



# Cards 101

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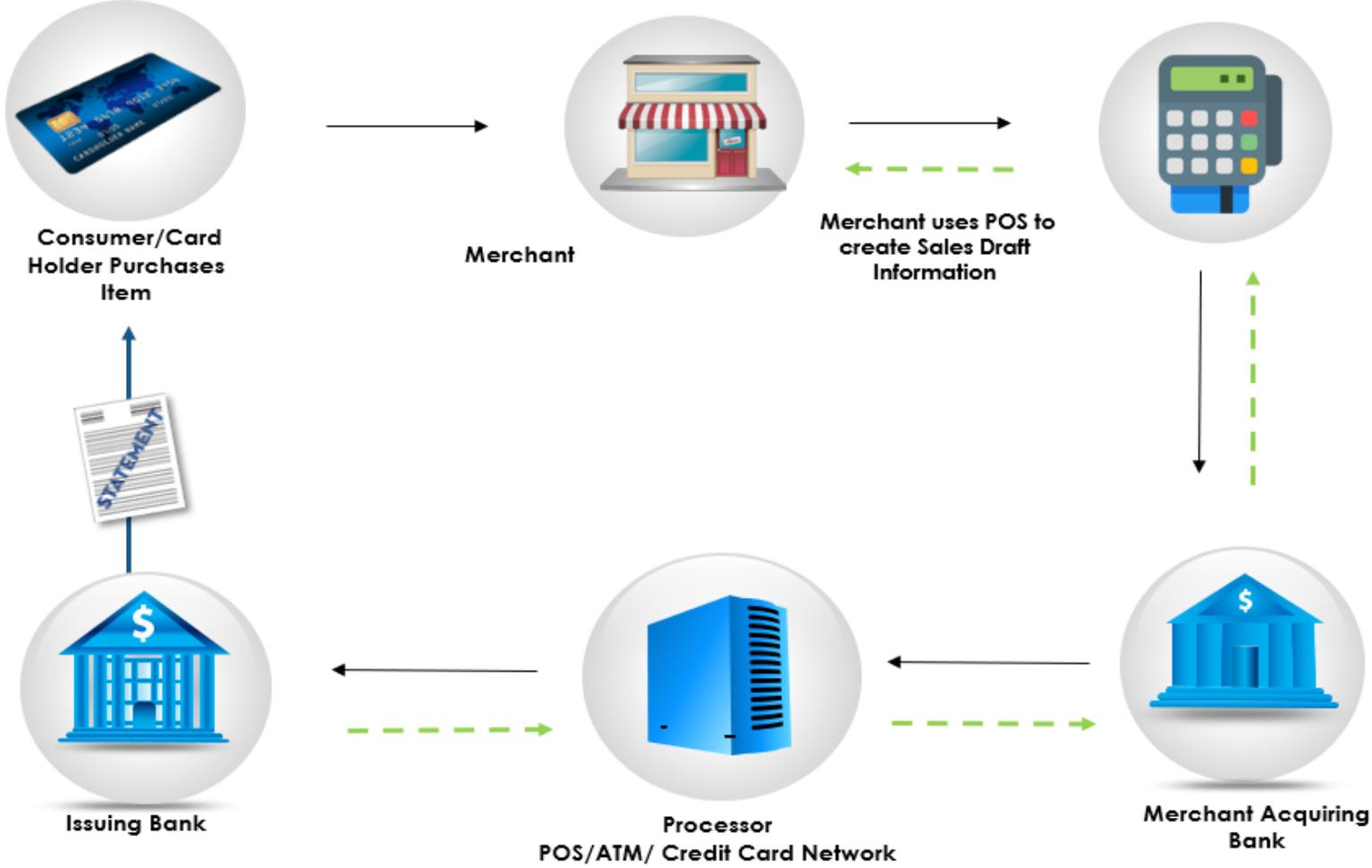
# Card Payment Participants

- **Card Holder:** Individual who has been issued or authorized to use credit or debit card; must pay issuing bank under terms of card agreement
- **Card Issuer:** Entity that issues credit, debit or prepaid card to card holder; pay acquiring banks for purchases cardholders make
- **POS/ATM/Credit Card Network:** Network that provides switching facilities for the routing of credit and debit card transactions between Acquirers and Issuers; Enforce compliance among participants; Settlement between Issuer and Acquirer accounts; Settle fees between Issuer and Acquirer
- **Acquirer:** Merchant's bank; Registered member of card associations
- **Merchant:** Entity that has agreed to accept credit or debit card for purchase of goods or services at its retail locations

