processor or acquirer

Virtual Terminal

A web based credit card terminal that merchants can process sales through from any location that they have Internet access from.

Voice Authorization

A card authorization acquired via the telephone. If the transaction is approved, the merchant is provided with an authorization code (AUTHCODE) for the transaction.

Void

The reversal of an approved transaction, that has been authorized but not settled. 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.