



PAYMENTS: An Introduction to What Happens After the Click



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Payment Processing Terms



Betty's Boutique

An online marketplace where consumers can make a one-time purchase or sign up for a subscription to meet their fashion needs.



The Players

Betty's Boutique- Merchant

- A commercial entity or person authorized to accept cards and access devices when properly presented; an organization that uses credit cards to receive payments from its customers pursuant to agreement with card brands

Fierce Payments- Payment Processor

- Company appointed by merchants to handle card transactions for merchant acquiring banks

Fierce Payments- Acquirer

- Bank or financial institution that processes credit and/or debit card payments for a merchant

Visa, MasterCard, Amex, Discover- Card Brands

- Member-based corporations that connect consumers, businesses, and banks to transact through electronic payments instead of cash and check; also establish and enforce rules amongst members and promote the brands (popular card brands include Visa and MasterCard)

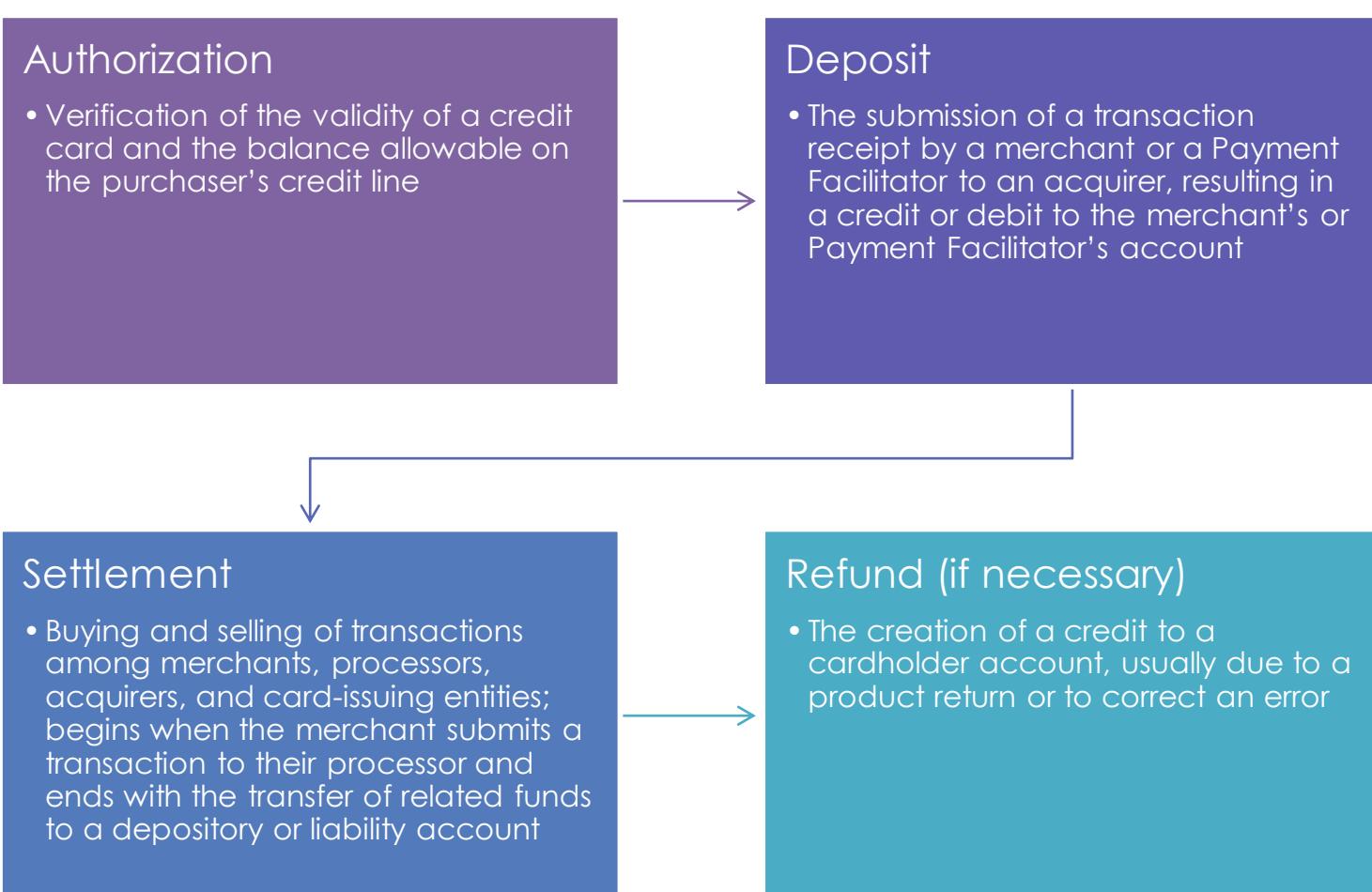
Bank of Style- Issuing Bank

- Any association member financial institution, bank, credit union, or company that issues (or causes to be issued) plastic cards to cardholders

