

Bankcard 101 – Training

History

The earliest form of the bankcard was ‘Charg-It’ a system of credit developed by John Biggins in 1946 which allowed customers to charge their local retail purchases. The merchant then deposited the charges at Biggins bank, and the bank reimbursed the merchant for the sale and collected payment from the customer. This system helped introduce the first bank credit card, which was circulated by Franklin National Bank in Long Island, New York in 1951. Once an application was submitted for credit worthiness a card was issued. Merchants copied information from the card onto a sales slip and called for an approval for each transaction over a specified limit. The bank would then credit the merchants account for the sale minus a discount to cover the cost for providing the loan.

By 1959, many financial institutions had begun credit programs. Simultaneously card issuers were offering the added services of revolving credit. This gave the cardholder the choice to either pay off their balance or maintain a balance and pay a finance charge.

In 1960, Bank of America, introduced its own bankcard, called BankAmericard, and began licensing regional financial institutions to act as the BankAmericard bank for their region. BankAmericard is now what we know currently as Visa.

Other banks began looking for other ways to compete, in 1966, 14 banks formed Interbank, a new association with the ability to exchange information on credit card transactions.

The following year, four California banks opened its memberships to other financial institutions in the Western U.S. (Western States Bankcard Association). The product was known as MasterCharge. They have purchased the right to use this name from First National Bank of Louisville (currently known as National City Bank of Kentucky).

The WSBA licensed Interbank to use the MasterCharge name and Logo. In the late 1960’s, numerous financial institutions became MasterCharge members to compete with BankAmericard.

The Players

MasterCard and Visa are worldwide payment service organizations composed of Member institutions.

They do not:

- Issue credit cards
- Create policies for solicitation of new cardholders or merchants
- Establish criteria for evaluating applicants
- Set credit limits offered to cardholders
- Determine procedures for billing customers MasterCard and Visa are managers of their respective brand. As such, they:
 - Create advertising and promotion programs to support their brand
 - Develop new products
 - Conduct clearing and settlement processing of transactions(Interchange)
 - Set and enforce rules and regulations governing their bankcards, such as operational procedures, interchange procedures, and graphic design approval of their cards. Upon becoming a member of MC/Visa, a bank is licensed to issue cards to its members. These banks are also required to provide cash advances on MC/Visa cards at their teller windows. As a Member, banks are issued a Bank Identification Number(BIN) and pay membership dues and assessments to fund Card Associations.

The Acquirer

The acquirer is a member of MasterCard and Visa, and is contracted with merchants to accept merchant sales drafts, provide authorization terminals, instructions, and support, and handle the processing of credit card transactions. The key responsibilities of the acquirer are:

- Sales
- Investigation Procedures
- Pricing
- Merchant Acceptance
- Support Services
- Risk Management

The acquirer usually charges a fee or, discount rate, for handling the transactions. The acquirer is licensed by MC/Visa and agrees to follow the association rules and regulations.

Some financial institutions are both issuers and acquirers. MC/Visa both require that the merchant be financially responsible and of good repute. The merchant has a written agreement with the acquirer to accept the bankcards as payment and to abide by the terms of the agreement.

The Issuer

The issuer is responsible for the cardholder account program which encompasses nearly all aspects of cardholder account activities ranging from acquiring new customers to billing current ones. The Issuer's responsibilities include:

- Acquisition and marketing of new accounts
- Processing application; establishing credit credit limits and policies
- Overseeing design, manufacturing, and embossing of inventory cards
- Handling of issuing and reissuing of cards
- Overseeing PIN Numbers
- Maintaining authorization file
- Providing customer service
- Processing payments and handling settlement and income Interchange
- Establishing collections operations.

Managing a credit card program is expensive. Smaller banks can issue cards without becoming an issuing member by being an agent. The issuer usually keeps most of the income from the cardholder account: the agent receives a small compensation for providing the application. This allows small banks to retain customers who want a credit card program.

Components of Bankcard Fees

- Interchange
- Assessments
- Authorization Fees
- Processing Fees

- Processor Optional Fees
- Chargeback and Retrieval Fees
- T & E Authorization and Processing Fees
- Ancillary Communication and Network Fees
- Hardware and Software Fees

Interchange

MC/Visa are at the center of the transaction process, maintaining the flow of funds between issuers and acquirers. Clearing refers to the exchange of financial information. Settlement refers to the exchange of the actual funds for the transaction and the associated fees.

Clearing and Settlement Occur Simultaneously.