# Industry Participants

- Cardholder makes a purchase at a terminal
- Acquiring entity acquires the transaction from the merchant and sends to the network
- The network routes transaction to Issuer
- Issuing entity will approve or decline the transaction

# Card Payment Flow



# Definitions

- Interchange: a sharing of a portion of payments system costs among the issuers and acquirer's participating in the card system. Generally, interchange fees are collected from acquirers and paid to issuer's (or netted by issuers against amounts paid to acquirers) to reimburse the issuers for a portion of the costs incurred by them in providing services (income for institution)
- Switch fees: Per transaction fee payable by the Issuer when transactions pass through the switch (cost for institution)

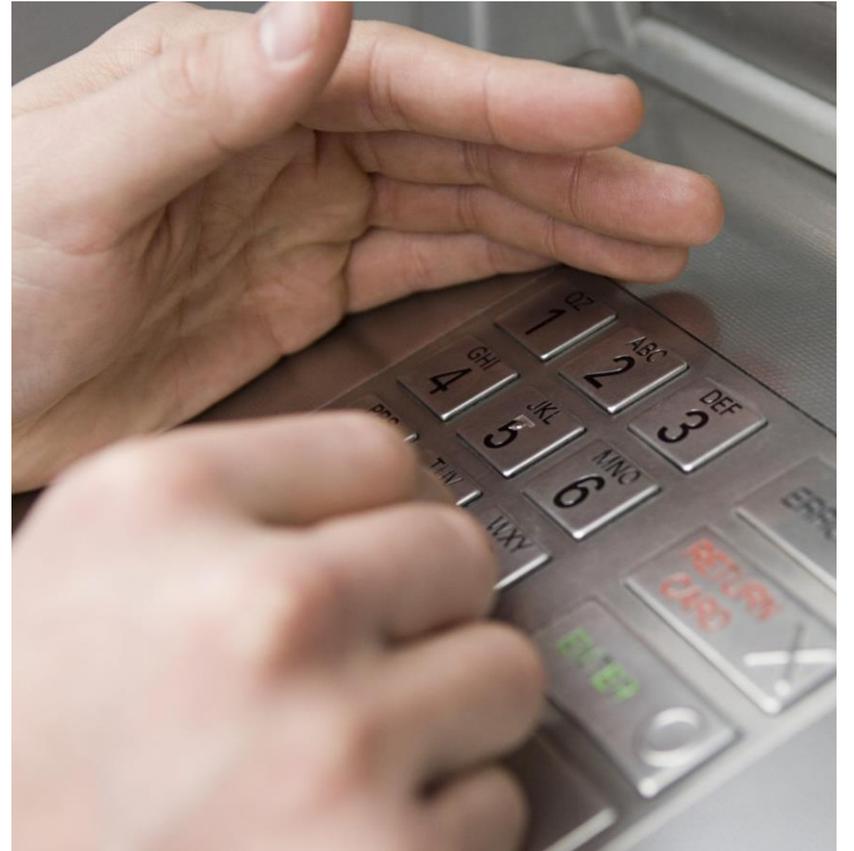
# Net Interchange

- Gross interchange minus processing fees charged to the issuer by the network
- Issuer switch fees vary significantly from network to network
- Gross interchange:  $\$0.15 + 1.05\%$  of  $\$50$  purchase =  $\$0.675$   
Minus network issuer switch fees ( $\$0.06$ )  
Net Interchange =  $\$0.615$

# Authentication

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- Single Message
  - Formerly known as PIN-based, PIN debit, or simply “debit”
- Authorization and posting data included in one transaction message
  - At the time cardholder engages in the transaction
  - Transaction date known to the cardholder
  - Controls account posting date
  - May contain a PIN





# Authentication

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- Dual Message
  - Signature-based or credit
- Authorization message
  - At the time the cardholder engages in the transaction
  - Requesting approval from the issuer
  - Transaction date known to cardholder
  - May contain a PIN
- Advice Message
  - When merchant submits batch of transactions
  - Settlement date and posting occurs
  - Controls account posting date

