

more
than
money

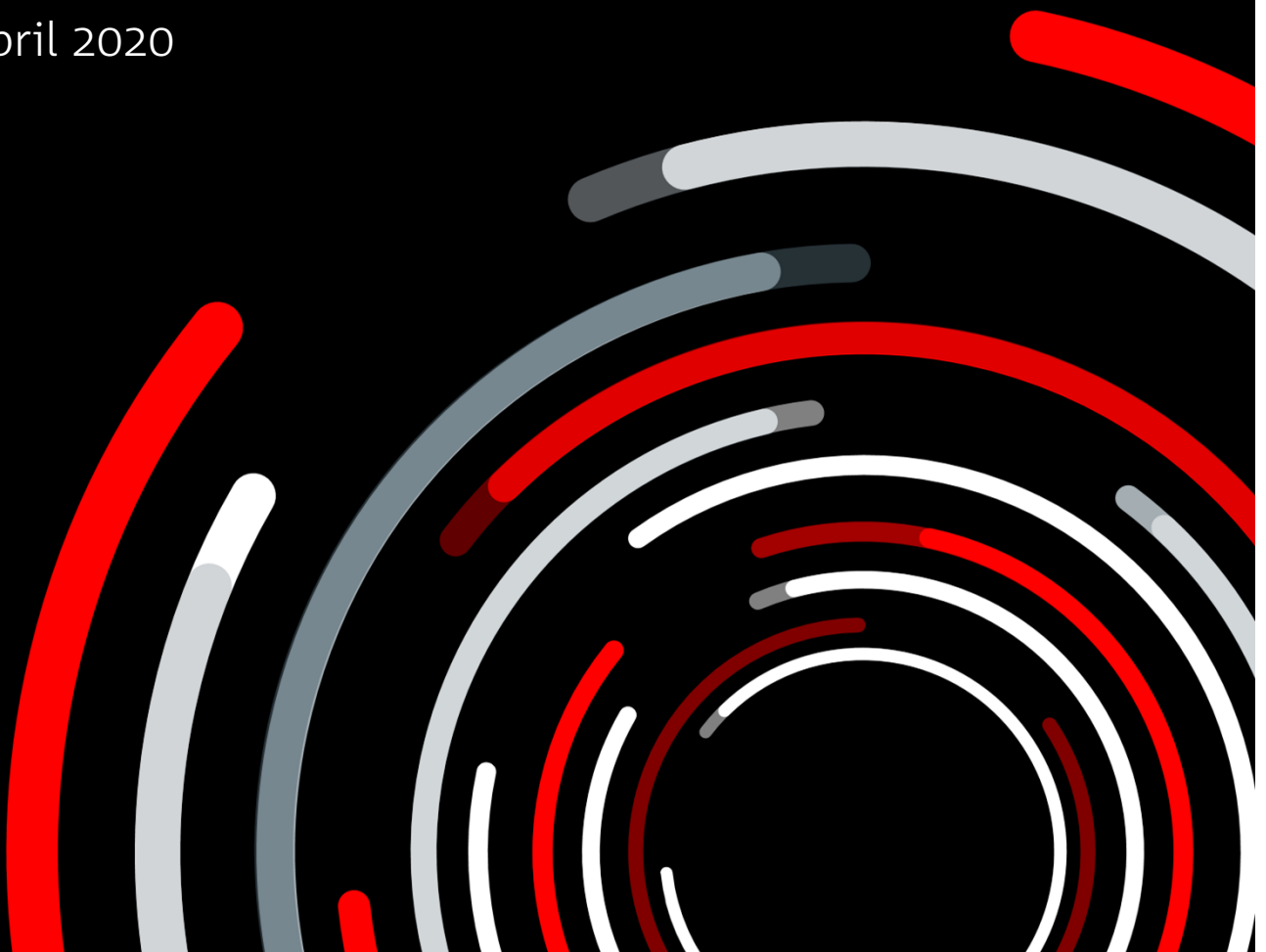


nab

ECOMMERCE AND THE CARD PROCESSING

environment today

April 2020





Find out more

HOW WE PROCESS CARD TRANSACTIONS TODAY

These are unprecedented times — where the COVID-19 pandemic has closed businesses and brought millions of people indoors globally. For many, online commerce is becoming the primary sales channel.

