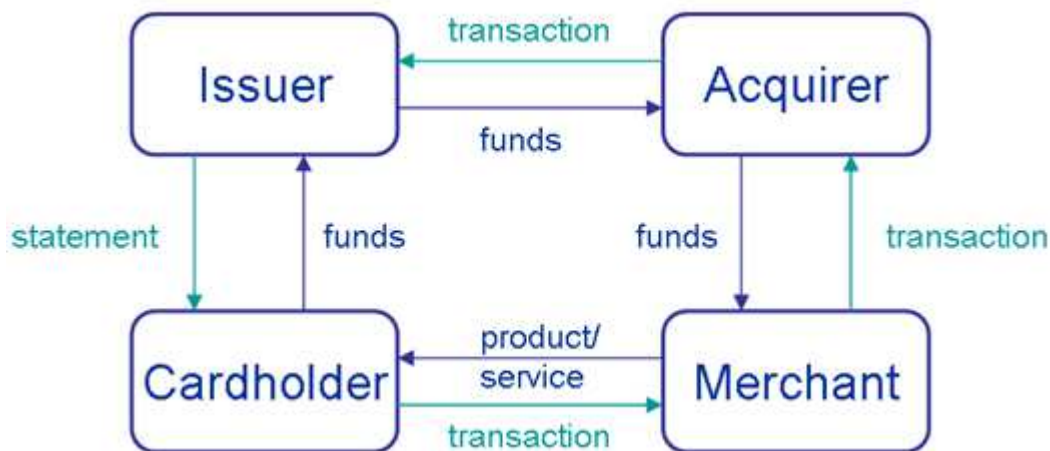


How the Merchant Acquiring Process Works

The model below demonstrates how a payment transaction takes place when the Cardholder (your customer) make a payment for goods or services to you (the Merchant)



Pricing for Merchant Acquiring Services

We have produced a separate and more detailed pricing guide to support your understanding. The pricing schedules for this agreement are available on request and the pricing guide will be sent to you together with the pricing information.

There are 2 pricing options:

Interchange Plus Plus: This is the most transparent pricing model with the most understandable terms and fees. Interchange Plus Plus itemises both interchange rates, card scheme fees and mark-ups and clearly lists them in the pricing schedule. In this way you will know exactly the difference between your rates, fees and mark-ups.

Blended rates: The total rate you pay is represented by just one rate which has no contractual link to interchange rates.

Pricing is also dependant on whether a transaction is considered secure i.e. it involves a card present transaction or not secure i.e. card-not-present transaction. The following details cover the many ways in which a card transaction is processed and which has a bearing on price, the less secure the higher the cost charged for the transaction.

The way you (the Merchant) can accept a card transaction for purchases depends on where the cardholder is at the time. Traditionally, the majority of card transactions have been face-to-face where cardholders hand their cards to merchants to pay for their purchases; this is known as a card present transaction.

Alternatively, purchases are made where cardholders are not on your premises but are making a purchase using a remote channel e.g. buying over the telephone or internet. This is known as a card-not-present transaction.

Card present transactions

'Card present' is when the cardholder and the card are present at the same time. When the card that is presented is a chip card then it is placed into the terminal. If a card does not have a chip then the magnetic stripe on the reverse of the card is swiped through the terminal.

The different ways in which to accept a card present transaction are listed below:

Chip & PIN

Now that chip & PIN is fully rolled out in the UK, the majority of UK issued cards will be processed as chip & PIN transactions. When accepting a chip & PIN enabled card, it is placed into a PIN pad or terminal and prompts are provided on the action required. In most cases customers will enter their four digit PIN (Personal Identification Number) into the terminal or PIN pad – there are different procedures required for chip and signature cards and these details can be found below in the chip and signature section. When an authorisation has been given, you, the merchant, is protected from cardholders claiming they did not take part in the transaction and the card issuer charging back the transaction. However, this is not a defence against a chargeback if the goods or services supplied are not as described or are faulty. In addition, when you accept a chip & PIN transaction that has been correctly processed, as advised by their acquirer using a compliant chip & PIN terminal, you may benefit from a liability shift should a chargeback be raised because the card is lost or stolen.

Chip and signature

There are a small number of chip and signature cards that have been issued to some disabled customers who have difficulty using a PIN. As with a chip & PIN card, these cards should be inserted into the terminal and you, as merchant will then follow the terminal prompts on what action to take next. In most cases, this will be to request that the cardholder signs for the purchase. You will need to carry out security checks such as "does the signature match the one on the back of the card?"

Contactless

Contactless technology is a feature introduced on many credit and debit cards for transactions of £30 or less. It works by cardholders holding their contactless-enabled card up to a secure reader to make their payments. This provides a fast and effective alternative to cash that can reduce queues, and utilises the security built into a chip & PIN card. Contactless cards are secured by the same advanced technology that underpins chip & PIN. Though the card would not usually require a PIN to be entered, from time-to-time a chip & PIN transaction will be requested. This is designed to deter fraudulent use should a card be lost or stolen; each time a PIN is used it re-affirms the cardholder is in possession of their card.

Magnetic stripe

There are a small number of UK issued cards in circulation that are not chip & PIN enabled and have only a magnetic stripe. You should deal with these in the same way as for any foreign-issued cards that don't have a chip. You will need to swipe your customer's card through the terminal and follow the instructions provided to complete the transaction. You will require the cardholder to provide a signature on the terminal receipt to authorise the transaction.

PAN Key entered

If you are accepting an overseas card with a magnetic stripe and this technology fails to work you may PAN Key Enter (PKE) the card account details (together with transaction amount) into the terminal.

Card-not-present transactions

A remote purchase card-not-present (remote purchase CNP) transaction is one where the cardholder and the card are not present at the point-of-sale (compared to a card present transaction, where both the cardholder and card are present).

A remote purchase CNP transaction can be for:

Mail order transactions

These are where merchants receive instructions in the post or by fax from customers to make a purchase including their card details (except for their PIN) and signature.

Telephone order

Telephone orders are similar to mail order, except that merchants are taking cardholders' orders by telephone and will not have their signature to confirm their agreement to the transaction. However, you'll have an opportunity to ask supplementary questions, such as asking for the card's Card Security Code (CSC) that is on the back of the card, to help guard against a potential fraudulent transaction.

A sale made over the internet

You will need services of a 'payment gateway' to securely take consumers' card details on an internet payment page and pass these onto your acquirer for processing. Our Suppliers can provide further details about trading on the internet, what your website needs to do to conform to card scheme regulations, how to use the standard tool set of AVS / CSC, MasterCard SecureCode and Verified by Visa.

Our Suppliers can also provide assistance on what fraud screening tools they would recommend to help a business guard against potential fraud transactions.

MasterCard SecureCode and Verified by Visa are authentication services that have been developed by the card schemes to provide a more secure approach to credit and debit card transactions over the internet. Both MasterCard and Visa services are based on the 3D Secure protocol.

The framework agreement also provides for pricing for:

Merchant Acquiring Equipment i.e. Point of sale terminals with purchase, leasing or rental options.

Payment gateways if for example you trade via a web site

Here are useful links to support further understanding of the Merchant Acquiring Industry

http://www.theukcardsassociation.org.uk/getting_started/index.asp

<https://www.visaeurope.com/newsroom/>

<http://www.mastercard.com/global/merchant/>