# Do signatures mean anything?

- Fraud prevention?
- Chip cards
- Merchant decision
- Low dollar threshold
- No signature or PIN



# Authorization

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- Authorization refers to the process by which a transaction is routed to the issuer for approval and then a decision whether or not to approve the transaction is made by the issuer.
- Stand-in: During certain circumstances when the issuer's systems are unavailable or cannot be contacted, the card network or others on behalf of the issuer will make the authorization decision in accordance with either the issuer's instructions or applicable rules



# Clearing vs. Settlement

Clearing refers to the exchange of financial transaction information between issuers and acquirers after a transaction has been successfully conducted at the point of interaction.

Settlement is the exchange of funds between parties. The actual exchange of funds takes place between a settlement bank, designated by the customer and approved by the card network, and a settlement bank chosen by the card network.

# Open Loop vs. Closed Loop

## Open Loop

A multi-party network that connects two financial institutions, issuing financial institution (issuer/cardholders bank) and acquiring financial institution (acquirer/merchants bank) and manages flow of value between two financial institutions

- Visa and Mastercard are examples of open loop networks

## Closed Loop

Provides payment services directly to Merchants and Card Holders by the owner of the network, without involving third-party financial institutions as intermediaries

- Discover and Amex because they act as both Issuer and Acquirer for their transactions
- Cards are limited to specific merchants (Starbucks)

# Credit Card Surcharges

- Optional fee added by businesses when customers pay by credit card
- Fee must be disclosed before completion of payment
- Posted notice
- Brand fees
- Product fees



# Credit Card Convenience Fees

- Card issuers and payment processing networks have varying policies on credit card convenience fees
  - American Express
  - Discover
  - Mastercard
  - Visa



# Network vs. Processor

- Network = Brand (MC, Visa)
- Acquiring Processor
  - Often a third party, non-bank entity
  - Service provider
  - Payment Gateway



Routing based on BIN (Bank Identification Number) tables

# Regulation II – Durbin Amendment

- Debit Card Interchange Fees and Routing

“...prohibits all issuers and networks from restricting the number of networks over which debit transactions may be processed to less than two unaffiliated networks, and from inhibiting a merchant’s ability to direct the routing of a debit transaction over any network that the issuer has enabled to process it.”

# It's a numbers game...

- Card number on the front vs. Card number on the back
- Digits 1-6 is the BIN number – issuer identified
  - First digit signifies card network
  - 4 – Visa
  - 5 – Mastercard
  - 6 – Discover
  - 34 or 37 – American Express
- The remaining numbers from digit 7 to the end, but not including the last digit, identifies the card holder.
- The last digit is a check number – algorithm using the other card number digits

# Luhn Algorithm – Check digit

- Checksum formula used to validate identification numbers
- From the rightmost digit, which is the check digit, moving left, double the value of every second digit.
- If the product of this doubling operation is greater than 9, sum the digits of the product
- Take the sum of all the digits
- Multiply by 9
- The last digit is the check digit

## Example

Initial PAN

<b>PAN</b>	3	7	1	4	4	9	6	3	5	3	9	8	4	3	X
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Step 1 - double the values

<b>Double values</b>	3	14	1	8	4	18	6	6	5	6	9	16	4	6	X
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Step2 - sum the digits

<b>Sum digits</b>	3	5	1	8	4	9	6	6	5	6	9	7	4	6	X
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Step3 - sum all digits

$$3 + 5 + 1 + 8 + 4 + 9 + 6 + 6 + 5 + 6 + 9 + 7 + 4 + 6 = 79$$

Step4 - multiply by 9

$$79 \times 9 = 711$$

Result

The check digit is 1.

