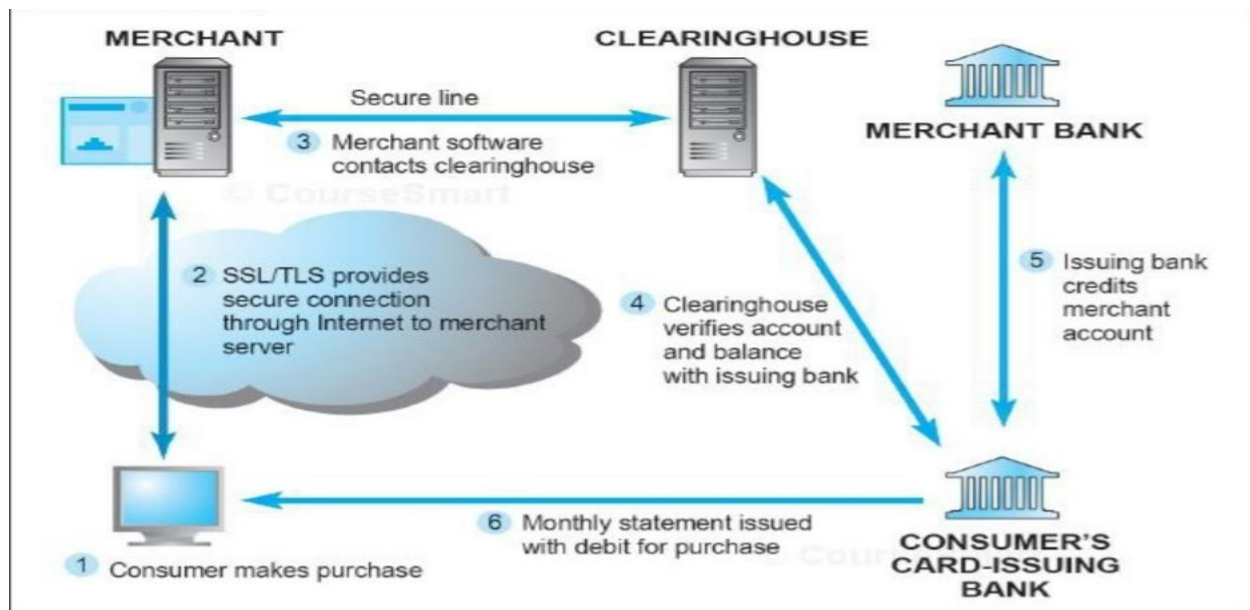


ONLINE CREDIT CARD TRANSACTIONS

Payment using credit card is one of most common mode of electronic payment. Credit card is small plastic card with a unique number attached with an account. It has also a magnetic strip embedded in it which is used to read credit card via card readers. When a customer purchases a product via credit card, credit card issuer bank pays on behalf of the customer and customer has a certain time period after which he/she can pay the credit card bill. It is usually credit card monthly payment cycle. Following are the actors in the credit card system.

- The card holder – Customer
- The merchant – seller of product who can accept credit card payments.
- The card issuer bank – card holder's bank
- The acquirer bank – the merchant's bank
- The card brand – for example, visa or Mastercard.

Credit and debit cards are the dominant form of online payment, it is important to understand how they work and to recognize the strengths and weaknesses of this payment system. Online credit card transactions are processed in much the same way that in-store purchases are, with the major differences being that online merchants never see the actual card being used, no card impression is taken, and no signature is available. Online credit card transactions most closely resemble Mail Order-Telephone Order (MOTO) transactions. These types of purchases are also called Cardholder Not Present (CNP) transactions and are the major reason that charges can be disputed later by consumers. Since the merchant never sees the credit card, nor receives a hand-signed agreement to pay from the customer, when disputes arise, the merchant faces the risk that the transaction may be disallowed and reversed, even though he has already shipped the goods or the user has downloaded a digital product.



There are five parties involved in an online credit card purchase: consumer, merchant, clearinghouse, merchant bank (sometimes called the "acquiring bank"), and the consumer's card issuing bank. In order to accept payments by credit card, online merchants must have a merchant account established with a bank or financial institution. A merchant account is simply a bank account that allows companies to process credit card payments and receive funds from those transactions.

Credit Card E-commerce Enablers

Companies that have a merchant account still need to buy or build a means of handling the online transaction; securing the merchant account is only step one in a two-part process. Today, Internet payment service providers (sometimes referred to as payment gateways) can provide both a merchant account and the software tools needed to process credit card purchases online.

For instance, Authorize.net is an Internet payment service provider. The company helps a merchant secure an account with one of its merchant account provider partners and then provides payment processing software for installation on the merchant's server. The software collects the transaction information from the merchant's site and then routes it via the Authorize.net "payment gateway" to the appropriate bank, ensuring that customers are authorized to make their purchases. The funds for the transaction are then transferred to the merchant's merchant account. CyberSource is another well-known Internet payment service provider.

Limitations of Online Credit Card Payment Systems

There are a number of limitations to the existing credit card payment system. The most important limitations involve security, merchant risk, administrative and transaction costs, and social equity. The existing system offers poor security. Neither the merchant nor the consumer can be fully authenticated. The merchant could be a criminal organization designed to collect credit card numbers, and the consumer could be a thief using stolen or fraudulent cards. The risk facing merchants is high: consumers can repudiate charges even though the goods have been shipped or the product downloaded. The banking industry attempted to develop a secure electronic transaction (SET) protocol, but this effort failed because it was too complex for consumers and merchants alike.

The administrative costs of setting up an online credit card system and becoming authorized to accept credit cards are high.

Credit cards are not very democratic, even though they seem ubiquitous. Millions of young adults do not have credit cards, along with millions of older adults who cannot afford cards or who are considered poor risks because of low incomes.