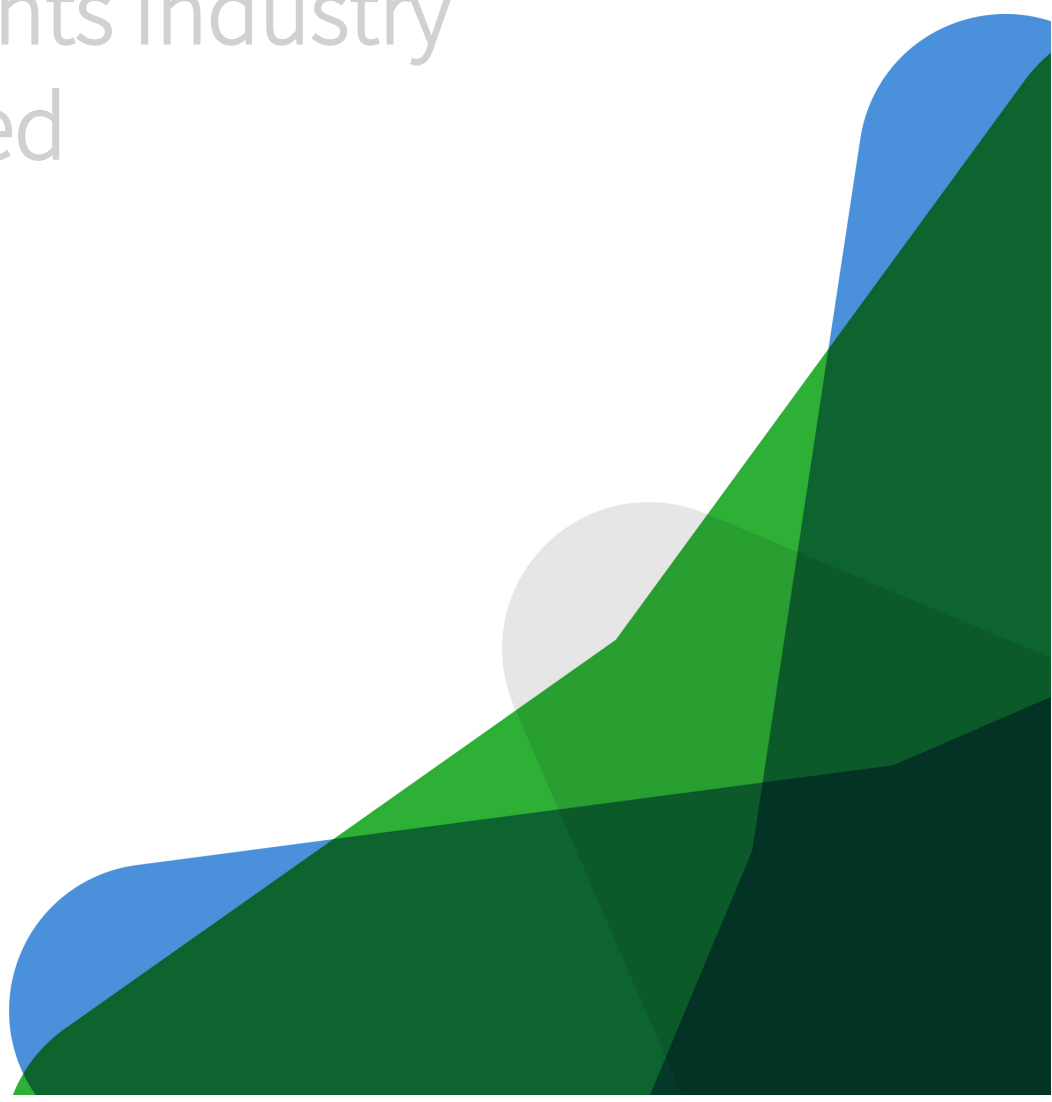


Payment Glossary

Basic Payments Industry
Terms Defined



Payment Glossary

Account Takeover (ATO): A method of online fraud where someone gains access to an online account by acquiring the login, often by theft, and then takes over the account and its access from the rightful owner.

Automated Clearing House (ACH): An electronic payment network for the processing of electronic financial transactions between banks in the United States. Used for direct deposit, recurring transactions, clearing electronic checks and Demand Deposit Account (DDA) transactions.

Acquirer: A bank that accepts payments for a payments network. Often the financial institution that provides a merchant account and processes card transactions via POS equipment on behalf of a merchant. The acquirer feeds transaction data into the interchange system. Sometimes referred to as the acquiring bank.