2  
1

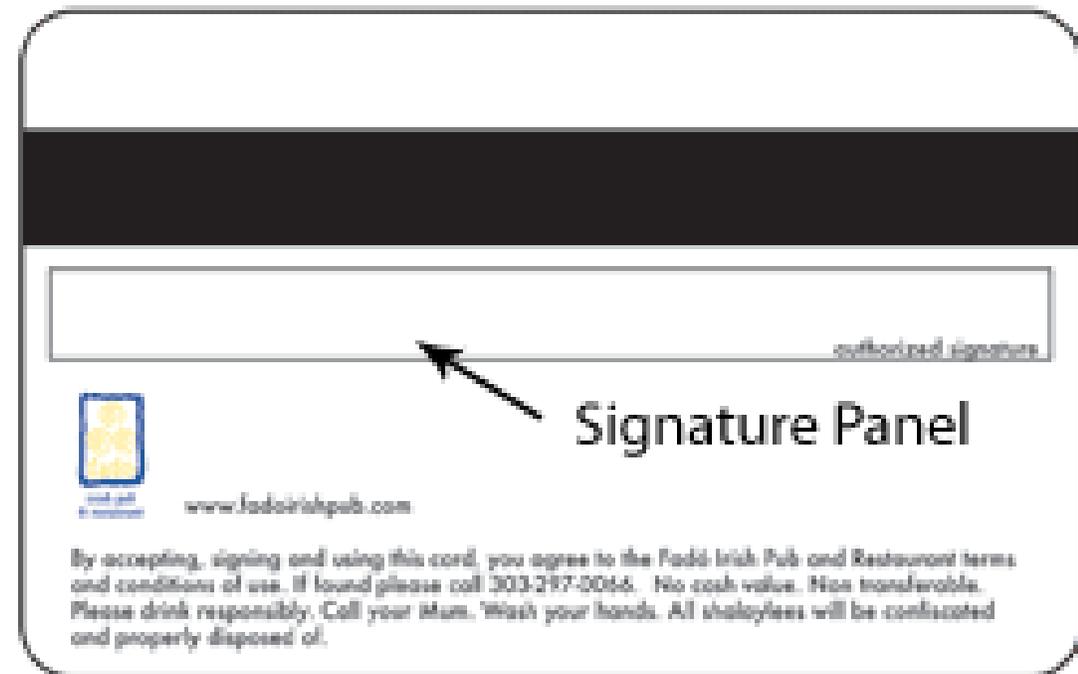
## CVV Code

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- Code Verification Value
- Three or four digit number
- Determined by the debit or credit issuer based on specific factors, such as the card number, expiration date, an issuer's unique code, or a specific service code

# Signature Panel

- Intended to verify your agreement with the card company.
- “Not valid unless signed”
- “See ID”
- Not necessary and will phase out!



# Requirements for Overdraft Services Regulation E 1005.17

- 1005.17(b) Opt-In requirement
  - Created so consumers could choose to allow or not to allow FIs to authorize ATM & debit cards transactions if the account was NSF and charge a fee for this service

# Opt – in/Opt-out

FIs required to inform consumers of the Reg E rule

- Including the fees associated
- Consumer choices

FIs must receive permission or “Opt-in” from the consumer to provide overdraft protection and charge for the service

If FIs do not receive permission can not allow transactions if account is NSF (Opt-out)