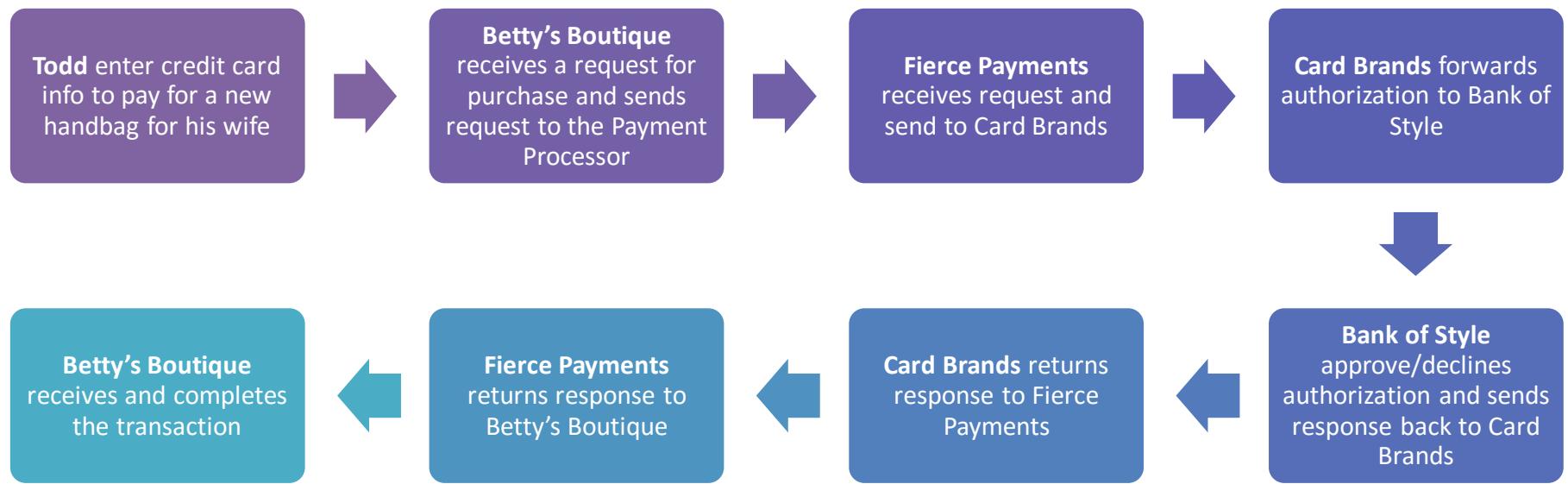
Todd- Cardholder

- Someone who has a credit card

Betty's Payment Flow



Authorization Transaction



Common Declines

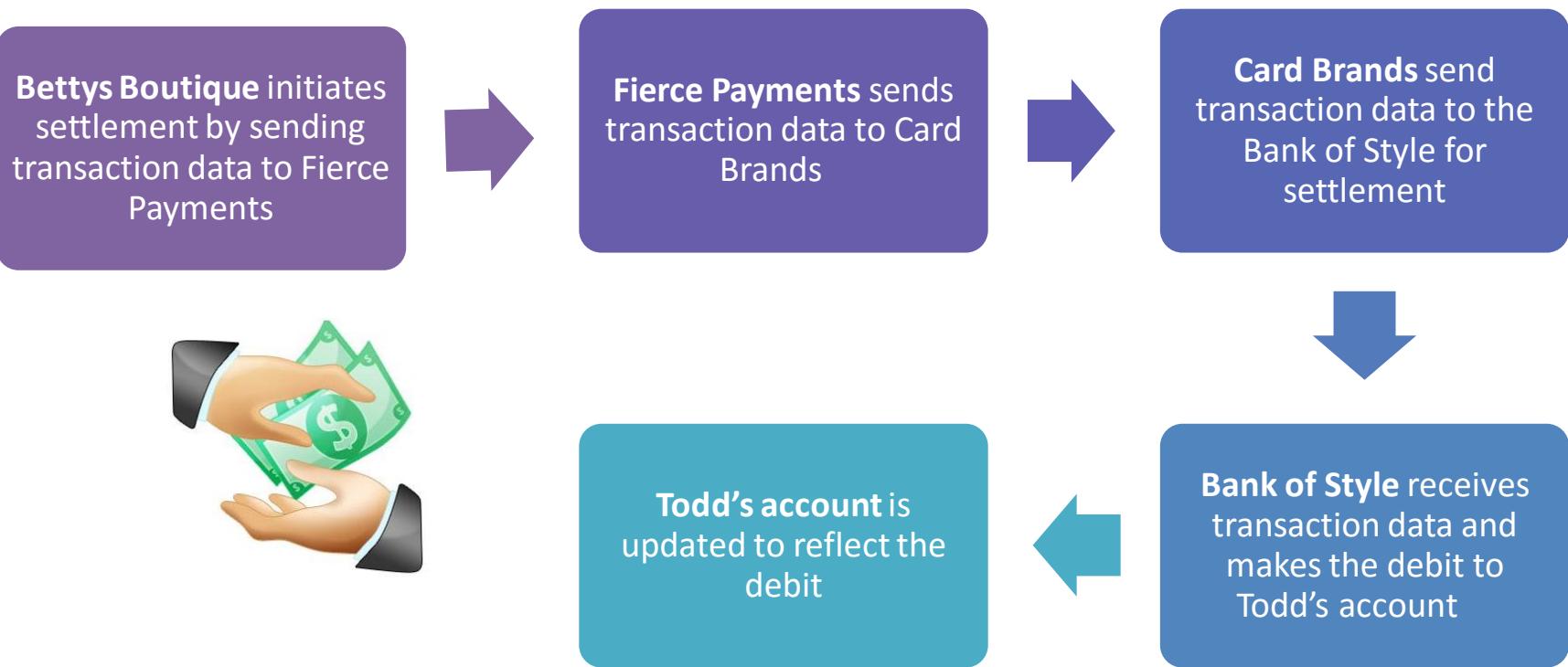
Soft Declines

- Do Not Honor
- Insufficient Funds
- Generic Decline

Hard Declines

- Invalid Account Number
- Expired Card
- Pick up Card
- Decline CVV
- Lost/Stolen

Settlement Transaction



Payment Types

Credit – Pay Later

- Revolving line of credit
- Monthly payments required

Debit – Pay Now

- Attached to a bank account
- Transaction amount deducted from bank balance

Prepaid – Pay Before

- Pre-funded with some sort of payment
- Reloadable or non re-loadable
 - Government issued
 - Payroll
 - Gift cards

Cost Structure

- **Processor/gateway fees**
 - Authorization
 - Deposit/Refund
 - Chargebacks
- **Interchange**
 - Set by card brands – same for all processors
 - Paid to Issuers
 - Varies by card type (credit, debit, prepaid) and processing method (swiped, keyed, e-commerce)
 - Most consist of a % and transaction fee
- **Assessment Fees**
 - Set by card brands – same for all processors
 - Paid to card brands
 - Can be a % OR transaction fee but not both

Payment Models

- **One Time Payments**

- Payment is made for the entire purchase amount in one transaction



- **Installment Billing**

- Transaction amount is divided into smaller increments
 - For example: \$100 cart amount broken into 4 \$25 payments

