

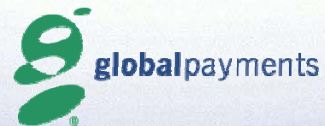
HSBC Merchant Services

The Anatomy Of A Transaction

Peter Bettles / Lucy Underwood

November 2011

WPM Education 'Payments for Colleges' Special Interest Group



HSBC Merchant Services

Agenda

- HSBC Merchant Services
- Payments Trends
- Online Payments
- The Anatomy of a Transaction
- Payments for Colleges

HSBC Merchant Services

Our Company: At A Glance

Owned by Global Payments

100%

Ranking in global industry

Top 7

Card acquirer in UK

#3

Worldwide merchants

~1M

Worldwide annual transactions

~4B

Years of payment experience

>40

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Payment Trends: Consumer Choice



Cheques

Cash



Credit Cards

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Cheques On The Decline

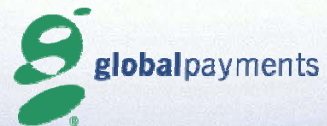


- The first cheque was written on February 16, 1659, promising to pay Morris and Clayton “400 pounds only”
- At their peak in the 1990s, 4 billion were signed each year
- In 2010, it was 1 billion cheques signed each year
- Cheques are being used less and less
- More cheques are bouncing
- Cheque Guarantee was abolished in 2011

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Online Payments

- **How Is An Online Payment Different?**
- **Front End Payment Flow**



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How Is An Online Payment Different?

- Reduces administration costs
- Reduces staff costs/overheads
- Improves customer service – take payments 24hrs
- Improves cash flow – real time payments
- Secure – no card details stored within the college

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Front-End Payment Flow



- Student accesses payment pages via college website
- Card Payment Gateway- branded payment pathway
- Acquirer processes payment
- Need relationship with both to accept payments

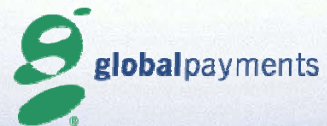
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Merchant Acquiring

- Merchant Acquiring is the process that enables merchants to accept credit and debit card payments
- Merchant Acquiring in the UK involves 5 key groups:
 - Card Holders - Students / Payers
 - Merchants - College
 - Acquirers – i.e. HSBC Merchant Services
 - Card Issuers - Cardholder Bank
 - Card Schemes - Visa, MasterCard or other networks that act as an intermediary between an Acquirer and an Issuer to authorise card transactions

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- **What Is An Acquirer?**
- **What Is A PSP?**
- **Who Are The Card Schemes?**
- **Life Cycle Of A Transaction**



What Is An Acquirer?

- Provide the Merchant Account
- Capturing, authorisation and processing of card payment transactions.
- Settles the funds back to the merchant from the cardholder and issuer via the relevant card scheme.
- Protects the merchant from having to familiarise themselves with all the detail and required changes surrounding the different card schemes and legislation.

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What Is A PSP?

