

3.1 - Understand the Industry

1. Explain the money flow and the information flow in the acquirer market and the role of the main players.
2. Explain the difference between acquirer, sub-acquirer and payment gateway and how the flow explained in question 1 changes for these players.
3. Explain what authorizer, clearing and anticipation do and how they relate to banks, issuers and customers in the acquiring world. In resume, describe the process the merchant will receive his payment since the beginning of the purchase of the cardholder.

After the customer swipes the card, the merchant sends the transaction information to the acquirer through the payment gateway. After it receives the payment request, the acquirer passes it on to the credit card network (e.g. Visa, Mastercard), which in turn contacts the issuer. The issuer then performs a series of checks, including a risk analysis and an anti-fraud protocol, ensuring that the customer has enough funds to complete the transaction and checking for any temporary holds that should be released soon. Once the issuer approves the request, the customer's account is debited and the transaction is settled between the issuer and the acquirer, minus a fee. Finally, the acquirer pays the merchant minus a merchant discount fee.

A payment gateway is a system used to transmit information between players at different stages of a payment transaction. The gateway is already necessary in the earliest stages of the transaction flow because it sends information from the merchant's point of sales (POS) to the acquirer. The gateway therefore supports every communication between different players throughout the transaction authorization process.

An acquirer holds a merchant's account information and processes payments on their behalf. Once it receives a transaction request through a gateway, it forwards it to the issuer for approval. The acquirer can be understood as intermediary between creditors and merchants.

A sub-acquirer is a company that processes payment information and transmits it to other players involved in the transaction flow. Sub-acquirers can be understood as an intermediary between the merchant and the acquirer, adding an additional anti-fraud step and decreasing transaction risk. A few examples are PayPal and PagSeguro.

Authorization refers to the initial validation of a payment transaction. After the transaction is initiated, the acquirer forwards transaction information to the issuer, which then performs a series of financial and anti-fraud checks to decide whether or not it is a valid transaction based on the identity of the cardholder, the authenticity of the card and the availability of funds at the time of purchase. Once the transaction is approved by the issuer, the clearing process begins, during which more details are shared between the issuer and the acquirer to facilitate the posting the transaction on the customer's account and the settlement of the transaction, i.e., the exchange of funds between financial institutions. Transaction settlements are quite long in Brazil—it usually takes 30 days for the merchant to access the funds of a credit card transaction. For payments in installments, the timeframe is even longer, with 30 days in between consecutive installments. If a merchant wishes to access these funds sooner, they might have the option to request an anticipation of funds through the acquirer, which would in turn release the transaction amount after deducting an anticipation fee.