

# P ayment rocessing Glossary

## 3-D Secure™ (3DS)

New technical standard developed by Visa and MasterCard, designed to combat online credit card fraud. Cardholders who have registered for Verify by Visa® or MasterCard SecureCode® use their password to validate their identity whenever they make a purchase on a participating site.

## Authorization

The process of verifying a payment card transaction by card issuer. Authorization is based on the cardholder account status and available credit.

## Billing Descriptor

Merchant description that appears in the cardholder statement. It is used by the credit/debit card customer to identify the merchant where particular transaction was made.

## Chargeback thresholds and compliance programs

Most of the Card schemes have compliance programs which are monitoring the merchants` chargeback behavior i.e. how many chargebacks were initiated by the cardholders for single month and what is the ratio between sales volume and chargeback reports. The most essential compliance programs are those for VISA and Mastercard:

- **Mastercard**

Excessive Chargeback Merchant	Chargeback criteria	
	Count	CTR
ECM	$\geq 100$	$\geq 150$ bps
HECM	$\geq 300$	$\geq 300$ bps

## Excessive Chargeback Merchant

Merchants will be evaluated under two categories, Excessive Chargeback Merchant (ECM) and High ECM (HECM).

Merchants are considered noncompliant in the ECM category when both of the following are true:

- The total number of chargebacks is greater than or equal to 100
- The total number of chargeback bps is greater than or equal to 150

Merchants are considered noncompliant in the High ECM category when both of the following are true:

- The total number of chargebacks is greater than or equal to 300
- The total number of chargeback bps is greater than or equal to 300

A merchant identified as noncompliant for Edit 1—Excessive Fraud Merchant will not be assessed for Edit 2—Excessive Chargeback Merchant.

Once a merchant ID is identified in the ECM edit, the merchant ID will continue to be monitored until there are three consecutive months below the ECM thresholds, at which time the ECM status resets.

Monthly chargebacks are defined as all first presentment chargebacks with a processed date within the violation month. Bps are the number of chargebacks received by the acquirer for a merchant ID in a calendar month divided by the number of Mastercard transactions processed for the merchant ID in the preceding month, and then multiplied by 10,000.

### • VISA

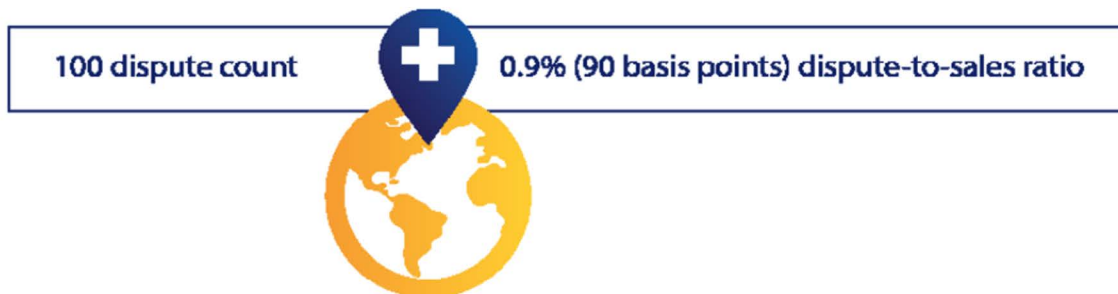
Program	Threshold criteria
VDMP Standard Program	<ul style="list-style-type: none"><li>• 100 or more in dispute count <b>and</b></li><li>• 0.9% or higher ratio of dispute count-to-sales count</li></ul>
VDMP Excessive program	<ul style="list-style-type: none"><li>• 1,000 or more in dispute count <b>and</b></li><li>• 1.8% or higher ratio of dispute count-to-sales count</li></ul>
VFMP Standard Program	<ul style="list-style-type: none"><li>• USD 75,000 or more in fraud amount <b>and</b></li><li>• 0.9% or higher ratio of fraud dollar-to-sales dollar amopunt</li></ul>
VFMP Excessive program	<ul style="list-style-type: none"><li>• USD 250,000 or more in fraud amount <b>and</b></li><li>• 1.8% or higher ratio of fraud dollar-to-sales dollar amopunt</li></ul>

# Monthly VDMP Thresholds

Each month, Visa monitors the dispute levels<sup>1</sup> of all merchants. VDMP will identify acquirers of merchants that meet or exceed the monthly program thresholds. The program will review all disputes and sales transactions by CPD (Central Processing Date) from the prior month. These thresholds are subject to periodic review and will be adjusted, as needed, to respond to emerging dispute trends. Advance notification of changes to the thresholds will be provided through member communications (*Visa Business News* articles).

