Credit card processing

Finance, Banking

The strategy of a company requires constant updating. With the changing conditions of market and industry it is important for the Company to keep its strategy in tact with the changingenvironment. An out dated strategy cannot fulfil the needs of today's global environment. In order to go through the updating process the company should carry on an audit to analyse which aspect requires improvement. It will specify what strategy is necessary to support the business operations, the information people use currently and the gaps in these functions and the businessgoals.

" As a merchant, the only way to remain competitive in today's market is to maintain a web site that supports online credit card processing. With secure servers, automated transactions, and a new system for combating fraudulent transactions, credit card processing has become increasingly accessible. " (Forbes. com) Although the installation of Payment Server software is not a very complicated process, but the other steps included in the whole process can be complex. Some of the additional steps are also attached with the process before the installation of Payment Server software.

These include obtaining a merchant account from a financial institution. Like all the other MIS some steps are also involved in planning a credit card implementation system to make it successful. These include: • " Setting the customer's expectations appropriately prior to the implementation. • Clearly defining goals based upon realistic expectations. • Arrangement of the resources and preplanning. • Undertake the analysis of environment. • Consistent and patient effort. •Communicationwith all the stakeholders. • Buying-in and taking ownership of the implementation goals by management.

• Ensuring ownership of the process by all involved parties. " (Best Software Inc.) In order to understand the credit card system it is important to identify the key players in the system. These include the cardholder, merchant, the card issuer, the acquirer and the card brand. The Cardholder: the party, which uses the card in order to make payment to the merchant against the service or the products. The Merchant: the person or the entity to which the payment is made against the purchase of the goods/services offered by the person or the entity.

The Card Issuer: The institution, which issues the card to the credit card and maintains the account of the cardholder. The acquirer: The financial institution on the merchant's end having the merchant's account and is the receiver of the authorized sales slips. The card brand: These are the institutions, which perform the dual activity of issuance and receiver of the card. These institutions also play an important role in protecting and advertising the card brand. The rules and regulations for the cards followed are also prescribed by these institutions.

They also provide the network for the connectivity of all the involved institutions. The brand is mainly responsible for the credit based transaction and the payment in exchange to the merchant. (Turban et. al, 2000) Through the implementation of the credit card processing in shape of software and/or terminals the credit card details of the customers are checked. These details include the credit card numbers, expiration date, and other pertinent information. The system then removemoneyfrom the card of the purchaser of the good or services and deposits the amount in favor of the merchant or the seller of the service or product.

It is estimated that a successfully implemented online credit card processing can increase online business revenues anywhere from 50% to 400% making it the highly suggestedtechnologyfor the businesses now days. In order to cater the differing business needs enormous software are available but the components of the system comprise a merchant account for immediate processing, secure and encrypted SSL (Secure Socket Layer) for secure transactions and a web-based terminal from which to access the account.

Mainly three types of online credit card processing are undertaken. The conventional method used before the advent of Internet was undertaken through the virtual terminal. It allows manual addition of mail and telephone credit card transactions. Through the simple integration method the merchant's site is directly linked to the credit card and bank system, so that the transactions can be accepted over the Internet. The mechanism of the third type known as advanced integration method has comparatively more complicated mechanism as it uses the transaction gateway server.

All systems have some unique benefits attached to them including facility of manual transactions with the provision to access all the related information from the internet, facilitating the frequency of billing cycles and last but most important provision of protection against fraudulent transactions (Forbes. com) In most of the cases there are three methods which can be used these are Retail, Mail order/telephone order (MOTO), or e-commerce. In case a merchant is using all these payments methods simultaneously, the merchant will be required to have more than one merchant account.

This will impose a burden of additional setup and maintenance fees on the merchant. The famous and world-wide accepted Credit card companies, like

VISA, MasterCard, American Express, etc. also impose a per transaction fee which ranges from $. 50 to $1. 00 at every transaction. The per transaction fee can be obtained from the bank or financial institution. The Process of using the Credit Cards: There are several different methods involved in the process of using the credit card system. These steps can vary depending upon the settlement between all the institutions involved (i.

e. the brand, issuer and the acquirer although some major steps are common in the all the processes are as under: 1. The first step constitutes the issuance of the card to the holder. • Usually the cardholder requests the bank in which he holds account for the card brand. • The application submitted by the applicant can be accepted or denied. • In case of the acceptance of the application the applicant is provided by the card. • The activation date of the card is on which the customer signs the back of the card. 2.