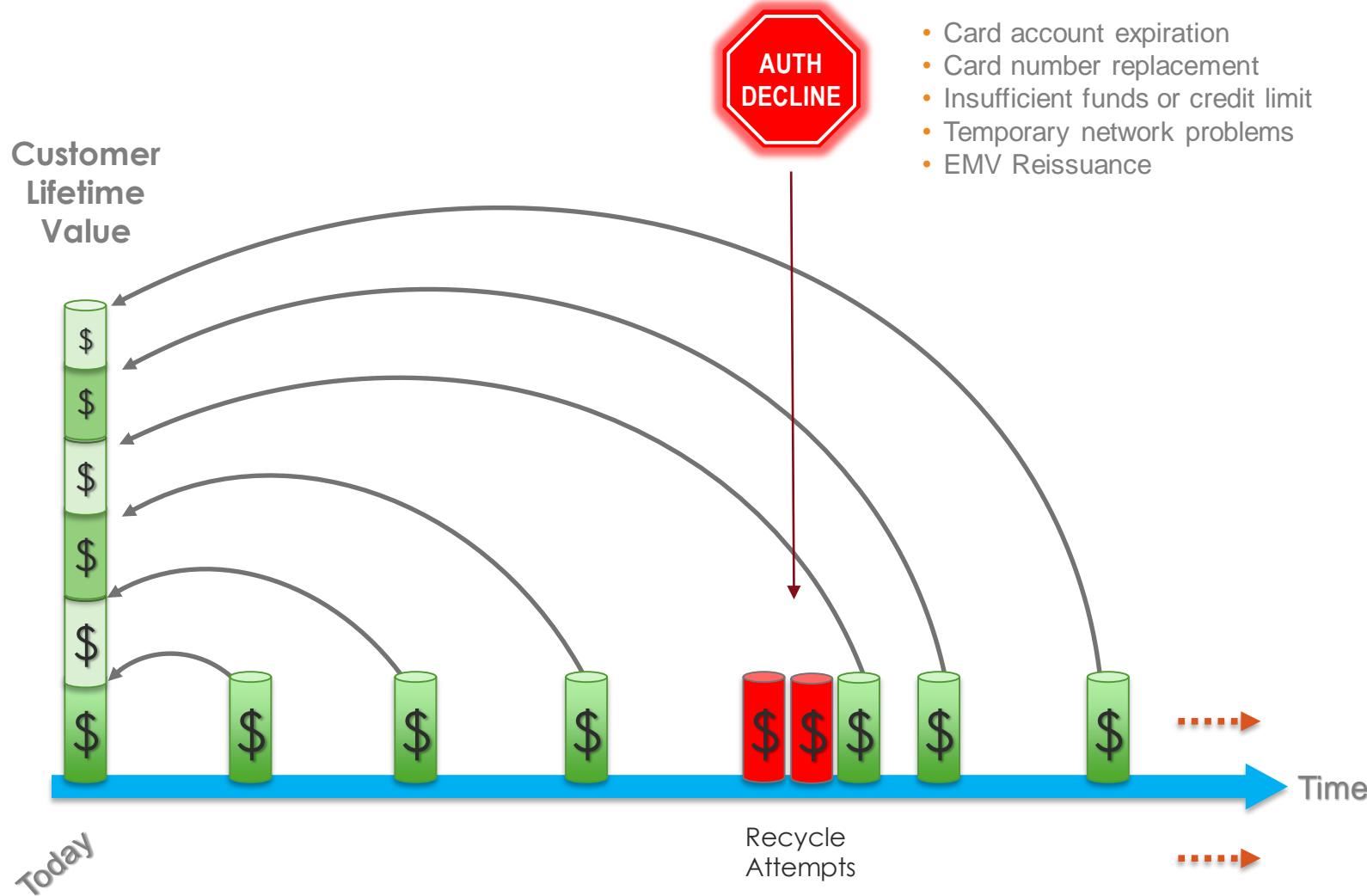


- **Recurring**

- Monthly, Quarterly, and Annual continuity payments for product or services



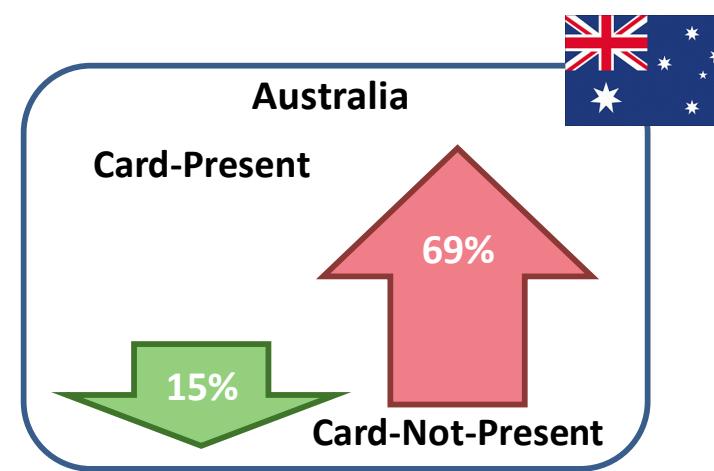