This highlights opportunities of course, where for many traditional bricks and mortar business may be quickly exploring an online ecommerce presence could look like. But this has also led to challenges for existing businesses with existing ecommerce presences, who are simply trying to keep up with demand, and the associated management of the increases in credit card rejections.

Card acceptance (credit and debit) has grown strongly in Australia as a preferred form of payment for both consumers and businesses. The broad acceptance of contactless transactions, increasing use of digital wallet applications by consumers, and the recent proliferation of debit card options has fuelled this growth.

Card payment acceptance relies on the exchange of data and funds between many parties including the cardholder, card issuer, merchant, acquirer and card schemes. Over time, the requirements of Visa and MasterCard (the “card schemes”) have evolved to offer increased protection for cardholders through changes in the authorisation process.

The complexity of the card processing environment, means there can sometimes be confusion and lack of clarity on how transactions are processed and charged for merchants. Some recent statistics from a major scheme, indicate that in many industries, rejection rates are still very high. The table below captures some of the most affected industries.

It’s important that the processes and cost structures that underpin the card system are understood by merchants, so they can maximise the acceptance and minimise the cost of their card processing.

Description*	MCC	Transactions declined**
Charitable organisations	8398	24.76%
Energy retailers/Water Authorities	4900	14.22%
Telco companies	4814	10.79%
Subscriptions/Memberships	7997	9.72%
Insurance	6300	19.09%

*June 2018 through December 2018 (6 months). Source: NAB data.

**The data reported above is where transactions have been flagged as Recurring and came back as declined payments.

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Who's who in this picture?*

The operation of card based financial transactions is governed by the Australian standard for financial messaging (AS2805 published in 1985 and ISO8583 published in 1987), which has existed since 1985.

Parties included in this model are:

Card schemes: refers to Visa or MasterCard for this document. Card schemes set the rules that are applied within their regional networks and act as a switch between issuers and acquirers.

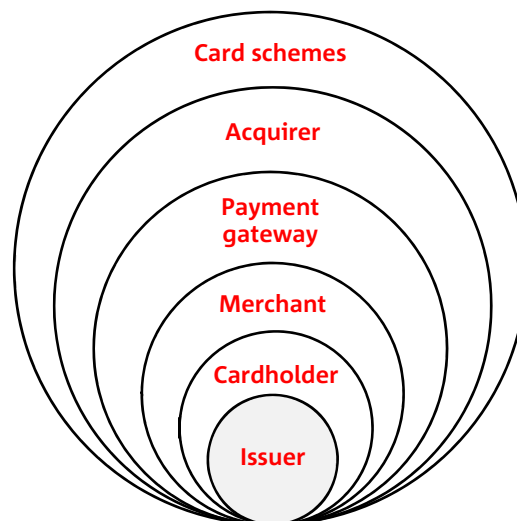
Issuer: a member of a card scheme that holds a licence to issue credit or debit cards within a specific region.

Cardholder: customer of a card issuer.

Acquirer: a member of a card scheme that holds a licence to acquire scheme transactions and manage the merchant within a regional network.