Acquirer Reference Number (ARN): A unique number attached to a card transaction when it is passed from the merchant's bank to the cardholder's bank. The numbers are used to track transactions and their progress. They can also be called trace IDs because they are most often used to trace where the funds for a transaction are in the process.

Affinity Card: A credit card issued in association with an organization or group; commonly professional, alumni, retirement or other associations. The card issuer often pays the organization a royalty for marketing the card.

Anti-Money Laundering (AML): Any tool or technique formally used to fight money laundering. Sometimes refers to standardized policies and regulations put in place that organizations must comply with.

Application Programming Interface (API): A package of software, tools, documentation and definitions designed to allow software developers to seamlessly access a software service or application.

ATM Interchange Fee: Fee paid to the acquirer by the cardholder bank for an ATM transaction. These fees are set by the ATM network.

Authorization: The process of checking and approving that a cardholder has enough funds in their account for the proposed transaction. A positive check means an authorization code is created and funds are set aside for the proposed transaction.

Average Monthly Volume (AMV): The average amount of transactions processed by an organization (merchant, processor, etc.) during a month. Typically expressed in dollars.

Average Ticket: For any particular merchant account, the average transaction size. Used for predictions and fee and pricing calculations. Also called Average Selling Price (ASP).

Address Verification Service (AVS): Fraud protection service to check that the billing address given by the customer matches the one on file with the issuing bank to make sure they are a valid customer.

Back Office Conversion: Check conversion (paper to digital) that takes place in the merchant's "back office". Consumers must be notified that BOC will occur by posting at the point of sale or other check receiving locations.

Bankcard: A financial transaction card (typically a credit or debit card) issued by a financial institution.

Bank Identification Number (BIN): The first digits — typically the first four digits or first six digits — that are found on a card from an issuing or acquiring institution as unique identifiers of that institution.

Bank Routing Number: The first nine digits at the bottom of a personal check which identify the financial institution where the account is located.

Basis Point: One one-hundredth of one percent. Generally referred to as basis points (bps).

Batch: A group of card transactions collected for submitting to settlement to the merchant's bank account.

Beneficiary: Person who receives funds collected by a third party. Sometimes a person sets up an account on behalf of another person. If they want the funds to be settled directly to the beneficiary, the account will need to be changed to complete KYC checks on the beneficiary and verify their bank information.

Capture: After a card is authorized, a second set of data is passed for the transaction itself and this is called capture. It signifies that an actual transaction has taken place and the data is passed to the acquiring bank for settlement.

Capture Date: The date when a transaction is processed by an acquirer.

Card association: A technical term for a specific credit card company, such as Visa, MasterCard, American Express, Discover.

Cardholder: The individual to whom a credit or debit card has been issued or an additional person who is also authorized to use the card.

Card Issuer: The financial institution that authorizes the issuance of a card to a consumer or organization. Card issuers retain authority over the use of the card by the end user and are liable for the use of the card. **Card Not Present Transaction (CNP):** A payment card transaction where the card cannot be physically presented to the merchant at the time of the transaction. Commonly used for online, mail-order and telephone transactions but also used in a few other cases.

Card Not Present (CNP) Accounts: A merchant or seller account that principally accepts online and other card not present payments. May have higher rates than point of sale (POS) accounts with the consumer present. Because the signature is not required, these accounts are generally viewed as higher risk.

Card Present (CP): A transaction made where the cardholder can present a physical credit card to the merchant. Requires a point of sale device.

Card Verification Code (CVC): A unique numerical value calculated from the data encoded on the magnetic stripe of a MasterCard card, validating card information during the authorization process.

Card Verification Value (CVV): A unique value calculated from the data encoded on the magnetic stripe of a VISA card, validating card information during the authorization process.

Chargeback: The result of a cardholder or the cardholder's bank disputing a specific credit or debit card transaction. The chargeback is sent back to the merchant bank for resolution. The merchant has a set amount of time in which to defend the chargeback, depending on the rules of the card association. A chargeback fee is usually charged to the merchant in addition to the amount of the transaction.

Chargeback Defense: The information a merchant needs/uses to defend against a chargeback, such as an invoice, a customer verification, or proof of shipping.

Chargeback Period: The time during which an issuing bank has the right to charge a transaction back to the acquiring bank. The period varies by transaction type from 45 to 180 days.

Check 21: The Check Clearing for the 21st Century Act - a law to allow banks to handle checks electronically. Check 21 lets banks use an electronic copy of the original check to clear the check instead of the original.

Clearing: The process of transmitting information about a transaction or transactions that eventually results in a decision of approval or denial of the transactions and the settlement of funds involved.

