The following glossary represents definitions for commonly-used terms in online payment processing.

Address Verification Service (AVS)
A fraud protection service created by Visa and MasterCard that checks a shopper's billing address against the card processor's existing address record for the shopper. AVS returns a code that indicates how well the addresses match. It is up to you, the merchant, to consider the risk associated with each AVS code and to decide whether to ship the goods, contact the shopper for additional information, or simply ignore a potentially fraudulent order.
To receive the best discount rate from your acquiring bank, you must use the AVS service when processing transactions on the Internet.

Acquiring Bank
A financial institution that provides merchant accounts. A merchant account allows you to accept credit cards. Acquiring banks are also called merchant banks, or acquirers. Acquirers are so named because they acquire a merchant's sales tickets and credit the order value to the merchant's account.
American Express and Discover sign up merchants to accept their cards, performing a similar function to acquiring banks. (American Express and Discover also issue their own cards, acting like issuing banks.)

Authorization
The process of checking for adequate funds in a cardholder's account. A positive authorization reduces the cardholder's available balance and reserves the funds for capture. This process does not actually deduct funds from the cardholder's account. The deduction occurs at settlement. Authorized transactions are also known as approved transactions.
If you are shipping physical goods, authorization and capture are separate steps: payment is offered (and authorized), the goods are shipped, then payment can be collected (capture).

Batch

A collection of transactions that are processed as a group. Many payment services allows you to batch orders for authorization or for capture. Your transactions may in turn be batched for daily settlement by Visa or MasterCard.

Capture

The process of converting an authorized transaction amount into a transaction that can be deposited to your merchant account. In effect, a capture is your request for settlement. You may only capture authorized transactions. And, just like a mail-order merchant, you may only capture Internet transactions once you have shipped the product to the shopper. Funds are not immediately available to you after capture; funds are available after settlement.

Cardholder

Any shopper or consumer who uses a credit card to purchase goods from your store.

Card Association

Visa or MasterCard. These companies provide credit cards and other products for banks. Banks add their own brand to the products, and may issue cards to cardholders, establish programs for merchants to accept the cards, or both. Banks make money on transactional fees, membership charges, and interest generated from these products. The card associations also operate and manage worldwide authorization and settlement systems.

Card Processor

See Processor.

Card-Not-Present (CNP) Account

See Mail Order/Telephone Order (MOTO) account.

Chargeback

A chargeback is a request by the cardholder or the card-issuer to reverse a disputed purchase. Your acquiring bank may charge hefty fees for each chargeback.

Commerce Service Provider (CSP)

A company that leases the use of their e-commerce solution to businesses. A CSP owns and operates the complex and expensive server hardware, commerce software, security tools, and transaction processing systems that merchants need to conduct online commerce.

Credit Card

For our purposes, a credit card is any commonly-used credit, debit, charge, or other payment card like Visa(r), MasterCard(r), American Express(r), Discover(r), or Diners Club(r).

Discount Rate

The small percentage of each transaction an acquiring bank charges you for the right to use your merchant account.

Fraud Protection

The process of checking card validity, which may include inspection for cancelled or blocked card numbers, detection of stolen cards, or fraudulent shopper behavior patterns. Some payment services provide real-time fraud protection. The Address Verification Service is also a form of fraud protection.

Internet Merchant Account

A bank account that allows you to accept card payments via the Internet. An Internet merchant account does not require a shopper's signature, but may have requirements beyond a typical card-not-present or mail-order/telephone-order account. If you already have a merchant account, you should verify that the account supports credit card payment over the Internet. Different rates and regulations may apply.

Issuing Bank (Issuer)

The financial institution that issues a credit card to a cardholder. Also referred to as the cardholder's bank.

American Express and Discover issue their own cards, performing a similar function to issuing banks. (American Express and Discover also sign up merchants to accept their cards, acting like acquiring banks.)

Mail-Order/Telephone-Order (MOTO) Account

Enables you to accept credit card payments without a cardholder's signature. With a MOTO account, the merchant and the cardholder do not need to be in the same physical location. For example, a catalog company would have a MOTO account to accept orders by mail, telephone, or fax. MOTO accounts are also known as Card Not Present or CNP accounts.