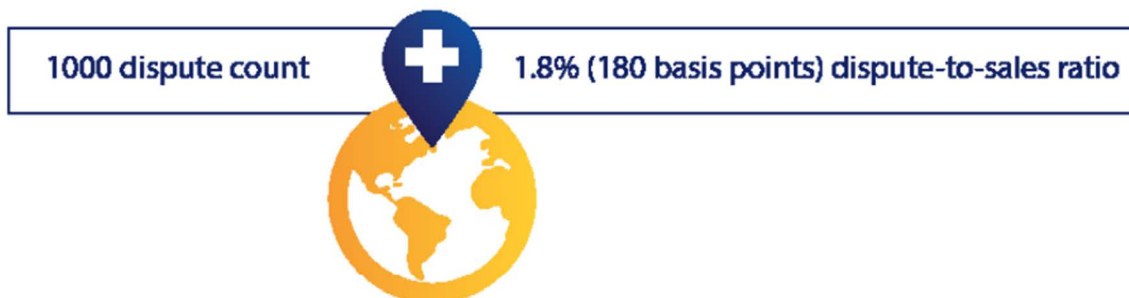
**Standard** – The standard monthly thresholds for merchants are:

- 100 dispute count, and
- 0.9 percent (90 basis points) dispute-to-sales count ratio (Dispute Ratio)



**Excessive** – The Excessive monthly program thresholds for merchants are:

- 1,000 dispute count, and
- 1.8 percent (180 basis points) dispute-to-sales count ratio (Dispute Ratio)



**NB!** Failure to comply with the above threshold either for fraud reports or chargebacks may result in penalties imposed by the respective card schemes.

## **Claim**

This is a pre-dispute/chargeback message which will be converted to real chargeback/dispute within the next 72 hours. The merchant may accept the liability before 72 hours expiration i.e., eliminating the case escalation and reducing its chargeback/dispute ratios.

## **Clearing**

When a cardholder uses a payment card to purchase goods or services from a merchant, after receiving of a positive authorization response from the card issuer, the transaction has to be cleared/ confirmed in order the acquirer to reimburse the merchant for the transaction. Clearing is the movement of data from the acquirer to Card Operator (VISA, MasterCard and others) and from Card Operator to the issuer. The exchange of transaction data between Issuers and Acquirers is called interchange.

## **Copy Request**

This is non-financial message direct request for additional information and documents which may help the cardholder restrain from potential Dispute/Chargeback escalations. This is available for transactions with AMEX cards only.

## **Declined transaction**

A transaction could be declined either with an authorization response whereby the issuer has refused to authorize the payment or by iCard`s backend system. The issuer declines could be various such as non-sufficient funds, blocked card, limits exceeded, blocked transaction type, etc., while the iCard`s response could be only one (Response code 58 – forbidden for the terminal).

In most of the cases such response is due to usage of fraudulent card or card that was already involved in previous fraudulent of ML behavior. Upon a request iCard may lift the restriction for certain cards while issuers declines are something that could not be manipulated by merchant or iCard itself.

## **Dispute/Chargeback**

Procedure initiated by the cardholder via Card issuing bank/entity aiming to request the paid transaction amount back due to goods or services not received, goods not as described or just transaction that was not recognized by the cardholder. In most cases the cardholder is expecting a refund or faster delivery of the service/goods. Each dispute/chargeback represents a financial message which automatically debits merchant`s account. Following the notification, the merchant has the opportunity to represent/appeal the case by providing additional information/documentation evidencing prompt services/good delivery such as tracking information, handovers, shipping receipts, etc. Successful case appeal may lead to crediting of the merchant account with respective amount.

## **Fraud report**

A transaction/s which was reported by the cardholder as not recognized. Fraudulent transaction may escalate to Dispute/Chargeback or not depending on applied transaction authentication procedures.

## **Fraud thresholds and compliance programs**

Most of the Card schemes have compliance programs which are monitoring the merchants` fraudulent behavior i.e. how many fraudulent transactions were accepted for single month and what is the ratio between sales volume and fraud reports. The most essential compliance programs are those for VISA and Mastercard:

## ● Mastercard

Excessive Fraud Merchant	
Total dollar amount of fraudrelated chargebacks (RC4837)	>=50000 USD/EUR
Total dollar amount of frau chargeback basis points (bps)	>=50 bps
Percentage of monthly clearing volume processed using 3DS	<50%

### Excessive Fraud Merchant

Merchants are considered noncompliant when all of the following conditions are met in a given month:

1. The total dollar amount (or local currency equivalent) of fraudrelated chargebacks is greater than or equal to EUR/USD 50,000 (USD 15,000 for Australia)
2. The total number of fraud chargeback basis points (BPS) is greater than or equal to 50 (20 for Australia)
3. The percentage of monthly clearing volume processed using 3DS (including Identity Check Insights [IDCI] transactions) or DSRP is less than 10 percent in nonregulated countries, or less than 50 percent in regulated countries

NOTE: Monthly fraud-related chargebacks are defined as those first presentment chargebacks processed within a calendar month under the following reason code:

- 4837 (No cardholder authorization)

3DS transactions are identified in clearing in private data subelement (PDS) 0052 (Security Level Indicators) with a value of 211, 212, 214, 216, or 217.

DSRP transactions are identified in clearing in PDS 0052 with a value of 242 (Issuer Fully Authenticated) or 246 (Merchant Risk Based Decisioning).