# Disappearing Stripe/Changing CVV



Starting Year = 2024  
Magnetic Stripe Not  
Required

By 2033 = extinct  
except prepaid



Piloting  
Dynamic CVV Codes  
Instead of back of card  
Mobile app generated

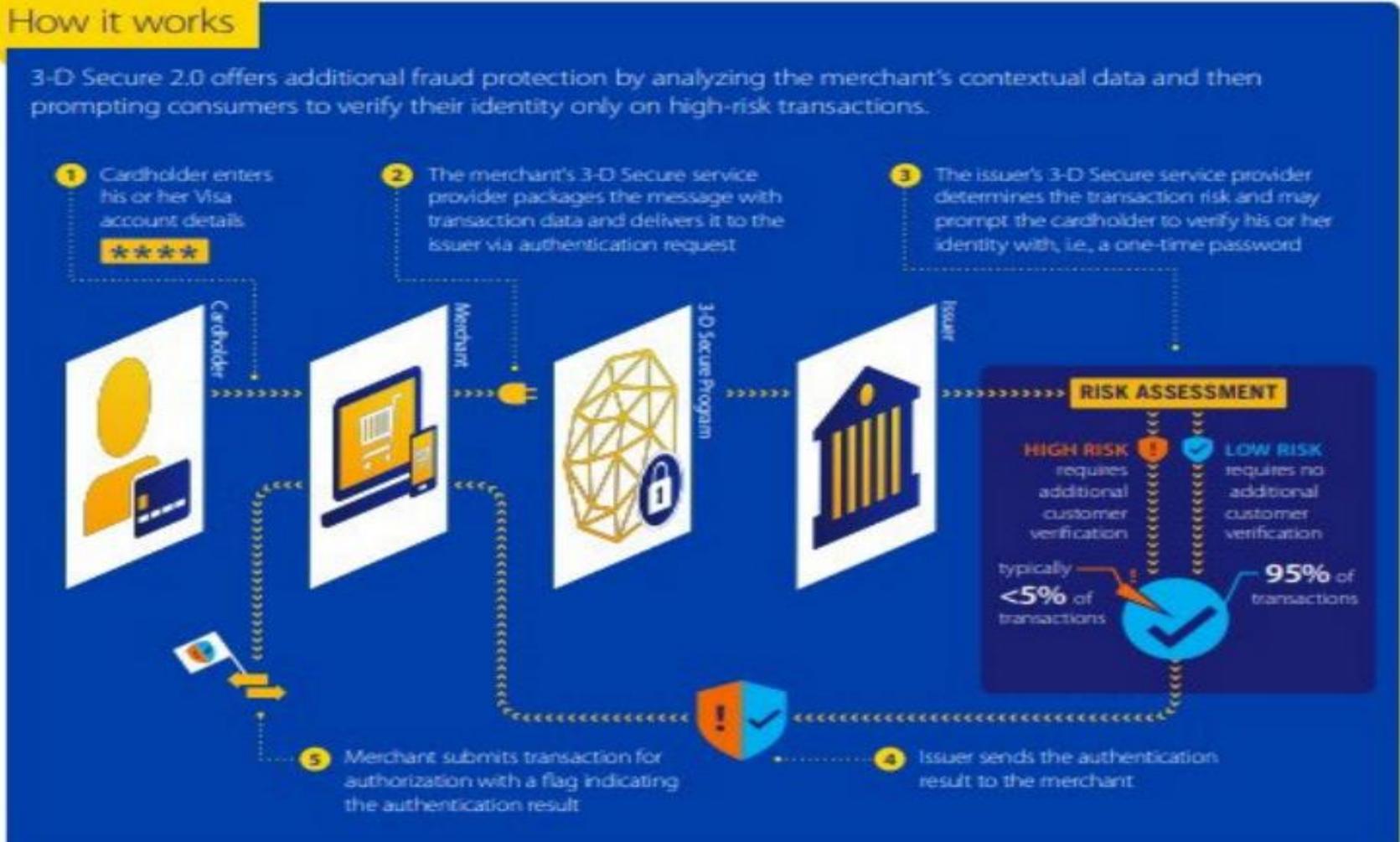
# Address Verification Service

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- Checks numeric portions of cardholder mailing address
  - Zip codes at gas pumps
- Does not apply to cards outside of US, Canada, and UK



# EMV 3D Secure



# EMV Secure Remote Commerce

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- Allows a cardholder to improve eCommerce experience by pre-enrolling check out information and enhancing card number security
- Multiple payments cards can be enrolled
- Consumer authenticated through
  - One time passcode
  - Two factor authentication
  - Remembered device
- Uses many other elements such as tokenization, 3-D Secure, and other technologies

