

Cardnet

WPM
EDUCATION

Introduction to Merchant Acquiring

Overview

WPM Education 'Payments for Colleges' Special
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Agenda

- What is Merchant Acquiring, Acquirer, PSP, Card Scheme, Card Issuer and Card Holder?
- How it all works – transaction to funds settlement process flow?
- What are the costs involved?

What is 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
 - Merchants
 - Acquirers
 - Card Issuers
 - Card Schemes
 - Card Holders
- The merchant acquiring service enables business to automatically transfer funds, speeds up secure transactions and opens multi-channel purchasing to a wider customer base by enabling payments to be accepted over the telephone, on the internet as well as face-to-face.

What is an acquirer?

- Acquirers have in the past tended to be banks. However in recent years outsourcing of the acquiring function or banks working in partnership with a specialist acquirer has become more common.
- The main services provided by acquirers to merchants are the capturing, authorisation and processing of card payment transactions. The acquirer then settles the funds back to the merchant from the cardholder and issuer via the relevant card scheme.
- The merchant acquirer acts like a large buffer protecting the merchant from having to familiarise themselves with all the detail and required changes surrounding the different card schemes and legislation.

What is a PSP?

- A payment service provider (**PSP**) offers merchants online services for accepting electronic payments by a variety of payment methods including credit and debit cards, bank-based payments such as direct debit, bank transfer, and real-time bank transfer based on online banking. Some PSPs provide unique services to process other next generation methods including cash payments, wallets such as PayPal and prepaid cards or vouchers.
- Typically, a PSP can connect to multiple acquirers, card, and payment networks. In many cases, the PSP will fully manage these technical connections and relationships with the external network.
- A full service PSP can offer risk management services for card and bank based payments, transaction payment matching, reporting, fund remittance and fraud protection in addition to multi-currency functionality and services.

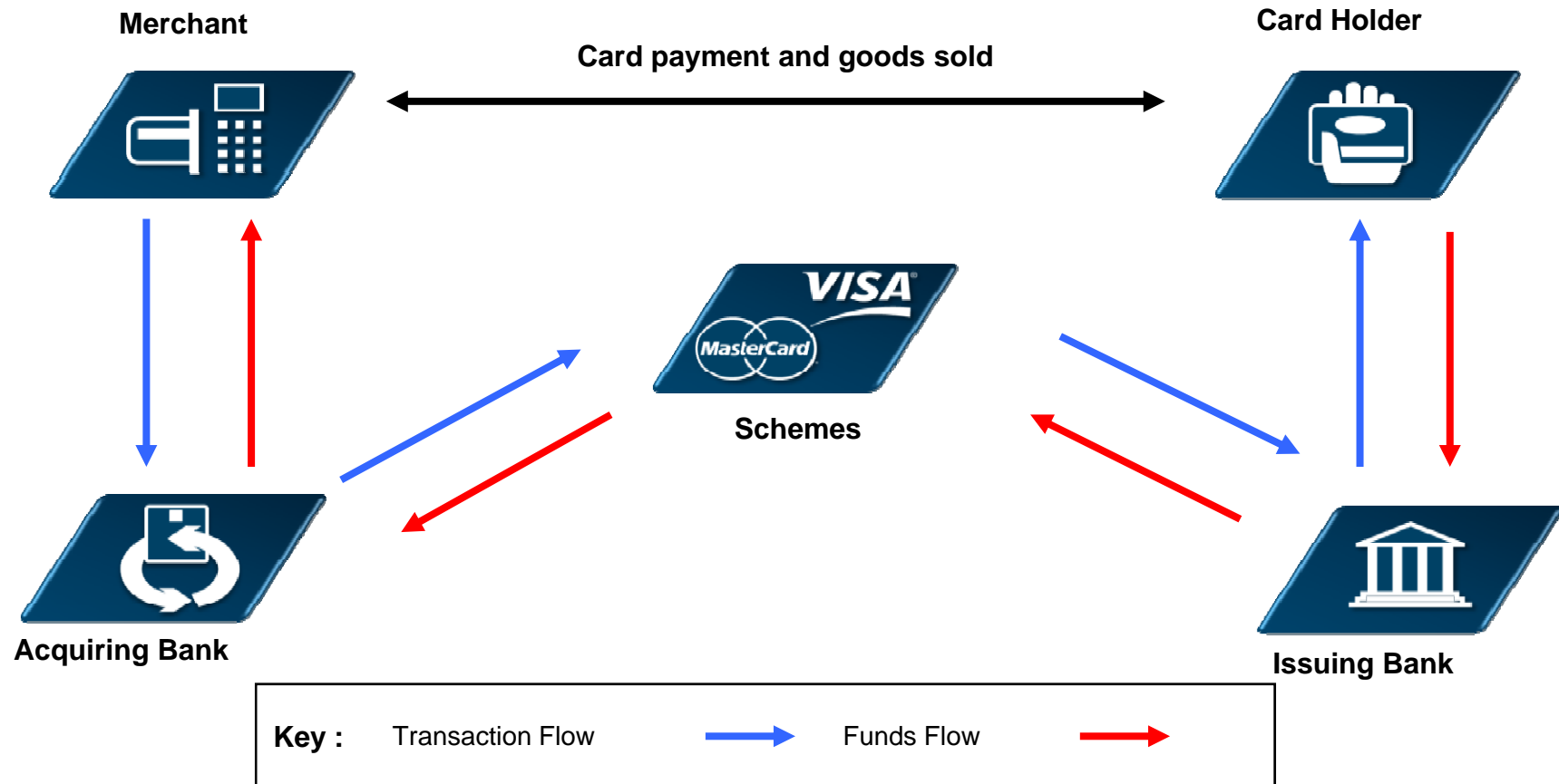
What is a Card Scheme?

- The expression Card Schemes refers mainly to Visa and MasterCard, as the owners of the payment scheme, into which a bank or any other eligible financial institution can become a member. By becoming a member of the scheme, the member then gets the possibility to issue or acquire the transactions performed within the scheme.
- Other smaller card schemes include American Express, Diners and JCB
- The schemes provide a set of operating rules that apply to all of its members. It is the acquiring banks responsibility to ensure that merchants apply with these rules.

Value Added Services

- Multi-Currency – enables card holders to pay in more than one currency. Settlement is normally in Sterling. Provides greater pricing transparency to overseas students.
- Dynamic Currency Conversion (DCC) - a financial service in which holders of credit cards have the cost of a transaction converted to their local currency when making a payment in a foreign currency. Settlement is in Sterling.
- On-line management information portal – allows merchants to view transaction history, chargeback's, statements, settlement etc. Available from some acquirers and PSP's.

Transaction and settlement flow



What are the costs involved?

- 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
- The interchange and scheme fee element of the MSC is influenced by a number of factors including:
 - Average transaction value
 - Number of transactions
 - Transaction description (eCommerce, Chip & PIN, Contactless etc)
 - Where the cardholders come from (UK, Europe or outside Europe)
- PSP's have their own charging structure normally based on monthly fee and/or a per transaction fee.

What are the costs involved(Cont)

- Interchange is by far the greatest contributor towards a merchants acquiring fees. It often represents 70-90% of the total MSC fee.
- The Interchange costs can be minimised by ensuring transactions are captured in the optimum manner (Chip & PIN, CVV2 capture, 3D Secure enabled)

MSC Breakdown

