

The card transaction process

In less than 40 years, plastic cards have become Britain's most popular way to pay. In 2006, total spending on plastic cards in the UK reached an amazing £321bn; £47bn more than total cash spending.

Plastic cards have changed the way in which we spend and manage our money. Overleaf is a flowchart which explains the hidden processes that operate when a card is used for payment.



Did you know?

- In 2004 personal spending on cards overtook that of cash; in 2006 the gap widened to £26 billion.
- The introduction of chip and PIN in the UK from 2003 has seen a huge increase in consumer confidence in card security; in 2006 the number of plastic card transactions grew to a record 9 billion, around 291 transactions every second every day.
- In 2006, the number of payment plastic cards in issue in the UK reached 143 million; there are now more than 68 million personal debit cardholders and over 74 million credit cardholders in the UK.
- In 2006, the number of POS terminals reached 1,053,215, an 8% increase from 2005 figures. The average terminal in 2006 processed 6,262 plastic card transactions, with a value of £314,000.

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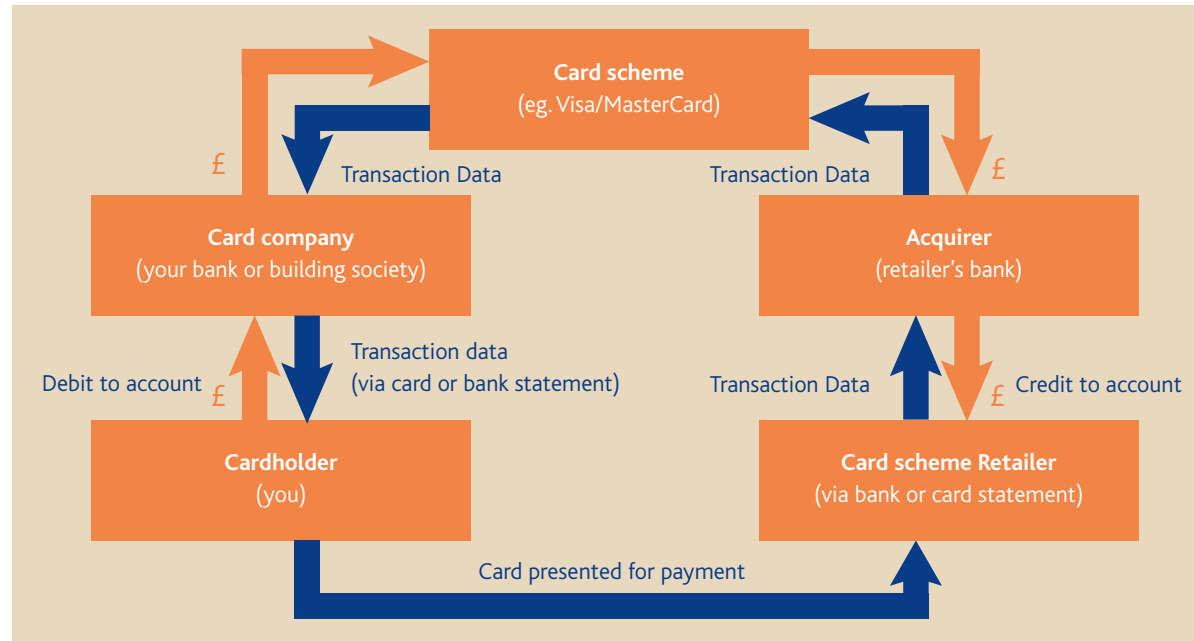
Everyday card transactions follow a basic process that begins with you, the cardholder, and involves four primary points of contact.

The diagram below illustrates the flow of funds of a typical card transaction.

How it works:

Here we track the flow of funds on an 'everyday' plastic card transaction.

Jane is at her favourite shoe shop looking to purchase some new shoes. After finding the pair she wants, Jane decides that she is going to use her payment plastic card to cover the cost of her purchase. So, what happens next?



Step 1:

Jane (the cardholder) hands her card to the shop assistant (the retailer) to pay for the shoes. The payment process begins when the shop assistant inserts her card into the electronic processing machine, also known as a point-of-sale (POS) terminal. Once the card has been inserted, Jane will be asked to enter her personal identification number (PIN). Entering her PIN verifies that she is the genuine cardholder and confirms the purchase amount.

Step 2:

Once Jane's PIN is accepted by the shoe store's POS terminal, her card details and the purchase amount will be passed through to the store's bank. The store's bank, also known as the acquirer, will then deal with Jane's card transaction and forward it to Jane's bank (known as the card company) via the card scheme (i.e. Visa or MasterCard) that Jane's card is linked with.

Step 3:

When Jane's bank receives the details of her purchase from the relevant card scheme, it will carry out a number of checks – such as making sure that the card hasn't been reported lost or stolen and that there are sufficient funds in the account – before debiting the exact amount of the purchase from Jane's account.

Step 4:

Once the money has left Jane's account, it will flow in the opposite direction back to the shoe store (the retailer) where Jane initially handed over her card to pay. In short, the money goes from Jane's bank, back through the relevant card scheme to the shoe store's bank where the funds are credited into the shoe store's bank account. At this point, the transaction is complete.

Top ten tips for cardholders

- 1 Always guard and protect your card and card details
- 2 Don't let your card out of sight when making a payment
- 3 Never write down your PIN or disclose it to anyone, even if they claim to be from your bank, building society or the police
- 4 Don't use a PIN easily associated with you. For example, part of your telephone number or your year of birth
- 5 Always check the details of your purchase before inserting your PIN, especially the amount displayed on the screen
- 6 Never leave your cards unattended in a bag, briefcase or jacket pocket in a public place and keep your bag or briefcase on your lap
- 7 Check your receipts against your statements carefully and report any unfamiliar transactions to your bank or card company immediately
- 8 When you dispose of them, shred or rip up all your receipts that contain information relating to your financial affairs
- 9 Cut expired cards through the magnetic stripe or chip when replacement cards arrive
- 10 Sign new cards as soon as they arrive