Compliance: Any process that is used by any of the partners in a payment transaction to meet with and follow regulatory procedures applying to that transaction. These can include government regulations, card network regulations, bank regulations and others.

Credit card processors: Entities like merchant account providers that handle the details of processing credit card transactions between merchants, issuing banks, and acquiring banks. Also called third-party processors.

Crowdfunding: Funding a project, event or organization by raising small amounts of money from a large number of people.

Cryptocurrency: Digital currency, such as bitcoin, that relies on blockchain technology using cryptography to create, distribute and track the currency.

Currency conversion: The process of converting an amount of funds from one currency into another. Typically involves one or more national currencies and is governed by published daily conversion rates for buying and selling each currency.

Debit: A charge to an account. Basically any amount proposed to be withdrawn from an account is referred to as a debit

Debit Card: A payment card that primarily accesses a Deposit Account and which can be used to make purchases or withdraw cash.

Decline: The transaction request has been refused, usually by the issuing bank but sometimes by other entities along the processing chain. Reasons are typically insufficient funds or more rarely fraud or theft. Reasons are coded for return with the decline.

Deposit Account: A financial account with a balance of funds rather than a credit account. Examples include checking, savings, share draft, and many others.

Disbursement: The distribution of funds once a transaction has been approved. Includes the process to get the various fees to the stakeholders along the way.

Discount Rate: In credit card payment systems, the interest rate percentage charged a merchant for processing credit card transactions. Other fees may also be levied.

Dispute: A claim made by a cardholder to the issuing bank questioning the validity of a credit or debit card charge. Disputes start an interaction with the merchant that could lead to retrievals or chargebacks.

E-Check: The electronic equivalent of a paper check.

Ecommerce: Buying and selling goods and services online.

Electronic Check Acceptance or ECA: A system that captures transaction information off a paper check and converts it into an electronic item processed through check clearing without the need for a paper check or via ACH. Now available to consumers via smartphone apps and some banking institutions.

Electronic Bill Payment (E-pay): Method for consumers to pay bills using PCs, smartphones or other devices to send electronic instructions to withdraw funds from accounts and pay merchants.

Electronic funds transfer (EFT): The electronic transfer of funds between two bank accounts, using electronic means rather than paper methods. Includes ACH, wire transfers, payroll deposits and any other fund transfer made completely electronically.

Europay, Mastercard and Visa (EMV): A commonly-available chip-based standard for smart payment cards using chip and pin systems for card present transactions. Designed to combat fraud by making cards much harder to counterfeit.

Gateway: An organization or system initiating transactions between merchants and the acquiring firms. Often provides additional fraud, identity, and reporting functions as well as equipment and software to process transactions.

Image Replacement Document (IRD): Also known as a substitute check. An electronic image of the original paper check that conforms to the requirements set forth by the Check Clearing for the 21st Century Act (Check 21). Because of Check 21, IRDs act as the legal equivalent of the original paper check and enable financial institutions to settle check transactions.

Independent Sales Organization (ISO): There are many companies that sell merchant accounts from other processors – they are usually purely sales and support organizations.

Instant Payment Notification (IPN): A method for online retailers to automatically track purchases and other server-to-server communication in real time.

Interchange: The domestic and international systems operated by VISA and MasterCard for authorization, settlement and the passing through of interchange and other fees, as well as other monetary and non-monetary information related to bankcard activities.

Interchange fee: A fee specified by card associations that is paid by the acquirer to the issuing bank for each credit or debit card transaction to cover transaction costs. The acquirer passes this fee to merchants, in addition to any other fees charged for processing credit or debit card transactions. The fee depends on a number of variables, such as card type, business type, card acceptance method, settlement or batch timeframe, information submitted with the transaction, and more. Fees usually range between 1-3%.

Issuing bank: The bank that holds the customer's credit or debit card account and settles funds to the acquiring bank for payment to the merchant. The issuing bank bills the cardholder for transactions at a later date, typically monthly.

Know Your Customer (KYC): The compliance process of confirming the identity of a merchant or customer. Most commonly refers to government, bank, and card network requirements to verify identity to prevent fraud, identity theft, money laundering, and terrorist financing.

Marketplace: A type of online ecommerce business where products and services are provided by multiple third parties, but transactions are processed by the marketplace.

Merchant: Any person or business entity that accepts payments in exchange for goods or services.

Merchant account: A bank account from an acquiring bank that allows a merchant to accept credit, debit and other payment types.

Merchant Acquirer: Another term for the acquirer or acquiring bank.