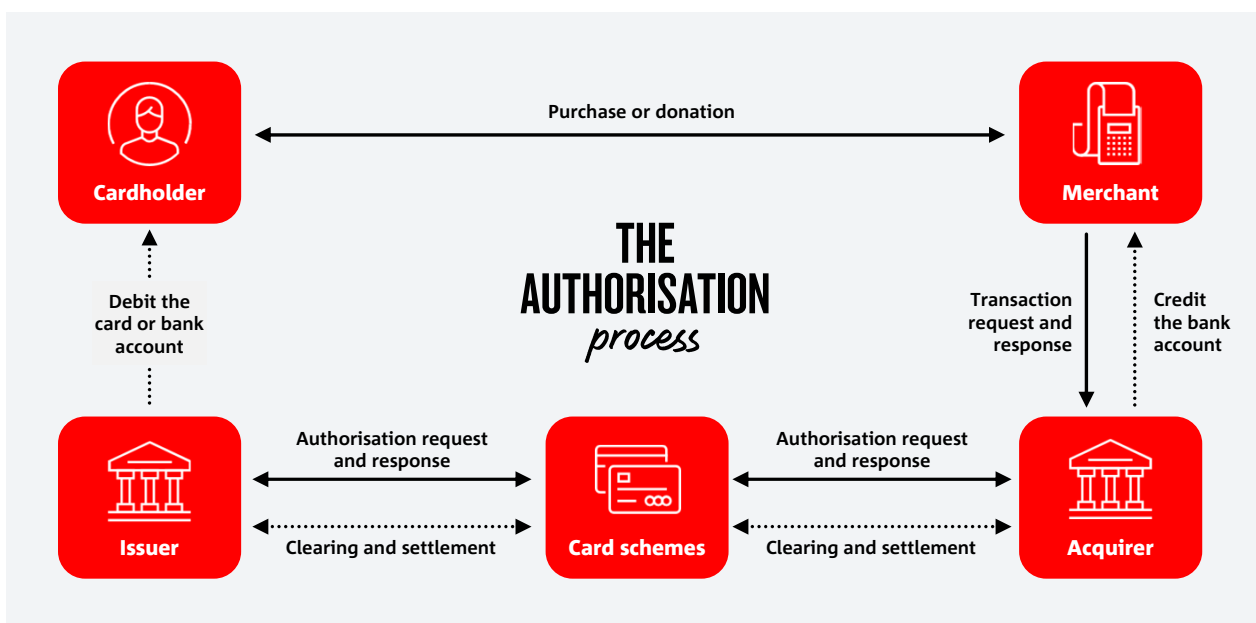
Merchant: customer of an acquirer.

Payment Gateway: Sometimes a technology provider as a 3rd party intermediary, also could be a solution hosted by the Acquirer.



The authorisation process

Generally, all transactions need to be authorised online to combat fraud and ensure funds are available in the card account, which ensures cardholders can manage their debts. Authorisation upfront helps to reduce the number and cost of chargebacks after transactions are processed.



Managing rejections **RECOMMENDATIONS**

There are many responses that can be received for a declined transaction. For effective management of rejections, the following reasons for decline should be of focus. Rejection rates can vary greatly between organisations. This is influenced by many factors including customer demographics, frequency of transactions, average transaction size.

Expired cards

For any merchant that maintains a recurring billing program, expiry dates are a significant administrative overhead, and source of declined transactions. To facilitate more efficient processes, domestic Visa and MasterCard offer a “Recurring transaction indicator” which flags a transaction to the card issuer to confirm that the merchant holds an authority from the cardholder for ongoing debits. An expiry date is not required to be renewed for a Recurring transaction, as it is acknowledged that the relationship may extend for longer than the active period of the card. The initial transaction does need to have a valid expiry date.

Pick-up card

In circumstances where a card has been cancelled or reported as lost, merchants will receive a ‘Pick-up’ message to indicate card is no longer in use. Most card issuers will redirect transactions to a new account number for a period of time (importantly though, this is at the issuers own discretion) provided the reason for re-issue was not fraud related. In the case of Card Pick-Up and/or repeated declines for Insufficient Funds where all attempts are unsuccessful, contact with the customer is recommended to request new card details.

Insufficient funds

Insufficient funds account for the majority of all declined transactions. From analysis of account balances within NAB we know that most commonly paydays fall on Wednesday for both weekly and biweekly payment plans, with Monday and Friday being the least popular. We recommend re-attempts should be made up to 4 times across a 16 day period from the date of the original declined response for alternate possible pay dates.

Do not honour

This is a general decline code used by most issuing banks and it encompasses a multitude of reasons, even those that have more specific rejection codes. Common reasons include the account has been closed by the cardholder, the cardholder is deceased, card lost or stolen, daily limit exceeded, duplicate transaction suspected or the cardholder is not properly identified. Recommend transaction retries in the first instance.