The cardholder sends the required details to the merchant against the physical or online purchase of any service or product. 3. The merchant then sends the query to the Brand Company and the transactions are paid by credit. The Brand Company in shape of sales slip keeps a record of the transaction. 4. In the next step the merchant sells the slip to the acquiring bank and pays a fee for the service. The process is known as capturing process. 5. By the clearance of the Brand Company the acquiring bank is paid for the credit amount. The brand then seeks the clearance of the issuer bank.

6. In the last step the amount charged is transferred to the Brand from the issuer by deducting the same amount from the cardholders account in the

issuing bank. (Turban et. al, 2004) The shopping cart collects all the related information about the product or service including all the related taxes, shipping charges, customer billing information and shipping information and prepares it for presentation to the payment gateway. The role of the payment gateway is to connect the Internet and the proprietary networks of banks. A separate certificate is required by each participating entity.

The information provided by the e-commerce solution is further go through the transaction processor in order to receive the reply. The reply can be as the approval, rejection or thefailureof the transaction due to the lack of information or technical error. After the reply from the transaction processor the generated information is used to show the receipt page in case of approval. In the other two cases the other responses are shown according to the case. The processing of the transaction is generally dependent on the transaction processor.

The processor checks for the validity of the user credit card account. It is through the transaction processor the users credit card account is updated. After updating the processor sends the approval back to the gateway which returns it to the merchant's e-commerce solution. The role of the credit card merchant account is limited to a simple bank account that holds the credit card transaction amounts temporarily and then transfers the funds to merchant's checking account. There are a vast variety of e-commerce solutions available for the merchants.

A merchant must choose a " packaged" e-commerce solution, which can support several options for a payment gateway. Only that payment gateway should be culled which support the e-commerce solution possessed by the

merchant. The choice of all the components of the system is inter linked with each other. A merchant account should be chosen which support the transaction processor eked by the gateway(s) the merchant's e-commerce solution supports. The gateway options are prescribed by the e-commerce solution used by the merchant.

Hence the gateway options define the transaction processors with which they are compatible. The transaction processors direct the merchant towards the allowed accounts. The merchant account has the liberty of being used with any checking account. With the growing awareness the field has become vaster and more choices are available for the merchants to choose the right account for their business according to their budget and business circumstances. The field is glutted with the competitors providing better discount rates, lower up-front fees, lower gateway fees and lower transaction fees.

Although the process of the credit card payments over the Internet is a confusing process but if started from the right place it can be get. Below some of the fees expenses are mentioned which will be incurred at merchant while maintaining a merchant account and payment gateway. • Discount Rate: This is a significant amount of the sale taken by the merchant account takes from each sale. The amount charged according to different percentage according to the type of Internet sales the merchant underrates and the average sale amount.

• Up-front fees: The merchant account companies also charge all the services, which the merchant uses to process the charges manually. The fees can be variant between hundreds to thousands of dollars depending upon

the company's rate. The gateway companies also levy charges on the merchandiser. • Merchant account monthly fees: The bank in which the merchant account is opened also charges the monthly fees of maintaining the account whether or not the account is actually used. • Gateway fees: The companies providing the gateway services also charge monthly fees which are again different in different companies.

• Transaction fees: Usually the transaction costs are imposed on small businesses as per the number of transactions undertaken each month. (Web Transitions, Inc. , 2004) Conclusion: The implementation of the credit card system can lead to the tremendous growth in the business of a company, as it is the secure and economical online payment system. I order to maximize the benefits of the credit card system a plan should be well crafted including all the concerns i. e. security, economy and appropriateness with the business environment and stakeholders. References Best Software Inc.

Credit Card Processing: Implementation Guide MAS 90 and MAS 200, available from http://www. blytheco. com/pdf/mas/mas_v3. 70/misc/CCProcessing_Impl_gde. pdf. Forbes. com Expand Your Business with Online Credit Card Processing, available from http://www. forbes. com/credit_card_processing. html Turban E. , Lee J. , King D. , & Chung Michael H. , (2000). Electronic Commerce: A Managerial Perspective, International Edition, Prentice Hall International, Inc. Web Transitions, Inc. , (2004). E-commerce credit card processing, available from http://www. webtransitions. com/articles/e-commerce-credit-card-processing. asp