

RETAIL PAYMENTS

Payment systems in any economy can be compared to human arteries. Though the arteries perform their tasks silently and efficiently to keep the body healthy, their role is hardly noticed. Two types of Payment systems exist in the finance domain. The major constituents of Retail Payments are the Acquiring bank, Issuing bank and Interchanges. The card themselves are accepted via ATM or PoS; or the card numbers are used in mobile and E-commerce.

1. Wholesale Payments:

These are large value payments. Banks extend these services to customers such as large corporate or mid-sized companies. There are two types.

- a. Inter-bank Payments like SWIFT, FEDWIRE, CHIPS, ACH etc.
- b. Intra-bank fund transfers

2. Retail Payments:

This can be loosely defined as consumer payments of relatively low value and urgency. This service involves a system, which "handles payments in such forms as cheques, credit transfers, direct debits, EFTPOS (Electronic Funds Transfer at Point of Sale) and ATM transactions".

With proliferation of payment cards issued by almost all institutions in the financial sector, internationally card based transactions are growing by the day. These transactions happen 24 x 7 and don't stop for a moment to give breathing time to those institutions.

Remote Transactions:

All card transactions happen remotely. When financial transactions happen face to face, as they happened in the bygone era, there was much less to worry about their veracity. But card transactions don't happen inside the comfort of a Bank these days; they happen remotely. To add to the complexity, we have the **Card Present** transactions from channels like ATM & PoS; and **Card Not Present** transactions from mobile & E-commerce channels. So, while the Institutions are keen on augmenting their card

transaction volume, alongside they need to build-in many control mechanisms, to minimize associated risks.

Constituents of Retail Payment:

To get a preliminary understanding of the Card Transaction realm, we need to get a brief awareness of the following.

1. Entities

- Acquirers
- Issuers
- Interchanges like VISA, MasterCard, RuPay, AMEX & others
- Merchants
- Online Stores

2. Media

- ATM, PoS, Mobile & Internet
- Physical cards like Credit, Debit, Pre-paid, Smart Cards & others
- Physical Attributes
- Card Number
- Magnetic Track Data
- CVV or CVC

3. Security

- PIN - Personal Identification Number
- HSM & Cryptographic Keys
- Triple DES

4. Standards

- ISO 8583

5. Transaction

- On-Us, Off-us and Remote-on-us
- Routing via Switches & Gateways
- Channels
- Cycles
- Electronic Journals
- Daily Extracts from Switch, Banking Host & Interchanges

6. Reconciliation

- Card Transaction Reconciliation
- ATM Cash balance

7. Clearing & Settlement

- Daily Settlement mechanism

- Merchant Settlement

8.Dispute management

- Chargeback mechanism