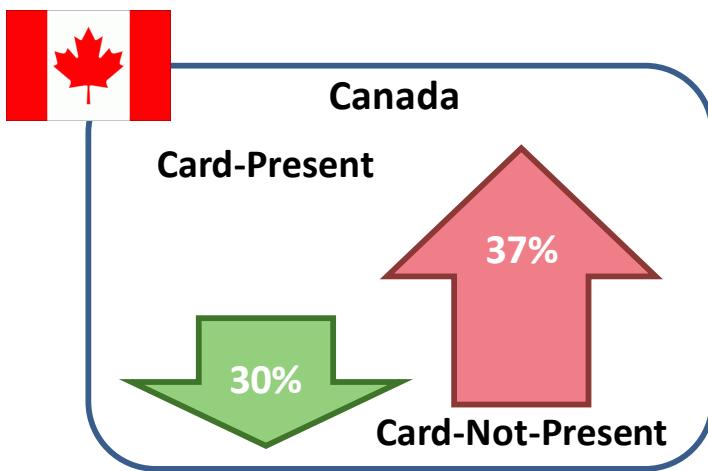
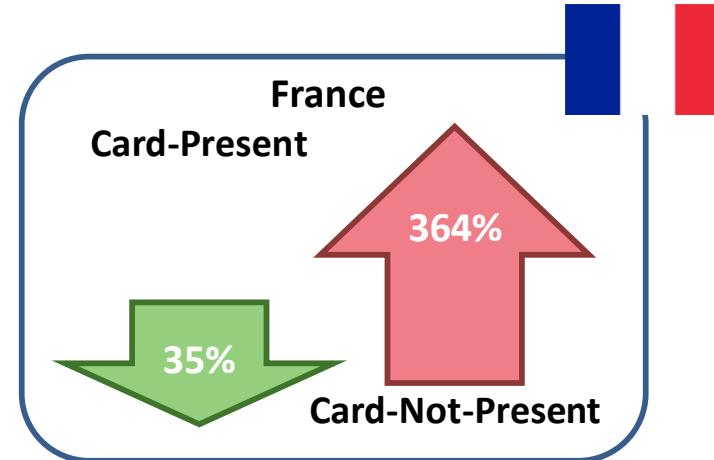
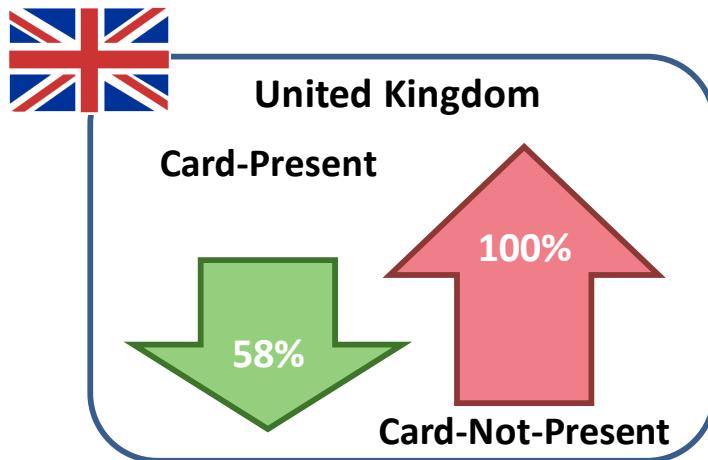
Anatomy of Payment “Breakage”