IDCI (previously called Data Only) refers to non-3DS transactions in which Mastercard performs risk scoring and injects Digital Transaction Insights to the authorization request message.

The term non-regulated refers to those countries without a legal or regulatory requirement for strong cardholder authentication. The term regulated refers to those countries with a legal or regulatory requirement for strong cardholder authentication. See Acquirer Chargeback Monitoring Program Regulated/Non-regulated Countries tables for full list.

Exclusions: This program does not apply to merchants in Germany, India, Liechtenstein, Saint Helena, Ascension and Tristan Da Cunha and Switzerland.

● **VISA**

Program	Threshold criteria
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## Monthly Program Thresholds

Each month, Visa monitors the fraud levels of all merchants. VFMP will identify acquirers of merchants that meet or exceed the monthly VFMP program thresholds. The program will review all fraud transactions by the fraud-posting date and sales transactions by CPD (Central Processing Date) from the prior month. These thresholds are subject to periodic review and will be adjusted to respond as different fraud trends emerge. Advance notification of changes to the thresholds will be provided through member letters (*Visa Business News* articles).





## VFMP Monthly Program Thresholds – All Regions

### Standard Program Monthly Thresholds:

- US\$75,000 fraud amount, and
- 0.9 percent (90 basis points) fraud-to-sales amount ratio.

### Excessive Program Monthly Thresholds:

- US\$250,000 fraud amount, and
- 1.8 percent (180 basis points) fraud-to-sales amount ratio.



## iCard for Business account

E-money account, opened with iCard AD, that can be used from merchant as their pay-out bank account. Unlike the Merchant payment account, the iCard for Business account can be used as a standard bank account for operating purposes, such as incoming and outgoing bank transfers, OCT payments, etc.

## iMerchant Platform

iMerchant Platform is the web-based application designed for transaction monitoring, where a merchant could receive detailed online information about its acquiring activity with iCard AD. Access to iMerchant platform is provided to an authorized user(s) via signing “Third-party user access form”, which is part of the Agreements pack. The platform provides security access to both Merchant payment account and Merchant reserve account. It is smart and convenient tool for online monitoring of acquired payments via virtual POS terminals. Using the application, every merchant could receive up-to-date financial information, generate statements for merchant and reserve accounts, answer to initiated disputes, etc.

## **Merchant Payment account**

System account that serves for accumulating the amounts of accepted card payment transactions received by Merchant via iCard Virtual POS and for managing the applicable fees for the service as per iCard applicable tariff. Funds accumulated in Merchant payment account are periodically paid out to merchant's pay-out bank account within the time frames defined in the Merchant agreement (once a week, twice a week, daily). Merchant can access their Merchant Payment account (through iMerchant platform – details below) only for information purposes, receiving up-to date details for amounts of payment transactions, which have been approved, declined or cleared.

## **Merchant Reserve account**

System account that displays the funds which have been withhold by iCard for certain Merchant.

## **OCT Payments**

A transaction, initiated by a merchant, that results in a credit to a Payment Card for a purpose other than refunding a purchase. Most commonly used by online gambling operators for paying players' winnings. Processing OCT payments is possible only if merchant has iCard for Business account, as they are set to use its balance and not the balance of the Merchant payment account. OCT transactions are related to previously executed Purchase transaction.

## **Pay-out bank account**

Business bank account on the name of the merchant, which can be either e-money account or standard payment business bank account, where the funds accumulated in the merchant payment account are paid-out/settled at the end of each settlement period. Merchant's payment account and merchant's pay-out bank account are two different accounts.

## **Recurring transaction**

Multiple e-commerce transactions processed pursuant to an Agreement between a Cardholder and a Merchant to purchase goods or services on a subscription basis. Two types of recurring transaction may appear – first recurring transaction and subsequent recurring transactions.

## **Refund**

Opposite of a purchase transaction i.e., the cardholder returns goods to the merchant and is credited for their value.

## **Reversal**

Transaction used to negate or cancel a transaction that has been sent through to the Card Issuer in error.

## **Rolling reserve**

A percentage of weekly processed transactions turnover, held for a predetermined amount of time before iCard releases the money to the merchant's payment account.

## **Rolling reserve calculation**

For the purpose of this example, we will take a rolling reserve on 26 weeks basis. In the 27th week the system is ready to automatically block out and reimburse what has been held in the first week. At the same time it calculates what needs to be held for the current week. The difference is then reimbursed/withheld to/from Merchant Payment account. Thus, each week the net amount between the sum that should be held for the current week and the sum that should be blocked out on this date is respectively reimbursed (or

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## Settlement

Payment of all cleared transactions to merchant payment account .

## Transaction

Online card payment made by a Cardholder for purchase of goods and services from a Merchant.

## Transaction with stored card

This is a merchant-initiated transaction, which performs a purchase with Cardholder's previously stored card. It usually occurs when processing recurring payments originating from a subscription made by the Cardholder but the amount and period may differ for each payment.