- The acquirer credits the merchant's deposit account for the dollar amount of the sale (less the merchant discount).
- The acquirer sends the transaction, through a data transport network, to INET (for MasterCard transactions) or Base II (for Visa transactions). A financial institution can be both an issuer and an acquirer.

MasterCard and Visa send the transaction to the issuer overnight, credits the acquirer and debits the issuer for the transaction. In essence, the issuer pays the acquirer for the transaction, via the Mastercard or Visa interchange system.

Interchange makes it possible for the issuing banks and acquiring banks to exchange information, transactions and money on a standardized basis. During Interchange, fees are deducted by the issuer from the transaction amount and the net amount is paid by the issuer to the acquirer. These are called interchange fees.

MasterCard and Visa each own and operate their own international processing system. These systems connect thousands of banks around the world. Member Institutions use these networks to transmit information about bankcard transactions.

Transaction Process Overview

- The cardholder purchases goods or services from the merchant.
- The merchant transmits the transaction to the acquirer.

- The acquirer then submits the ticket to the issuer for payment, via the MasterCard or Visa clearing and settlement systems.
- The acquirer credits the merchant for deposits (net of chargebacks, returns, and agreed to fees -- the merchant discount).
- The issuer funds its cardholders! purchases (net of chargebacks, returns, and agreed to fees).
- The issuer bills the cardholder.
- Finally, the cardholder repays the issuer for the goods or services originally purchased from the merchant. The issuer, via the MasterCard or Visa clearing and settlement system, has already paid the acquirer transaction amount, less the interchange fee.

From the cardholder's point of view, it seems as if he or she is paying the issuer for the goods or services originally purchased from the merchant. In fact, the cardholder is actually repaying a loan from the issuer.

- MasterCard's data processing network is called Banknet.
- Banknet handles MasterCard's Authorization System.
- The Banknet settlement system is INET.
- Visa's data transport network is called Visa Net.
- The VisaNet authorization system is BASE I.
- The Visa Net settlement system is BASE II.

Retrievals

Functions

- Storage of paper(hardcopy) sales drafts and film cartridges
- Retrieval of items in the hardcopy retrieval and chargeback process
- Request Fulfillment

Sales Draft Storage

Both merchants and acquirer store hardcopy sales drafts or POS tape. Acquirers and merchants typically hold drafts on-site for 3 years, and hold them off-site for 7 years.

Sales Draft Retrieval

Retrieval areas receive requests from issuing banks. MC/Visa regulations stipulate that a request must be fulfilled within 30 days from the date of receipt. Any request not fulfilled within that time frame can be charged back to the merchant.

Request Fulfillment

Request for all hardcopy sales drafts are fulfilled as quickly as possible for disbursement to the issuing bank. MC requires all retrieval requests be fulfilled electronically through the MasterCom electronic image process system, while Visa will allow requests to be fulfilled through the mail along with Visa's Copy Request Manager System.

Chargebacks and Collections

When an issuer disputes transactions (either at the request of the cardholder or for reasons of its own), the matter is handled through a chargeback or compliance case. In a chargeback, the issuer returns a transaction to the acquirer, and the acquirer returns the payment previously made in interchange. Chargebacks result either from cardholder disputes or from rules violations by the merchant or acquirer; they help enforce operating rules and correct transaction errors.

The initial, or first, chargeback is always initiated by the issuer. It can result from the issuer finding an error in the transaction, or it may result from a cardholder complaint. MasterCard and Visa have developed standard procedures and time frames for submitting and processing chargebacks.

The Chargeback Process

The chargeback process begins when an issuer, on its own behalf or in defense of a cardholder, returns a presentment from the acquirer. Presentment is the stage of interchange when the acquirer, via the MasterCard/Visa system, presents the issuer with the transaction information. The issuer is automatically charged for the transaction during settlement, which takes place at the same time as clearing.

In other words, the issuer receives information about a transaction, for which it has already paid, and realizes that the transaction may be invalid. At this point, the issuer wishes to charge the transaction back to the acquirer.

Functions of the Acquirers

- Determine legitimacy of Chargebacks presented by issuers
- Represent all “representable” items on behalf of our merchants
- Handle Arbitration Chargebacks if the representment is disputed by the Issuer
- Forward paperwork to the appropriate area for crediting/debiting of accounts
Collection Functions
- Acceptance of incoming collections cases from Issuers
- Acceptance of outgoing collection cases from merchants
- Submit Arbitration/Compliance issues to Card Associations
- Reversal of inaccurate merchant transactions