

Taking Payment by Credit or Debit Card

Business Information Factsheet
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Introduction

Small business traders need to be able to accept payment by credit or debit card. Banks and other payment service providers offer a range of merchant services that enable traders to take card payments securely online (including via apps), in person, by telephone or mail order. Traders need to apply for a merchant account in order to access these services.

This factsheet explains what a merchant account is and why it is vital for small business traders. It outlines the different types of merchant services that traders can apply for and gives examples of providers. The factsheet also lists the type of information that merchant account providers may request during the application process.

What is a merchant account?

A merchant account is a facility provided by a bank or payment service provider that enables a trader to take credit or debit card payments from customers. The merchant account provider acts as an intermediary between the trader and the customer, taking card transaction details, processing payments and transferring funds to the trader's business bank account. The trader pays for using this service. Costs can include set-up fees, monthly service charges, device rental or purchase charges and transaction fees.

What are the benefits of having a merchant account?

Having a merchant account enables traders to:

- Provide their customers with up-to-date, industry-standard payment options.
- Process online payments securely.
- Provide fast, user-friendly card-processing facilities for face-to-face and telephone transactions.
- Reduce the amount of time they spend processing payments manually.
- Minimise the amount of sensitive payment data they need to store, as payment details are processed by the merchant account provider. (Traders who process card payments themselves need to comply with Payment Card Industry Data Security Standards (PCI DSS), while traders who completely outsource their card payment processes to a merchant account provider do not have this responsibility.)

Types of merchant services

It is important for traders to choose a merchant account provider that can meet their specific business needs. The facilities offered by individual banks and payment service providers vary, but typically include:

- Card machine services for face-to-face transactions.
- Online payment-processing services.
- Card-processing facilities for telephone and mail order payments.

Face-to-face transactions

Many merchant account providers offer the option of using a card payment terminal for face-to-face payments. This enables traders to offer a fast, user-friendly alternative to paying by cash.

Most card payment terminals use the Chip and PIN system, giving customers the security of authorising payment by entering their four-digit security code (PIN number). Some payment terminals can also process contactless payment transactions. The contactless payment system enables customers to make faster card payments on transactions up to £30 without entering their PIN number. Some card payment terminals allow customers to pay with their smartphones and smartwatches, using services such as Apple Pay or Android Pay.

Traders can choose from several types of card terminal, including:

- Fixed desktop terminals, which are widely used by retailers.
- Portable terminals, which are widely used in restaurants and pubs.
- Card readers that attach to smartphones to form mobile card terminals. These are increasingly used in mobile businesses such as taxis, tradespeople, and food delivery services.

Most card payment terminals are rented out for a monthly fee, although some smartphone card readers can be purchased outright.

Online payments (e-commerce)

Merchant account providers can also provide a 'payment gateway', which allows traders to take online payments via their own website. The payment gateway encrypts customer payment details and sends them to the merchant account provider, so that the provider can process the payment securely. It also sends back information about whether the payment has been approved or denied.

Some payment gateways transfer the customer to a secure website hosted by the merchant account provider. Others allow the customer to stay on the trader's website, while still transferring the data to the merchant account provider for processing.

This payment method is widely used by retailers and other types of business that trade online. One of the benefits of this system is that traders do not need to store sensitive customer payment details. Many online payment gateways also provide fraud screening to make the process more secure. Increasing numbers of online retailers are joining online payment security schemes such as Mastercard SecureCode and Verified by Visa that are designed to add an extra level of security for Mastercard and Visa card users. Retailers usually join these schemes through their online

payment processor. Customers using registered Mastercard or Visa cards must enter an extra password at checkout, which helps to verify that they are the card owner.

Phone or mail order payments

Some merchant services include the facility to complete a card transaction on behalf of the customer via a secure web page, known as a 'virtual terminal'. This enables traders to process payment when customers are not physically present, for example, when taking an order over the telephone or via a mail order form.

This payment option is commonly used by owners of hotels and holiday cottages to guarantee a booking. It enables traders to offer alternative payment methods for customers who don't use the internet or who have concerns about online security. However, security of sensitive data is still a key concern for traders who take payments in this way, as it relies on manual entry of customers' payment details and can involve using order forms to store customers' bank details.

Providers of merchant services

Merchant accounts are provided by banks and specialist payment service providers. Examples of providers include:

- Lloyds Bank (<https://lloydsbankcardnet.com/new-to-cardnet/trading-with-cardnet/>).
- Barclays (www.barclays.co.uk/Cardsandpayments/Acceptingcardpayments/P1242558531141).
- Worldpay (www.worldpay.com/uk).
- Nochex (www.nochex.com/gb).
- Global Payments (<https://globalpaymentsinc.co.uk>).
- Sage Pay (www.sagepay.co.uk).
- PayPal (www.paypal.com/uk/webapps/mpp/solutions).
- iZettle (www.izettle.com/gb).
- SumUp (<https://sumup.co.uk>).

Applying for a merchant account

Traders must meet certain criteria to qualify for a merchant account, and these will vary depending on the bank or payment service provider. The merchant account provider will normally request the following information as part of the application process:

- The trader's business plan, including information about turnover, estimated transaction volumes and plans for promotional activities or expansion in the future.
- Estimated figures such as the approximate value of transactions conducted online, estimated turnover from online sales, and the predicted number of card transactions that will need to be processed using the merchant account.
- Information about the types of goods or services they sell, and how they will be delivered.

- The web address that displays the trader's terms and conditions of business and contact details.
- Details of the secure server that will be used to carry out online transactions.
- Bank details for the business account to which funds will be transferred.
- Approval for a check to be carried out with credit reference agencies.

It is important to apply for a merchant account in plenty of time before a trader intends to start taking payments, as some accounts can take two weeks or more to set up. E-commerce-only accounts can usually be set up in a shorter period of time, often via an online application form.

Hints and tips

- Choose a merchant account that provides the full range of payment options that the business will need.
- Compare the pricing differences between providers by checking all costs associated with predicted transaction types, sales volumes and payment amounts.
- Consider how payment processing times will affect cash flow. Some providers may take up to 30 days to process payments.
- Look out for valuable additional benefits, such as security and fraud-prevention features.
- Read the provider's terms and conditions, and consider obtaining professional advice before applying for an account.
- Keep an eye out for developments as new payment systems and companies are entering the online and mobile transactions market all the time.

Further information

Useful contacts

The UK Cards Association is a trade body representing the card payments industry, which provides information about security and fraud prevention.

Tel: (020) 3217 8200

Website: www.theukcardsassociation.org.uk/getting_started/index.asp

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