Beginner's Guide to Payment Processing

A payment processor is a third-party vendor used by businesses to facilitate the logistics of accepting credit card payments from customers. It is responsible for verifying authenticity, providing security, completing credit card and debit card transactions, and payments to merchants.

Understanding Payment Processors

Understanding payment processors includes knowing basic terminology:

- Designated bank accounts for merchants.
- Online payment gateways.
- Requirements for card security.
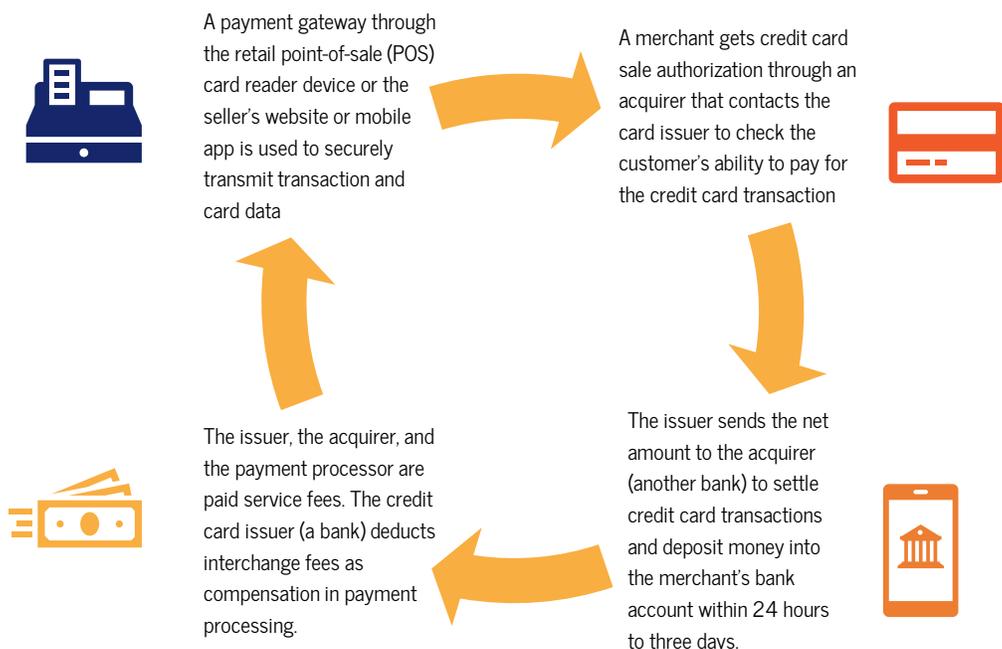- Credit cards with merchant fraud liability protection.

What Does a Payment Processor Do?

In a card transaction, a payment processor acts as an intermediary between the credit card networks, the merchant's bank, known as the acquirer, and the bank that issued the customer's credit or debit card, known as the issuer. The acquiring bank and issuing bank are members of credit card networks. Credit card companies, including VISA, Mastercard, Discover, and American Express, have proprietary credit card networks.

Payment processors are responsible for obtaining authorization for credit and debit card transactions. Payment processors instruct the financial institution as card issuer to pay the acquirer bank on behalf of its cardholder customer, using secure, encrypted information. Then the acquirer pays the merchant through their designated merchant account, which is a bank account.

How Does It Work?

A payment gateway through the retail point-of-sale (POS) card reader device or the seller's website or mobile app is used to securely transmit transaction and card data

A merchant gets credit card sale authorization through an acquirer that contacts the card issuer to check the customer's ability to pay for the credit card transaction

The issuer sends the net amount to the acquirer (another bank) to settle credit card transactions and deposit money into the merchant's bank account within 24 hours to three days.

The issuer, the acquirer, and the payment processor are paid service fees. The credit card issuer (a bank) deducts interchange fees as compensation in payment processing.

Examples of Payment Processors

stripe   PayPal   Square   clover