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The basics of credit card processing

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Posted: Thursday, March 10, 2016 12:00 am

BY KIRBY SNITKER

According to a newsletter covering the payment systems industry, The Nilson Report, purchase transactions of goods and services generated by general purpose credit cards are projected to reach \$515 billion worldwide by 2024.

That's billion with a "B."

Dating as far back as 1914, the use of non-cash in purchasing goods was introduced by Western Union. Instead of providing employees with a paycheck, they issued a metal plate or "card" to its employees.

The problem with the "card," as we now know by today's standards, was that it only applied to purchases made inside Western Union stores.

From the 1950 Diners' Club Card to today's Apple Pay, credit card processing has seen its share of ebbs and flows. Fast forward to 2016 and almost anyone can participate in the bankcard system and as such, it's considered an "open" system.

Terms such as EMV (Europay, MasterCard and Visa) tokenization and E2EE (end-to-end encryption) are becoming more common in our vernacular. Consumer confidence and spending continues to rise in a system where consumers prefer to pay with plastic, not a mobile device.

Security and authentication remain the focus and have been the key drivers in merchant processing. While most large card-accepting U.S. merchants have terminals that are EMV ready, most small businesses are not ready to accept microchip embedded cards.

Small-business owners today know in order to stay competitive they must accept credit cards. While cash and checks ruled the payment arena decades ago, the number of customers wanting to pay with credit cards has never been higher. Before small-business owners dive

into merchant processing (the business of accepting credit cards), they must ask themselves four simple questions:

- * Will accepting credit cards increase my sales?
- * Will my checkout line be more efficient by accepting credit cards?
- * For Internet and non-retail businesses, will it be more convenient to accept credit cards?
- * Will accepting credit cards be less expensive than cash?

Studies have shown the average transaction on a credit card sale is up to three times larger than those paid for by cash or check. Retail merchants of DuTrac tell us their acceptance of credit cards speeds up their checkout lines. I can't recall the last time I purchased something online and paid by mailing in a check.

Credit card acceptance by merchants allows for a secure, convenient and fast method of processing transactions.

Finally, even though merchants might pay 2 to 3 percent of the transaction when accepting credit cards, the 10 percent larger purchase volume made with them easily pays for the cost of accepting cards.

One final item merchants and small-business owners must keep an eye on is fraud. According to The Nilson Report, fraud losses in 2014 reached \$16.31 billion when global card volume totaled \$28.84 trillion.

This means that for every \$100 in volume, \$5.65 was fraudulent. Fraud, which grew by 19 percent, outpaced volume, which grew by 15 percent. The United States accounted for 48.2 percent of worldwide losses.

Before EMV, the issuers of cards were liable for all counterfeit fraud-related losses. When EMV cards are issued, liability for counterfeit fraud will shift to the merchant if that merchant is not EMV enabled. It is imperative for merchants to upgrade to EMV ready terminals to protect themselves against fraud.

Now that you understand some of the basics of credit card processing, contact your local financial institution to learn and compare service options as well as pricing.

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