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Support cost reductions with the recurring transaction flag

To facilitate more efficient processes, Visa and MasterCard offer a “Recurring transaction indicator” which flags a transaction to the card issuer to confirm that the merchant holds an authority from the cardholder for ongoing debits.

An expiry date is not required for a Recurring transaction, as it is acknowledged that the relationship may extend for longer than the active period of the card. In those cases, the issuer will typically approve the transaction if the account is in good standing and there is a valid card on issue for the account albeit that the cardholders current card may have a completely different expiry date to the one that was used when the authority to undertake the transaction was first provided.

The authorisation process has been enhanced over the last 10 years to offer greater protection for cardholders and merchants. Recurring transactions do not require an expiry date, which reduces administration costs.

It is mandatory for all Visa and MasterCard issuers and acquirers to support the Recurring transaction indicator. You should check with your acquirer or payment gateway to find out how they need you to submit your transactions to take advantage of this transaction type.

“It is mandatory for all Visa and MasterCard issuers and acquirers to support the Recurring transaction indicator.”

“Hard” and “soft” declines

Before re-attempting processing of any declined transaction, it would be prudent to understand whether the original rejection code is a ‘Hard’ or ‘Soft’ decline.



Hard declines

Hard declines should not be retried as the reason the transaction is declined is not temporary or the card details are incorrect. In these cases, subsequent retries are unlikely to be successful.



Soft declines

Soft declines are due to typically temporary issues such as a high level of recent activity on a card or a card being over the limit, which may result in a successful transaction after one or more subsequent attempts. It is important to consider the transaction processing costs when deciding how many times a transaction should be re-attempted.

Appropriate database management

In the case where all retry attempts are unsuccessful, contact with the customer is recommended to request new card details. Gateway transaction fees do exist for failed transactions, so it is prudent to ensure that there is the highest success rate possible.

When signing up new customers it would be prudent for your acquisitions team to initially validate the cardholders account details through various gateway providers (live) capabilities such as ZeroAuth. ZeroAuth capabilities are used in order to validate the customer card so it is less likely to have future 'hard' declines once it is processed through your recurring batch files.

Organisations need to develop a process for communicating with customers to obtain updated details while maintaining their relationship to avoid drop out from recurring program. Effective programmes include electronic reminders (e-mail or SMS) to operator call-back. In these cases, request for payment of failed payments in addition to new payment details is common.

“Organisations need to develop a process for communicating with customers to obtain updated details while maintaining their relationship to avoid drop out from recurring program.”

Future/continued enhancements

The focus on the card schemes, both international and domestic remains focused on improving the speed, agility and security of the payments space. There are a number of initiatives currently in flight, these include:

Global implementation of Scheme tokenisation and a new 3D Security protocols, which introduce new security controls and remove friction from the customer experience. This effectively supports faster processing, with higher approval rates at lower fraud rates

The use of neural networked-based artificial intelligence algorithms to analyse transactions and help to reduce fraud on over \$36.4 billion of payments last year

The Schemes are collaborating across brands to deliver a single wallet payment capability, which is expected to go into pilot early 2020 – making it easier for merchants to offer secure payment acceptance via secure wallets

Making storage of cardholder credentials on file easier and more cost effective for merchants, reducing cardholder friction at point of payment, further enhancing the authorisation rates for our customers

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Conclusion

The card processing environment is complicated, with a myriad of factors that determine whether a transaction will be approved or declined. It is possible that individual transactions may be declined for reasons that cannot be linked directly to the transaction but relate to the status or risk profile of the card account itself.

Applying the rule of quality over quantity and being more stringent with screening customers before signup, can help to lower rejection rates and overall net improvement of payments approval in the long term.

A better understanding of rejection codes will allow organisations to put in place business rules and processes that will minimise re-attempts, deliver lower rejection rates and save the organisation from paying unnecessary transaction costs.

