



Summit Strategies Educational Brief:

Glossary of Terms

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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. The number consists of 9 digits and precedes the account number printed at the bottom of a check.

Acquiring Institution (Processor)

The institution (or “acquirer”) that provides their merchant clients with the ability to accept electronic forms of payment.

Address Verification Service (AVS)

A service that verifies the cardholder's billing address. Utilizing an AVS is applicable to certain types of businesses (e.g. mail order, telephone order, internet, etc.) in order to help combat fraud in card-not-present transactions.

Adjustment

If a correction to a transaction is required, an adjustment would need to be made.

American Express®

A financial organization that issues cards and acquires transactions, unlike Visa™ and MasterCard®, which are bank associations.

Annual Fee

The fee charged by some merchant service providers which is charged on an annual basis. Annual fees are sometimes referred to as a membership fee or risk assessment fee.

Application Fee

A onetime fee that covers the cost of merchant account approval and set up.

Approval

Any transaction that is approved by the cardholder or check writer's bank. Approval's are requested via

an authorization and ensures the cardholder has the appropriate credit limit or bank account balance to honor their financial obligation.

Authorization

An authorization is a request made by the merchant to charge a cardholder. The authorization must be settled in order to charge the actual account. If settlement does not occur within a specified time frame the charge will drop off and not be funded. The card issuing bank determines the time period for drop off.

Authorization Code (AUTHCODE)

The numeric or alphanumeric code that references the transaction for processing purposes.

Authorization Response

The response provided by the card issuing bank to the acquirer and ultimately to the merchant when an authorization is initiated. Responses include, Approval / Decline / Referral.

Automated Clearing House (ACH)

The Automated Clearing House network is a nationwide, wholesale electronic payment and collection system. It is a method of transferring funds between banks via the Federal Reserve System.

Automatic Bill Payment

Also known as recurring bill payment. An agreement between a merchant and a cardholder allowing recurring periodic billing for goods or services rendered.

Average Ticket

The average dollar amount of merchant credit transactions, calculated by dividing the total volume of monthly transactions by the number of monthly transactions.

Basis Point

One one-hundredth of a percent. Discount rates are expressed as basis points. 1 basis point = 0.01%

Batch

A collection of transactions submitted for settlement. It is good business practice to batch settle once a day.

Batch Settlement

The process by which all funds from captured transactions are routed to the merchant's acquiring bank for deposit. Virtual payment gateways automatically submit all captured transactions for batch settlement on a daily basis. Some retail swipe terminals can also be programmed to perform automatic

daily batch settlements. Manual batch settlement is performed as well.

Capture

The process of capturing funds from an authorization.

Card-not-present (CNP)

A situation 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 B2B, mail order/telephone order and Internet-based transactions.

Card-present

A situation where the cardholder (and the card) is physically present at the time of purchase. Card-present transactions account for the majority of credit card transactions in the world and are accounted for by traditional retailers and all other situations where the cardholder is present at the time of purchase.

Card Verification Value Code (CVV)

The Card Verification Value Code is used to help authenticate transactions in card-not-present transactions (e.g. MO/TO and Internet). For Visa™ and MasterCard®, the code will be the last three digits printed on the signature strip on the back of the credit card. For American Express®, the code will be the four digit number on the front of the card above the account number. (Visa™ refers to this code as CVV2, MasterCard® refers to it as CVC2, and American Express® refers to it as CID)

Chargeback

When funds that have been paid to a merchant are taken back because of a disputed or improper credit card transaction. Merchants are assessed a fee for each chargeback.

Commercial, Corporate or Business Cards

Credit or charge cards issued to business to cover expenses for their employees such as travel and entertainment.

Credit

The nullification of a prior authorized transaction.

Debit Card

A bankcard used to purchase goods and services and to obtain cash. When a debit card is used the cardholder's personal deposit account is debited for the amount of the purchase. Debit card transactions require a Personal Identification Number (PIN) for use. Debit cards branded with a bankcard logo (e.g. Visa™) can be accepted without a PIN.

Decline

A transaction in which the issuing bank will not authorize the transaction.

Demand Deposit Account (DDA)

A standard checking or savings account into which electronic funds can be transferred.

Discount Rate

A percentage based fee charged by the processor to a merchant for processing a transaction. It is usually a percentage of the gross transaction amount.