Account Updater and Recycling

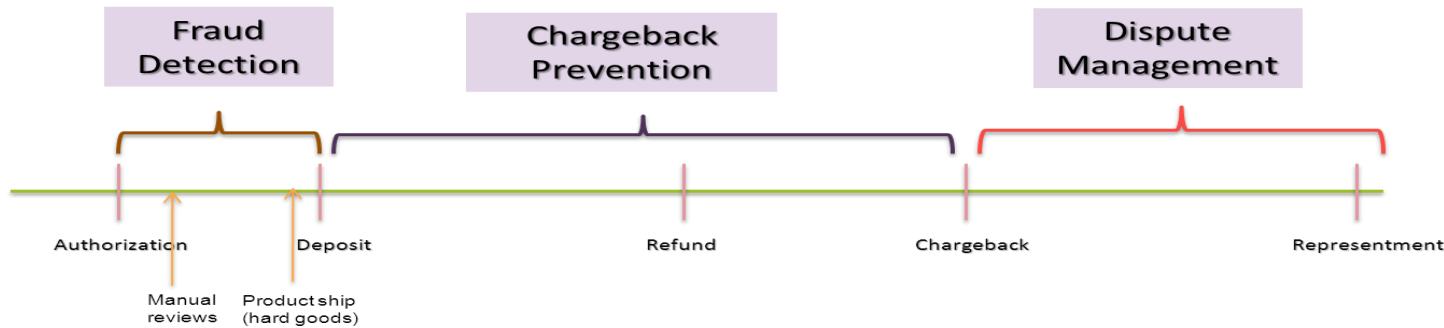
- **Account Updater**
 - Receive updated card information without contacting each customer individually.
 - Reduces declines, improve customer satisfaction, and generates more revenue
- **Recycling/Re-try Logic**
 - Visa – 4 retries in 16 days
 - Other card brands 7 retries in 27 days
 - DO retry soft declines – do not honor, insufficient funds, and generic declines
 - DO NOT retry hard declines – invalid acct #, expired card, lost/stolen and restricted card

EMV Won't Help eCommerce Fraud Either



Adoption of chip-and-pin technology across the globe has demonstrated reduced fraud at the terminal with **increased** fraud online.

The Cost of Fraud Across the Payment Stream



As fraudulent activity progresses, the impact accumulates.

- + Lost Sales
- + Expensive manual review
- + Lost hard goods
- + Chargeback fees
- + Representation/arbitration Fees
- + **Reputational Damage**



Chargebacks – The players



Todd



Bank of
Style



Card
Brands



Fierce
Payments



Betty's
Boutique



Chargebacks - Reasons

- **“Friendly” Fraud**
 - Card used by the primary cardholder
 - Customer received product but didn’t want to pay
 - Descriptor on card statement was not clear
- **Legitimate Fraud**
 - Stolen card
- **Credit Not Processed**
 - Customer expected refund and it was never received
- **Product/Service Not received/defective**
- **Cancelled Recurring Transaction**
 - Customer requested an end to a recurring cycle, but are being continuously charged
- **Technical Chargebacks**
 - Not originated by the cardholder, but by the issuing bank. Possible reasons could be the lack of a valid authorization.

Chargeback Thresholds

Network	Program	Type	Thresholds
Visa	<u>Visa Chargeback Monitoring Program (VCMP)</u>	Early Warning	.75% and 75 cbks (count)
		Standard	1% and 100 cbks (count)
		High-Risk	2% and 500 cbks (count)
MasterCard	<u>Excessive Chargeback Program (ECP)</u>	CMM	1% and 100 cbks (count)
		ECM	1.5% and 100 cbks (count)

Preventing Chargebacks

Customer Facing

- Strong, clear communication
- Make it easy for the customer to contact you
 - Customer Service hours
- Send email reminders of
 - Billing
 - Cancellation
 - Refund processed, confirmation number
- Set appropriate expectations for refund appearing in their bank account
- Clear billing descriptor (appears on customers statement)
- Have customers check terms and conditions box
 - This ensures that they acknowledge them

Internal

- Use fraud tools
- Monitor and adjust
- Don't be stingy with refunds
- Engage your payment processor



