



## Internet Payment Processing

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## Introduction

For online retailers looking to add real-time payment processing to their website, the process can often be confusing and time-consuming. This document will endeavour to answer the most frequently asked questions received at the Saskatchewan E-Future Centre regarding payment processing over the Internet. These include:

- What is online payment processing?
- How hard is it to implement online payment processing on my website?
- What is an online merchant account, and how do I get one?
- Can I offer methods of payment other than credit cards?
- Should I get an American merchant account for U.S. customers?
- I can't get an online merchant account. What now?
- What is PayPal?
- What are chargebacks, and how can I prevent fraud in general?

## What is online payment processing?

Online payment processing refers to the purchase of goods and services over the Internet typically using a credit card. The financial transaction is processed electronically in "real time." The standard process to implement real-time payment processing is: (1) to obtain an online merchant account for a particular credit card from a bank; (2) to select a payment gateway that will process the credit card information; and (3) to integrate your website with the payment gateway. Throughout this document, the terms "payment processor" and "payment gateway" will be used interchangeably, though payment processors often imply a direct relationship with a bank or financial institution.

There are numerous variations on this model, such as a single company providing all financial services. As with other aspects of business, we suggest leveraging your existing relationships first. If you have dealt with a particular bank for years, approach them with your online requirements, as they may offer attractive rates or streamline the startup process. Just keep in mind that their way is not the only way, and that you may want to look into some alternatives.

When researching online payment processing options for your site, try to leverage any existing relationship with your bank by seeing what they can provide for you.

## How hard is it to implement online payment processing on my website?

If you have an existing website that currently displays your products, incorporating online processing may not be too difficult or costly. Every online processor has different requirements for their merchants, but in general, you need to add a “buy” button to your product or order page that will direct buyers to the payment processor. This buy button will send information about you as a merchant and the particulars of the order to the payment processor.

The actual purchasing process will either occur within the environment of the payment gateway, or within your website if your payment gateway just acts as a true virtual point-of-sale device. We highly recommend that first-time merchants use a payment gateway that will handle most or all of the buyer’s purchasing process for you. This way you need not be concerned about providing a secure environment for buyers to transmit and later store their credit card information. And, it is much easier to implement rapidly.

## What is an online merchant account, and how do I get one?

An online merchant account is the standard merchant credit card account required to accept orders online. Banks may refer to these as “card not present” transactions, and may call the merchant account an Internet merchant account, Internet merchant number, or Merchant ID. Due to the perceived risk involved with online purchases, banks require merchants to use accounts that are approved for online processing. Even if you have an existing merchant account for your “physical” store, banks will usually require you to get a separate online merchant account. Other than being marked internally at the bank as an online merchant account, they are essentially the same as standard credit card merchant accounts.

Obtaining an online merchant account is where many new businesses encounter the greatest challenge in providing online payment processing. Banks will request your company’s financial records for several previous years, and they may require you to

Even if you already have a merchant credit card account for your physical store, banks will normally require you to get a separate “online” merchant account.

post a bond as a guarantee against loss from fraud and nonpayment. New businesses obviously do not have a financial history, so banks will demand a thorough business plan with financial forecasts and a personal credit assessment of the small business owner. If you think that it is going to be near impossible for you to ever get a merchant account, keep reading as we will be exploring alternatives to this model.

## **Can I offer methods of payment other than credit cards?**

In Canada, most people are familiar with using debit cards through the Interac network to make purchases through their personal bank accounts, and expect to be able to do this online. Some payment processors allow people to provide bank accounts for use with online purchases, but this is still not the same as using a debit card in the real world. While credit and debit cards physically look the same, there are major differences between them that have resulted in a slow adoption of online debit purchases by the banks (specifically, the way your PIN encrypts the information stored on your card, and how this data is transmitted over the network). Until the logistics involved get worked out, don't expect debit cards to be offered as an online method of payment anytime soon.

## **Should I get an American merchant account for U.S. customers?**

Cards issued by the company with which you have a merchant account are valid anywhere, so a merchant account from a Canadian bank in Canadian funds can be used to accept foreign orders. With foreign purchases, the buyer incurs the cost of any exchange rates, as the transaction will settle in Canadian dollars.

Many Canadian banks offer U.S. Dollar merchant accounts. The benefit to having a U.S. Dollar merchant account is that you can provide your American customers with the ability to purchase without worrying about exchange rates. While there is a definite marketing advantage to this, you should carefully weigh the benefits against additional bank charges before applying for a U.S. Dollar merchant account.

Canadian merchant accounts will accept orders from any valid member card, and settle in Canadian dollars.

## What if you can't get an online merchant account?

There are numerous benefits to having your own merchant account, but often the banks make it extremely difficult for you to get one. Fortunately, there are other ways to process payments online. A common solution is pay for access to a payment gateway's "master" merchant account. Master merchant accounts will handle all of the credit card transactions for all clients of the payment gateway, as the payment gateway has put up a substantial bond to the credit card processor to guarantee the sales through the processor. The upfront cost in time and money is much less than when you obtain your own merchant account, but expect to pay higher fees per transaction than normal. Another important downside is that all buyers will see the name of the master merchant as the seller on their credit card statements, which could lead to confusion and potential credit card chargebacks.