Discover®

A financial organization that issues cards and acquires transactions, unlike Visa™ and MasterCard®, which are bank associations.

Electronic Funds Transfer (EFT)

The paperless act of transmitting money through a computer network.

Footer

The text printed at the bottom of a credit card sales receipt. Merchants have the ability to customize the footer for their business.

Independent Sales Organization (ISO)

A company that independently solicits potential merchants on behalf of a processor.

Interchange

The process by which all banking parties involved in a credit card transaction (i.e., processors, acquirers, issuers and so on) manage the processing, clearing and settlement of credit card transactions, including the assessment, and collection and/or distribution of fees between parties.

Interchange Fee

A fee paid by an acquirer to an issuer for transactions entered into interchange. The interchange fee is a percentage applied to the dollar value of each transaction. A transaction must meet certain pre-determined criteria to meet various interchange rates. Each transaction is evaluated individually so it is possible for each monthly transaction a merchant processes to have a different interchange fee associated with it. Interchange fees are ultimately passed along to the merchant.

Internet Merchant Account

A specific type of merchant account that is required for merchants who wish to sell goods and services over the Internet and accept credit cards as payment via a company website. Transactions that occur on this type of an account are considered card-not-present transactions.

Issuer

A bank that provides credit cards to consumers.

Keyed Transaction

A transaction that involves keying in the credit card account number using a computer or terminal. Keyed transactions are used in card-not-present environments such as MO/TO and Internet-based businesses.

Manual Close

A batch close that is manually initiated by the merchant on a daily basis.

MasterCard®

An association of banks that governs the issuing and acquiring of MasterCard® credit card transactions.

Merchant

A retailer, or any other entity (pursuant to a Merchant Agreement), that agrees to accept credit cards, debit cards, or both.

Merchant Account

A commercial account that enables a business to accept credit cards, debit cards, and other forms of electronic payment.

Merchant Agreement

A written agreement between a merchant and an acquiring institution containing their respective rights, duties, and obligations with respect to acceptance of the bankcards and matters related to bankcard activity.

Merchant Identification Number

A unique number that is assigned by the acquiring institution to identify a merchant.

Monthly Statement

The communication from the acquiring institution to the merchant detailing the transactions that occurred with that merchant in a specific month and the fees associated with the merchant account.

MO/TO

Mail Order/Telephone Order

Non-Qualified

A broad industry term that describes a transaction that holds a higher percentage of risk to the issuing bank. Transactions are categorized as non-qualified for various reasons including (1) manually entry of credit card information, (2) transaction was not settled in a timely manner, or (3) simply the type of credit card presented to the merchant. Examples of non-qualified cards include rewards, international, corporate, and business credit cards.

Payment Gateway

A computer based system that facilitates the processing of transactions over the Internet. Payment gateways encrypt sensitive information to ensure that information passes securely between the parties involved.

Point of Sale (POS)

A location where credit card transactions are performed with the cardholder present.

Processor

A large data center that processes credit card transactions and settles funds to merchants. A processor connects to the merchant on behalf of a bank acquirer via a gateway or POS system to process payments electronically.

Processing Network

The medium of data transport between the merchant and the processor.

Reserve

Reserves, or holdbacks, are established by the bank issuer to help alleviate risk associated with higher-volume and higher-risk merchants. Reserves may be funded with a cash deposit or a percentage of sales.

Retrieval Request

A request initiated by a cardholder or bank issuer for documentation concerning a transaction. A retrieval request can lead to a chargeback.

Secure Sockets Layer (SSL)

An encryption system that allows merchants to process transactions securely over the Internet.

SIC Code

Refers to Standard Industry Classification. These codes are four digit numbers used to identify business type.

Swiped Transaction

A transaction that involves credit card information being transferred directly as a result of swiping or sliding the credit card through a card reader.

Transaction Fee

A per transaction charge incurred by merchants. This is in addition to the percentage discount rate.

Visa™

An association of banks that governs the issuing and acquiring of Visa™ credit card transactions.

Voice Authorization

An authorization that is obtained over the phone. If the transaction is approved, the merchant is provided with an authorization code (AUTHCODE), which is used to settle the transaction through a swipe terminal or payment gateway at a later time. There are often additional fees associated with voice authorization.

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.