Merchant Agreement: The contract between merchant and acquiring bank listing legal warranties, rights and responsibilities.

Merchant ID Number (MID): A unique number to identify each merchant to everyone else in the processing chain for accounting and billing purposes.

Merchant of Record: The merchant designated for the specific transaction under consideration.

Method of Payment (MOP), aka Payment Method: Method used to pay for a transaction - for example, check, direct debit, credit card, ACH, debit card, cash and more.

Magnetic Ink Character Recognition (MICR): A character recognition technology used on checks to make electronic scanning easier. Used for the bank routing number and account number at the bottom of a check.

Mobile Point of Sale (mPOS): A mobile device, either stand-alone or for use with a tablet or smartphone, combined with software or an app to allow mobile card reading and transaction processing.

Money Laundering (ML): An illegal activity designed to convert illegal funds into acceptable funds by passing them through accounts and businesses in transactions that hide their origins.

Money Transmitter License (MTL): Every US state has a regulatory body overseeing money transmission. Many (but not all) states require institutions that handle payments to become registered money transmitters and procure a license to operate in their state.

Multi-Factor Authentication (MFA): A defense against hacking and identity theft that requires multiple steps and pieces of information in order to gain access to an online account.

National Automated Clearing House Association (NACHA): Provides oversight and management for the ACH.

Near Field Communication (NFC): A form of communication used mostly in smartphones or other handheld devices for payments that allows devices to communicate with a payment terminal to complete transactions.

Net Settlement: The final (net) effect of a series of payment transactions involving customers of two or more banks.

Network Fees: Fees charged for payment transactions by the card networks that are included in interchange fees.

Non-Bank: A financial institution that does not offer banking services.

Originator: The institution that initiates a wire transfer or ACH payment.

Payment Card industry (PCI): The credit, debit, prepaid and other payment card businesses. Also refers to the requirements that they have set out that provide security management, policies, procedures, network architecture, software design and more.

Payment Card Industry Data Security Standard (PCI DSS): A proprietary information security standard for the payment card industry. A requirement for merchants and payment processors to meet security requirements that are used extensively across almost all card systems for security.

PCI compliance: A common term used to indicate that a particular organization meets the Payment Card Industry Data Security Standard (PCI DSS) requirements. Failure to meet PCI compliance can mean penalties or the suspension of the ability to make card transactions.

Payee: The person/business/organization that receives a payment.

Payment Service Provider (PSP): Provides online services for accepting electronic payments by a variety of payment methods including credit card, direct debit, bank transfer, and others. WePay is a PSP. A PSP is a designation by Visa and Mastercard that allows merchants to onboard submerchants under their account.

PIN Authorization Request (PIN verification): A procedure to validate cardholder identity by comparing the PIN to a card account.

Point of Sale (POS): Both the device used to conduct a transaction and the time and place it happened. Typically refers to a card swipe or chip reading pad connected to a cash register.

POS Terminal: The actual device at a point of sale (POS) that conducts a transaction and is used to gather and forward the transaction details.

Prepaid Cards: Debit card that is acquired with a balance already associated with it. Prepaid cards allow the cardholder to spend up to the amount deposited into the prepaid card account.

Reason Code: A code used to provide additional information about a transaction and (typically) a rejection or change in status. Information covered could include a chargeback, subsequent presentment, fee collection, funds disbursement, or request for a source document.

Receiving Depository Financial Institution (RDFI): Manages ACH transactions by taking credits or debits from relevant parties.

Reconciliation: The process through which incoming and outgoing funds and transactions are matched up.

Reserve account: For high-risk merchants, an account that holds a reserve portion of funds. The acquiring bank requires reserve accounts to cover chargebacks, disputed charges, fees and other expenses. Some organizations require reserve accounts of all new merchant accounts.

Retrieval request: When a cardholder or issuing bank wants more information about a transaction, the issuing bank sends a retrieval request. The merchant has a defined period in which to send the information. Typically a failure to respond will result in a chargeback and often a retrieval request fee will be assessed to the merchant.

Routing Transit Number (RTN): In the US, the nine digit code at the bottom of a check which identifies the bank where the account is held.

Settlement: The transfer of funds to satisfy a payment transaction that has been approved. Once approval is granted, the funds travel back to the acquiring bank and the merchant account, with associated fees deducted along the way.

Settlement Statement: A statement provided to a merchant that shows the approved sales and credit activity, billing information, fees and chargebacks (if any) that occurred during the statement period.

Swipe Fees: Another term for interchange fees.

Void: Cancellation of a payment transaction and also cancellation of the transfer of funds from customer to merchant.