A nice middle ground between using your own online merchant account or a master merchant account is available through companies such as PSiGate ([www.psigate.com](http://www.psigate.com)) and InternetSecure ([www.internetsecure.com](http://www.internetsecure.com)). In this model, the payment gateway will obtain a merchant account on your behalf from the bank they do business with. Therefore, you will have an account in your name, but will be restricted to using this account with that particular payment processor.

Some payment gateways will obtain a merchant account on your behalf with certain restrictions.

## What is PayPal?

Arising from the popularity of eBay online auctions, PayPal ([www.paypal.com](http://www.paypal.com)) is quickly becoming the dominant force in online transaction processing. PayPal originally started as a peer-to-peer money transfer system for eBay auctions, but has now expanded for use as a payment processor for any website. PayPal is attractive to millions of users, because: (1) it acts as a master merchant for credit card processing; (2) there's no cost to establish "seller" accounts; (3) it's relatively easy to integrate into a website; (4) can be used to accept major credit cards; and (5), it has very competitive transaction rates.

This low cost of entry into e-commerce has made PayPal a very popular and well-known solution for payment processing. Leveraging the PayPal name on your e-commerce website can lend credibility to your online activities, which is critical when attracting customers that may be hesitant to purchase online. Recently, PayPal

lifted its requirement for buyers to have a PayPal account, thereby removing another barrier to new customers that may not have understood or desired to open a PayPal account just to make a purchase.

To get started with PayPal, all that is required is a bank account for them to deposit funds received from customers. You do not require an online merchant account to receive payment via credit card, and PayPal also allows buyers to use bank accounts for payments besides the major credit cards. Furthermore, PayPal provides limited fraud protection for both buyers and sellers, if certain criteria are met. With all of these features and benefits, it is clear why PayPal has become a prime choice for businesses looking to test the e-commerce waters.

## What are chargebacks and how can I prevent fraud in general?

Chargebacks are debits by your bank against your merchant credit card account due to errors in the transaction, or more often, due to a buyer contesting the charges on their credit card. Chargebacks occur in real-world transactions, but the anonymity of the Internet and lack of the cardholder being present with a required signature makes online retailers more susceptible to having the bank issue a chargeback against them. The process for disputing chargebacks is specific to each bank, but in general, you will be required to prove every step of the sales process in a timely manner.

Suggestions on how to avoid chargebacks are also valid for reducing online fraud in general:

- Understand what existing technical measures are already in place to reduce fraud by your payment gateway
- Retain and require documentation for every stage of the sale
- Respond to your customers in a timely fashion
- Require human intervention for suspicious orders, such as international orders, mailing addresses with PO boxes, and orders over a certain amount of money

The same rules to avoiding chargebacks should be applicable to preventing online fraud in general.

- Consider using a shipper that can provide you with a signature for proof of delivery
- Find out if your payment processor provides some sort of seller fraud protection, and follow their guidelines

Recently, Visa and MasterCard have each launched initiatives that aim to improve consumer confidence in online retailing. “Verified By Visa” and “MasterCard SecureCode” are programs that require cardholders to enter a PIN that confirms that you are the cardholder. This PIN is meant to simulate having the cardholder sign the transaction, thus reducing your exposure to potential disputes. Check with your payment gateway to see if they support either of these services.

## Summary

Online payment processing, while having been around for over a decade now, can still be a daunting task for businesses to implement in their online activities. The major Canadian banks are often slow to embrace new technologies, so we must look to third parties to lead the way. Placing your trust in these third-party gateways can be difficult, and few standards have emerged making the requirements for online processing different from gateway to gateway. The successful payment gateways recognize the difficulties for new online retailers and try to remove any barriers for you. The rise of PayPal and other low-risk, low-cost solutions means that you can now implement this aspect of e-business with a minimal initial expenditure.

We hope that we have given you a basic understanding of online payment processing, so that you can make more informed decisions on this important aspect of your e-commerce venture.

## Resources

- Saskatchewan E-Future Centre (<http://www.e-future.ca/sask>)
- Beanstream (<http://www.beanstream.com>)
- Caledon Card (<http://www.caledoncard.com>)
- E-xact (<http://www.e-xact.com>)
- Global Payments (<http://www.globalpaymentsinc.com/canada>)
- InternetSecure (<http://www.internetsecure.com>)
- MasterCard SecureCode (<http://www.mastercardsecurecode.com>)
- Moneris (<http://www.moneris.com>)
- Payment Services Interactive Gateway (PSiGate) (<http://www.psigate.com>)
- PayPal (<http://www.paypal.com>)
- Verified By Visa (<http://www.visa.ca/verified>)
- WorldPay (<http://www.worldpay.com>)



## Contact Us

The Saskatchewan E-Future Centre, a service initiative of *business infosource*, is your first stop for e-business information in Saskatchewan. We offer free, impartial, and easy-to-understand e-business advice and information for small and medium-sized businesses. Our goal is to help entrepreneurs make more informed decisions as they adapt to technological change. If you have any questions, we are only a visit, click or a call away!

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