Internet merchants must secure an Internet merchant account in order to process orders from the Internet. Your existing MOTO account may not suffice. Check with your merchant account ISO to make sure your MOTO account may also accept Internet transactions.

Manual Authorization

Manual authorization requires that you manually input card data into the transaction processing system. After you receive a credit card order (via the Internet, mail, or fax), a manual system requires you to enter the card type, card number, cardholder name, expiration date, and AVS data into a point-of-sale terminal or virtual POS terminal Manual processing introduces a risk of data entry errors, which can result in failed authorizations, chargebacks, or faulty AVS results.

Merchant

Offers goods for sale in exchange for payment. When learning about payment processing, it's easiest to envision a merchant as shipping hard goods, but an online merchant may also provide services, or transmit "soft goods" like downloadable computer software or pay-per-view online content.

Merchant Account

A bank account that allows you to accept credit card payments. Some merchant accounts require that you collect the cardholder's signature on a sales authorization slip, as in a retail store. Other merchant accounts allow you to accept card payment when the card is not present, without requiring a signature (see MOTO Account). To accept credit card payments online, you must have a merchant account that accepts orders over the Internet. If you already have a merchant account, check with your bank to make sure you can accept Internet orders.

Merchant Account Independent Service Organization (ISO)

Merchant accounts are often sold and supported by third-party companies rather than the acquiring banks themselves. A merchant account ISO helps merchants quickly establish accounts that meet their individual needs. As an online merchant, you will also need to work with a bank that supports Internet merchants, and that works with the processors supported by a payment service. A merchant account ISO can help you do that.

Merchant Identification (MID)

A unique number that identifies your merchant account to payment processing networks and to your payment software.

Payment Card

See Credit Card.

Point of Sale (POS) Terminal
An electronic device that includes a reader to detect the magnetic strip on a credit card, a keypad, and a telephone connection to a payment processing network. If you use an online payment service, a POS terminal is not required.

Processor (Payment Processing Network)
Connects online transaction processing software with the credit card networks, which then connect to merchant banks (acquiring banks) and cardholder banks (issuing banks). For example, if a shopper purchases a product with a Visa card, a processor passes the card data from the payment service to the Visa network, which checks for card validity and available funds, then sends a response back through the processor to the payment service. If the shopper uses MasterCard, a processor would connect to the MasterCard network.
FDMS Nashville, operated by First Data Corporation, is an example of a processor. Processors are also known as payment processing networks, third-party processors, or front-end processors.

Real-time Authorization
Authorizes a credit card in real-time, as a shopper completes the checkout process in an online store. A positive authorization allows the order to proceed normally, a negative authorization sends the shopper an error message and prevents the order from completing until an approved card is entered.

Settlement
The process by which Visa and MasterCard transfer funds between a cardholder's account at the issuing bank and your merchant account at the acquiring bank. Settling a sale involves withdrawing funds from the cardholder's account and depositing them into your merchant account. In the case of a refund, the process is reversed.
American Express and Discover also settle transactions, although each company owns both the cardholder and the merchant account, so acts as both issuer and acquirer.

Signature-Required Account
Many merchant accounts require a cardholder's signature to proceed with a transaction. These accounts are also known as "card present" or "card swiped" accounts. (Think of swiping a card through a point of sale terminal.)

Secure Sockets Layer (SSL)

An Internet standard for encrypting data. SSL allows a secure connection between your shopper's browser and your online store's server. SSL encrypts incoming and outgoing data transfers so that hackers can't steal sensitive data (like credit card information) from you or your customers. SSL is supported in most Web browsers, including any version of Microsoft(r) Internet Explorer and Netscape Navigator(r) numbered 2.0 or greater.

Ticket Size

The monetary value of an order placed by credit card.

Terminal Identification (TID)

A unique number that identifies to the payment processing networks and your payment software the terminal where a transaction takes place. You might use multiple TIDs that refer to the same merchant account. For example, if you process transactions through an online store and two physical stores, you might use one TID for the online "virtual" terminal, one TID for the point-of-sale terminal in one physical store, and a third TID for the second physical store.

Transaction

Following the common understanding of this term as the exchange of goods for payment, a transaction initiates when a credit card order is placed in your online store. Each attempt to authorize a credit card is an order attempt and therefore a transaction. A shopper refund is also a transaction.