



# Online Payment Processing

## An eBC Guide to e-Commerce

As a small business owner wanting to sell your wares over the Internet, it may seem that the thought of navigating your way through the maze of accepting and processing online customer payments is akin to having a tooth extracted without anesthetic – a painful and tortuous process indeed. We at eBC whole-heartedly agree, and due to a number of recent queries about this very complex subject we figured it was time to do a little research and set the record straight about online payment processing. In a nutshell, here's what we found.

### **Online Merchant Accounts**

An online merchant account is an account set up through a bank or credit processing company to accept and process online credit card orders. In effect, monies from your online sales are deposited into your merchant account.

Not all banks have the ability to process all types of credit cards in all currencies. Therefore, it is not unusual for a merchant who, for example, wants to process both Visa and MasterCard orders in both Canadian and US funds to hold a merchant account at more than one financial institution in order to get the job done.

That said, 'one-stop' multi-card organizations are becoming more popular, as banks attempt to streamline the account application process. For example, Moneris, a joint venture between Royal Bank and the Bank of Montreal, and Global Payments, a joint CIBC and National Bank of Canada venture, assign one merchant account for both MC and Visa processing.

### **How do I get an Online Merchant Account?**

Merchant accounts are obtained via a formal application process through the merchant services department of a bank or an acquiring financial institution. Think of a merchant account as a form of credit – this means your financial institution will assess your credit to see if your company's worth the risk.

Therefore, they usually require a year or two of financial statements – if you are a start-up you most certainly need a comprehensive business plan which outlines, in detail, your Internet sales venture.

We have heard that some banks may not be comfortable extending this kind of 'credit' to e-commerce entrepreneurs, for fear of the virtual nature of the online sales process -- so don't be surprised if your bank is hesitant. The bottom line here is that banks consider businesses that conduct sales over the Internet as very high risk.

If you are going to use the Internet as your primary sales method, your bank will most likely require that you provide a security deposit. Depending on the nature of your business, how long you've been in business, and how much of your business is

conducted over the Internet this can be incredibly high – up to 3 or 4 months of revenue. That said, if you do have a store front location in addition to your virtual store, your risk level comes down and so will the necessary deposit.

The financial institution you choose may expect that you open a business account with them, so if you already have an established account with a particular institution you may want to try them first.

## **Payment Gateways**

Once you've been approved for a merchant account, you will also need a payment gateway – this is an organization with a secure server that will accept your credit card orders online. Banks require that payment gateways are certified and most banks will suggest one or two that they work with – although you are not restricted to their list.

## **Fees**

Yes, there are a lot of them. Expect to pay an application fee up front. If your application is accepted, expect to pay a registration fee and then a percentage called a discount fee or discount rate on every sales transaction. Your discount rate will depend on your sales volume and the cost of your average transaction.

If you choose to open a merchant account with a bank at which you do not have a business account, expect to pay something called a push funds fee every time your funds are transferred into your business account at your financial institution. In addition to merchant account fees, there are payment gateway service charges and set up fees along with payment gateway per transaction service fees.

## **Payment Processing Alternatives**

Frustrated? Discouraged? We're not surprised. Maybe this will help: There are alternatives to applying for an on-line merchant account directly through a bank. For example, you might want to try a private Internet payment processing company. Private processing organizations such as Victoria-based Beanstream.com generally offer less rigid financial requirements, sped up application processes and do not require an up-front deposit – though in return they may charge higher fees for their services.

In fact, Internet payment companies with 'master' merchant account status may act as both merchant account providers and payment gateways so that the process is further streamlined to let you get back to what you do best – grow your business!

And finally, there are also peer to peer money transfer systems such as PayPal which don't require a merchant account at all but do require both buyer and seller to subscribe to their service.

## **What is a “Charge Back”?**

Essentially, a chargeback fee occurs when a cardholder disputes the sale at their card issuing bank. The card issuing bank sends through a chargeback to recover money for

their cardholder. The merchant agrees to pay a chargeback fee for each chargeback that bank deems valid.

In order to boost online credit card usage, credit-card companies usually limit customer liability to only \$50, some none at all. All it takes is for a customer to claim that the transaction was fraudulent and then the merchant could be liable for the hefty chargeback fee. The merchant must raise prices in order to remain financially viable.

### **What is a “Secure Certificate”?**

A secure certificate is a document that is used to certify that a user or organization is who they say they are. They contain information about who it belongs to, who it was issued by, expiry date and information that can be used to check out the contents of the certificate. It is as an important part of the SSL system for establishing secure connections.

### **Resources**

Looking for a merchant account provider or payment gateway? Here is a partial listing guide:

- Moneris [www.moneris.com](http://www.moneris.com)
- PSIGate [www.psigate.com](http://www.psigate.com)
- Beanstream [www.beanstream.com](http://www.beanstream.com)
- GlobalPay [www.globalpaymentsinc.com/Canada](http://www.globalpaymentsinc.com/Canada)
- Internet Secure [www.internetsecure.com](http://www.internetsecure.com)
- Scotia Bank [www.scotiabank.com](http://www.scotiabank.com)
- TD Canada Trust [www.onlinemart.ca](http://www.onlinemart.ca)
- E-xact [www.e-xact.com](http://www.e-xact.com)