Ongoing, whilst card scheme transactions will continue to be an important form of payment globally, consumers and businesses will have an increasingly diverse range of options to choose from, to maximise speed, accuracy, identity, and increasing, the quality of the data with payments. This shifting landscape is important for high volume merchants to consider in an appropriate receivables management solution.

To gain further information or discuss potential payment processing strategies for your organisation please contact your local NAB Transaction Solutions Specialist.

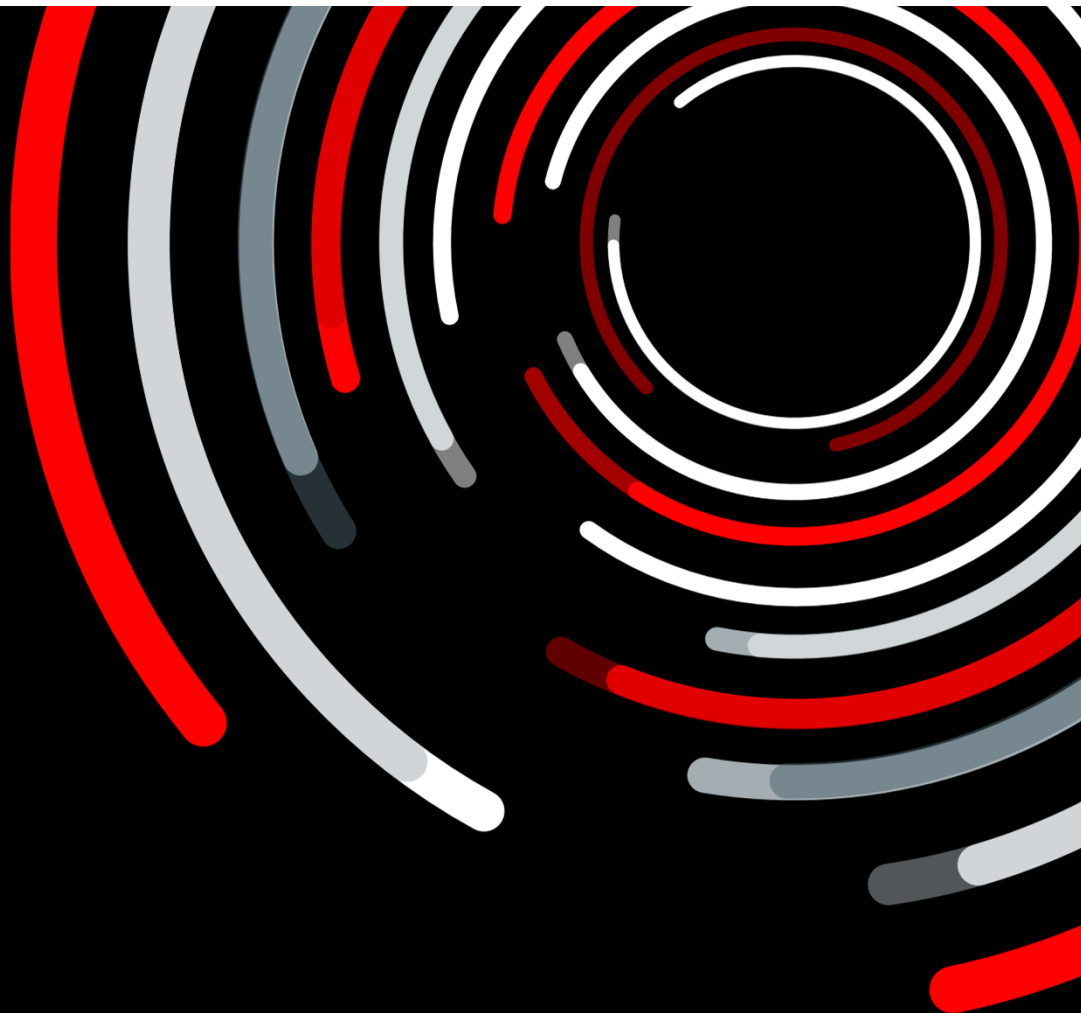
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