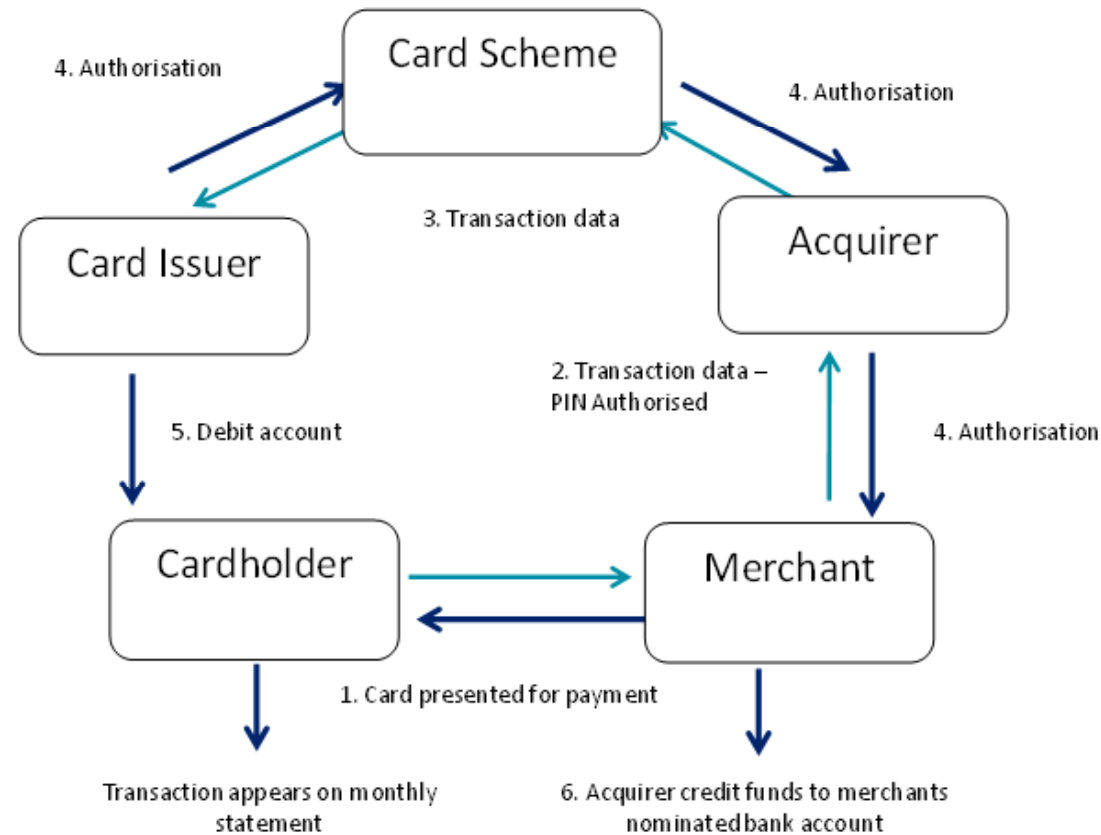
- A payment service provider (PSP) offers merchants online services for accepting electronic payments:
 - Credit and debit cards
 - Direct debit
 - Bank transfer
- Typically, a PSP can connect to multiple acquirers, card and payment networks.

Who Are The Card Schemes?

- Refers mainly to Visa and MasterCard, as the owners of the payment scheme
- Other smaller card schemes include American Express, Diners and JCB
- Set of operating rules that apply to all of its members
- A member can issue or acquire transactions performed within the scheme
- It is the acquiring banks responsibility to ensure that merchants apply with these rules

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Life Cycle Of A Transaction



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Payment For Colleges



What Do I Need In Order To Accept Payments Online?

- Payment pages – you can do this either:
 - Card Payment Gateway solution e.g. WPM Education
 - Connect directly to a non college branded PSP payment gateway
 - Bespoke in-house development
- Acquirer
 - Merchant Account
- PSP

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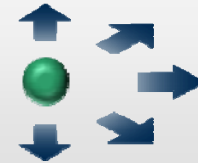
How Much Does It Cost?

- The Acquirer will charge a merchant service fee (MSC) per transaction. This is normally a pence per transaction for debit card and a percentage of the transaction value on credit cards.
- The MSC is made of three costs to the acquiring bank:
 - Interchange – fee charged by the Issuer each time the card is used
 - Scheme Fee – fee charged by Scheme each time the card is used
 - Acquirer processing costs
- PSP's have their own charging structure normally based on monthly fee and/or a per transaction fee.

Payments For Colleges

1

Develop flexible pricing model



2

Increase card acceptance



3

Expand acceptance channels



4

Work in partnership with Payment Gateway and the merchant



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Summary

- HSBC Merchant Services
- Payments Trends
- Online Payments
- The Anatomy of a Transaction
- Payments for Colleges