Top Tools for Tomorrow

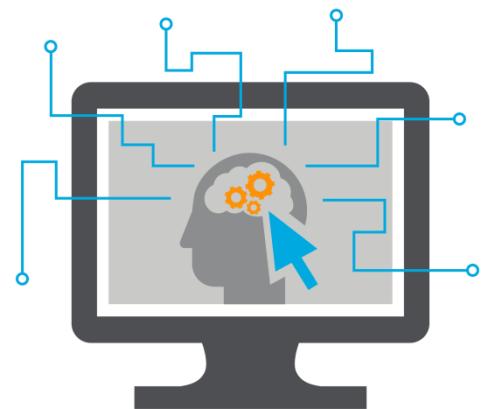
Device Reputation
& Fingerprinting



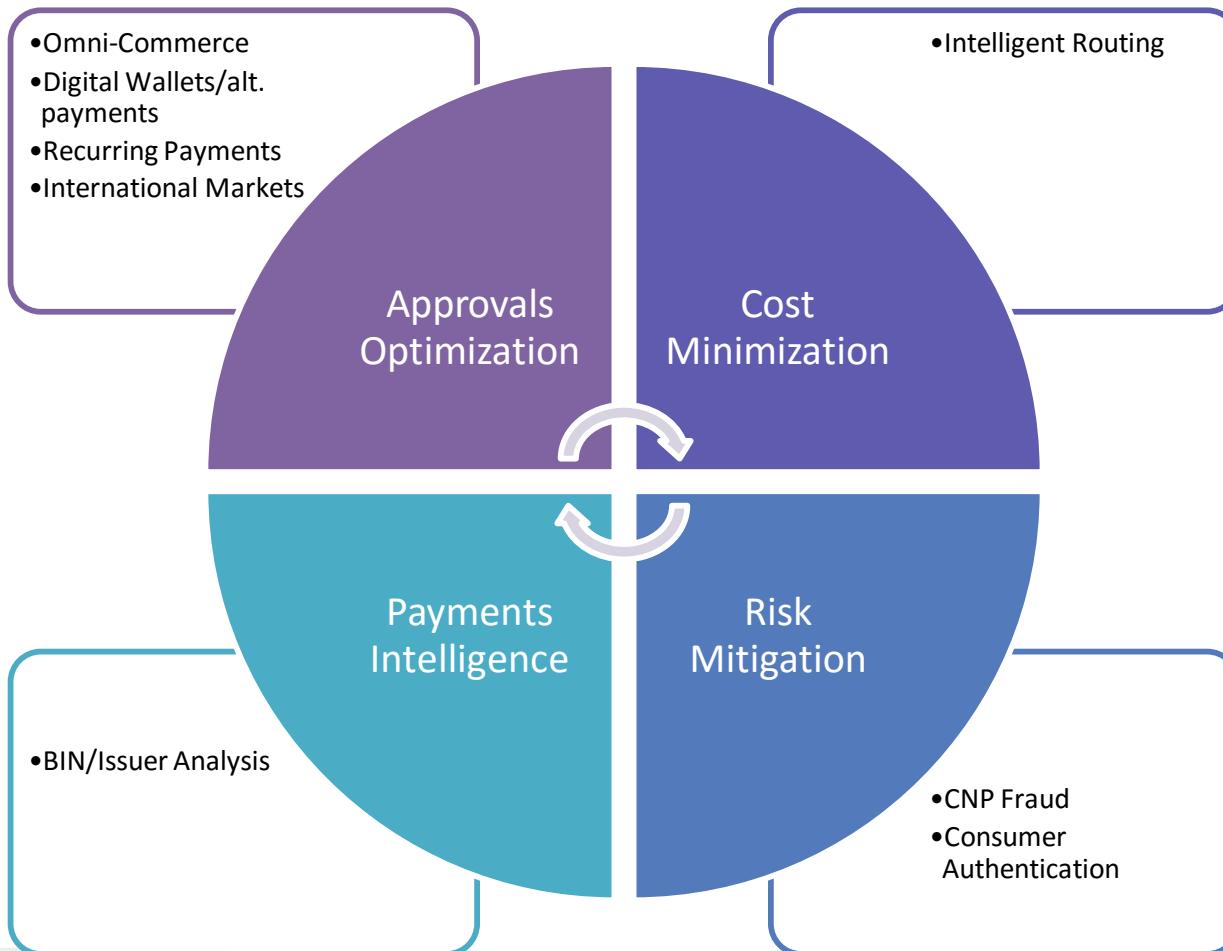
True IP &
Geolocation



Machine Learning



Beyond The Basics



Questions?

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If you have any questions about the presentation, go to our LinkedIn Group (the [Payments Education Forum](#)) and request an invitation (this is a closed group specifically for the payments industry).