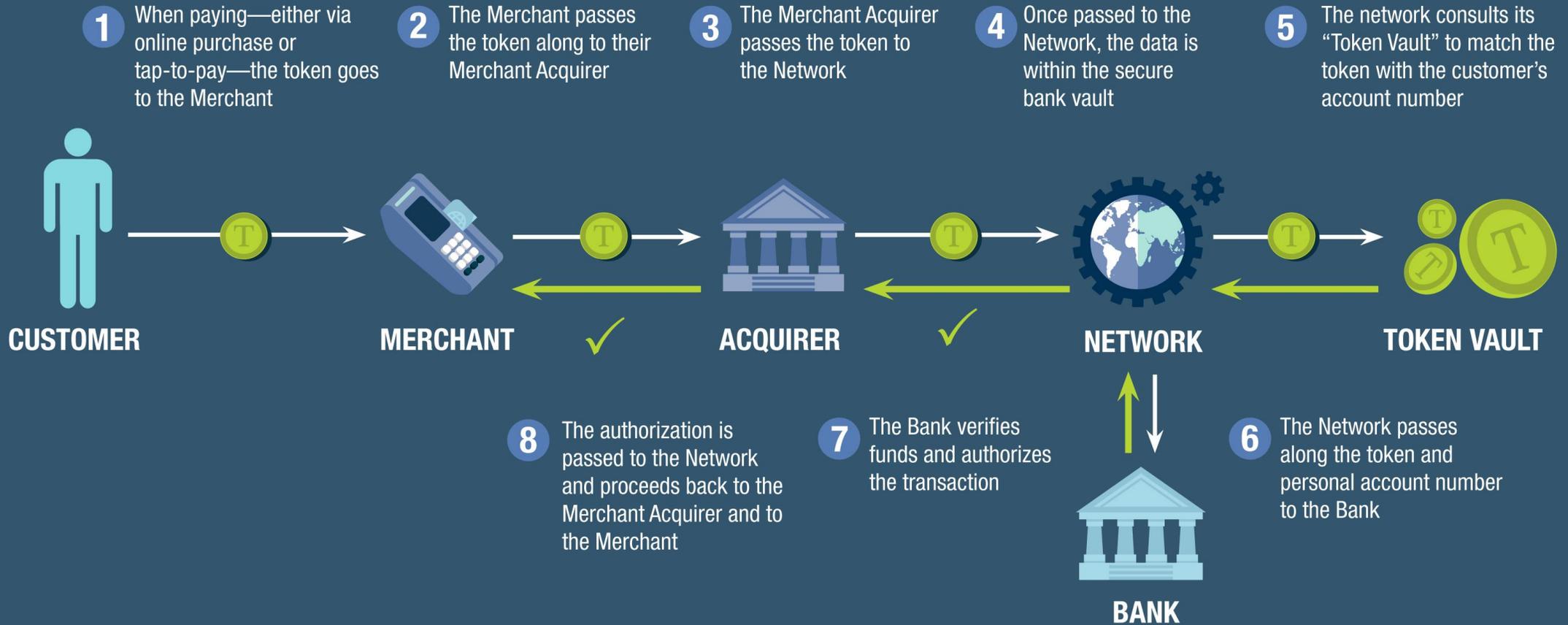
# Tokenization

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- For most non-plastic card devices and CNP transactions, replaces the real card number (primary account number or PAN) with a different “Tokenized PAN” that cannot be used to perform a transaction by itself.
- Network Tokens
  - Not single use
  - Domain specific
  - Device specific
  - May be algorithmically or randomly generated
  - Token is detokenized to Issuer original PAN by Network Token Vault



# HOW DOES A TOKENIZED TRANSACTION WORK?





# Velocity Checking

- Computing volume transactions threshold to attempt to reduce fraud
- Dollar amount checking
- Transaction speed occurrence
- Number of transactions in a period
- Repeated card number attempts (merchant related)

# Geo-location/Behavior/Device Tracking

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- Uses device attributes to determine validity
- Mobile devices
  - GPS location
  - Biometrics
  - Physical behavior
  - Device secure element
- Desktop/laptop devices
  - IP address
  - Physical behavior
  - Device fingerprinting



# Virtual Cards

- Exists as non-physical, non-plastic devices
- Used in e-wallets or for online purchases
- Instant issue
- Credit, Debit, or Prepaid Debit
- Added level of security and convenience
- May be domain specific
- Easily changed/maintained



# Contactless Cards

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- What is it?
- Mobile Wallets
- Embedded Contactless Technology
- Why we like it: speed, less physical contact, reduced wear, better for travel



# Debit Card Rewards

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- Points Based Rewards
- Relationship Rewards
  
- Fine Print
  - Accumulating Points
  - Expiration
  - Caps on Points
  - Maximum Cash Back
  - Fees



# What else can we do?

- Customer Education
- Debit card controls in online banking app
- Notifications
- Marketing in times of trouble
- New card numbers are ok!
- Encourage customer awareness of their own spending



# Your card vendor is your friend!

- Verify fraud settings – don't set and forget!
- Check fraud response lists on disputed transactions
- Review limits!
- A card is a privilege, it is not a right



# Questions??





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## Cards 101

November 7, 2024

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