The steps of credit and debit card payments processing explained

Business owners and managers tend to also be savvy consumers. That’s understandable since you routinely evaluate the many products and services needed to keep your business running smoothly.

Accepting credit cards enables you to get paid. That means you’ll need to select a credit card processing company. Credit card processors are important partners beyond the core service of processing payments, making it a critical business decision. You don’t need to become an expert, but you’ll be a better consumer if you know how credit card processing works.

To understand how payments processing works, we’ll look at the actors and their roles.

Who are the actors in a credit and debit card transactions?

* **A cardholder** obtains a credit or debit card from an **issuing bank,** uses the account to pay for goods or services.
* **A merchant** is any type of business that accepts card payments in exchange for goods or services.
* **A merchant bank** establishes and maintains merchant accounts. Merchant banks allow merchants to accept deposits from credit and debit card payments.
* **Payment** processors are companies that process credit and debit card transactions. Payment processors connect merchants, merchant banks, card networks and others to make card payments possible.
* Issuing banks are the banks, credit unions and other financial institutions that issue debit and credit cards to cardholders through the card associations.
* **Card associations** include Visa, Mastercard, Discover and American Express. The card associations set interchange rates and qualification guidelines, and act as the arbiter between **issuing banks** and **acquiring banks** among other vital functions.

What does credit card processing look like in motion?

Credit card processing works in three distinct processes:

1. **Authorization**
2. **Settlement**
3. **Funding**

First, let’s look at credit and debit card authorization process.

1. The **cardholder** presents their card (swipe, tap, insert or other secure method i.e. contactless or by entering number for online credit card payment) to a **merchant**in exchange for goods or services. The request might originate from a credit card terminal or point of sale system in a brick-and-mortar store, an eCommerce website gateway, through mobile or in-app payment acceptance.
2. The **merchant**sends a request for payment authorization to their payment processor.
3. The **payment processor**submits transactions to the appropriate **card association**, eventually reaching the **issuing bank**.
4. Authorization requests are made to the **issuing bank**, including parameters like CVV, AVS validation and expiration date.
5. The **issuing bank**approves or declines the transaction. Transactions can be declined for insufficient funds or available credit, if the cardholder’s account has been closed or expired, if a payment is past due or other factors.
6. The **issuing bank** then sends the approval (or denial) status back along the line to the **card association**, **merchant bank** and finally to the **merchant**.

That’s the credit card authorization process in a nutshell. The card authorization process takes only a matter of seconds.

Now let’s look at the credit card settlement and funding process. This part is essentially how the merchant gets paid from the credit cards they accept.

1. **Merchants** send batches of authorized transactions to their **payment processor**.
2. The **payment processor** passes transaction details to the **card associations** that communicate the appropriate debits with the **issuing banks** in their network.
3. The **issuing bank** charges the **cardholder’s** account for the amount of the transactions.
4. The **issuing bank** then transfers appropriate funds for the transactions to the **merchant bank**, minus interchange fees.
5. The **merchant bank** deposits funds into the **merchant account**.

The settlement and funding processes that used to take days are now almost always handled overnight, helping merchants get paid quickly.

That’s the simplified credit card payment process.

To learn even more about how credit card processing works, connect with one of our payments experts. We’re happy to answer your questions and walk you through the easy setup

# What is a payment processor? 5 important terms to know

Most businesses take credit card payments from their customers on a daily basis, but few think much about it. But as a business owner, if you don’t know what’s involved in payment processing, you can run into trouble when an issue comes up. You may even wonder what is a payment processor? Here, we’ll answer that very question and look at four other payments processing terms to know.

#### #1. What is a payment processor?

A payment processor manages the credit card transaction process by acting as the mediator between the merchant and the financial institutions involved. A processor can authorize credit card transactions and works to ensure merchants get paid on time by facilitating the transfer of funds. Some payment processing services provide equipment for card acceptance, security solutions, PCI compliance assistance, customer support and other value-added payment processing services.

Different from a payment processor, a payment gateway is an encrypted application that authorizes credit card or direct payments processing for online sales other card-not-present transactions.

#### #2. What is an acquirer?

The acquirer, also known as the acquiring or merchant bank, is the financial institution that maintains a merchant’s account in order to accept credit cards. The acquirer settles card transactions for a merchant into their account. Sometimes the payment processor and the acquirer are one and the same.

#### #3. What is an issuer?

The issuer, or issuing bank, is the cardholder’s bank, which is responsible for paying the acquirer (and subsequently the merchant) for approved credit card transactions and collecting payment from cardholders.

#### #4. What is PCI compliance?

PCI compliance refers to compliance with the PCI DSS, the Payment Card Industry Data Security Standard. PCI DSS is an information security standard that applies to all entities involved in processing, storing and/or transmitting payment card information. Any merchant who accepts card payments must comply with PCI mandates. Failure to achieve and maintain PCI compliance can leave a merchant vulnerable to a data breach and the ensuing negative fallout including fines, fees and lost business.

PCI compliance is complex and depends on various factors. Some payment processors offer PCI compliance tools and assistance to their merchants. The type of offerings can include security checklists, hands-on help, breach coverage and more. Because PCI mandates are updated regularly, it’s a good idea to work with an experienced payment processor that offers a complete PCI compliance assistance program.

#### #5. What are EMV chip credit cards?

EMV chip cards have become more commonplace since the fraud chargeback liability shift that took place in October 2015. The liability shift placed new responsibilities on merchants for card-present fraud. Basically, if a business processes a chip card without using an EMV-enabled terminal, it could be held responsible for any fraud that results.

EMV is not a mandate like PCI (e.g. merchants will not be fined for not using an EMV-enabled device). But it is a necessity for merchants in reducing their fraud and chargeback rates for card-present transactions. It’s important to note, however, that EMV does not protect against a data breach – that’s where PCI comes in. So be sure to ask your payment processor about both EMV and PCI compliance solutions.

Now that you know a few of the important payment processing terms, it’s time to be sure you’re working with the right payment processor for your business. A trustworthy and experienced payments processor will provide the information, tools, and guidance you need to securely accept card payments.