

## **ELECTRONIC VALUE TRANSFER CONTRACT (EVT)**

### **CREDIT CARD AUTHORIZATION**

Authorization is the process by which card issuers either approve, refer (i.e., directs the agency to contact KMS or American Express for further instructions) or deny requests to accept transactions. Approval is based on a validation of the account number and expiration date to verify that a cardholder's account is open, and that the transaction will not place the account above any credit limit. Since most authorization requests are approved, the term "authorized transaction" refers to an approved authorization request.

#### **Card Types**

Authorization requests for Visa, MasterCard, American Express and Discover can be transmitted to KMS, which routes the request to the appropriate card issuer. An exception to this would be an agency utilizing technology enabling them to directly connect with American Express.

#### **On-Line vs. Batch Authorization**

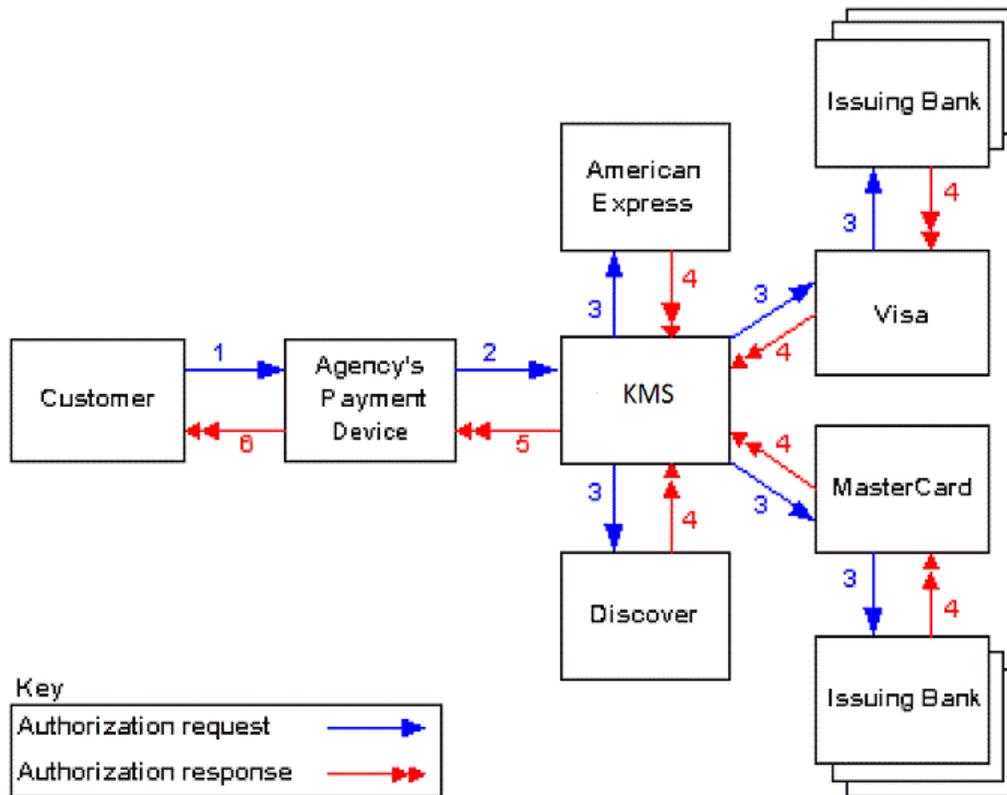
Authorization can be performed either on-line (real-time) or in batch mode. The appropriate mode will be dependent upon the agency's specific program requirements. Authorization is typically performed on-line and completed in a matter of seconds. Under on-line processing, each transaction is authorized separately as it occurs, and the authorization status is returned immediately after the transaction is submitted for approval. If an on-line authorization is declined, the cardholder will immediately be made aware that their transaction was not completed with the card used for payment.

Batch authorization (off-line authorization) is used for a large number of transactions which are batched and transmitted to KMS on a scheduled basis, such as at the end of the day. Batch authorization is best suited for programs where the service or product is not provided to the customer at the time the card number is presented or when the cardholder is not directly communicating with the agency, such as a mail order transaction. In the event of a declined batch authorization, the agency must contact the customer to pursue authorization (e.g., using a different card) or inform them that their transaction will not be completed.

#### **Typical On-Line Authorization, Non-Internet Payment Device**

The following diagram depicts the typical flow of an on-line authorization through a non-Internet payment device such as a point-of-sale terminal or a PC utilizing card processing software.

**Diagram 1., Credit Card Authorization Process**



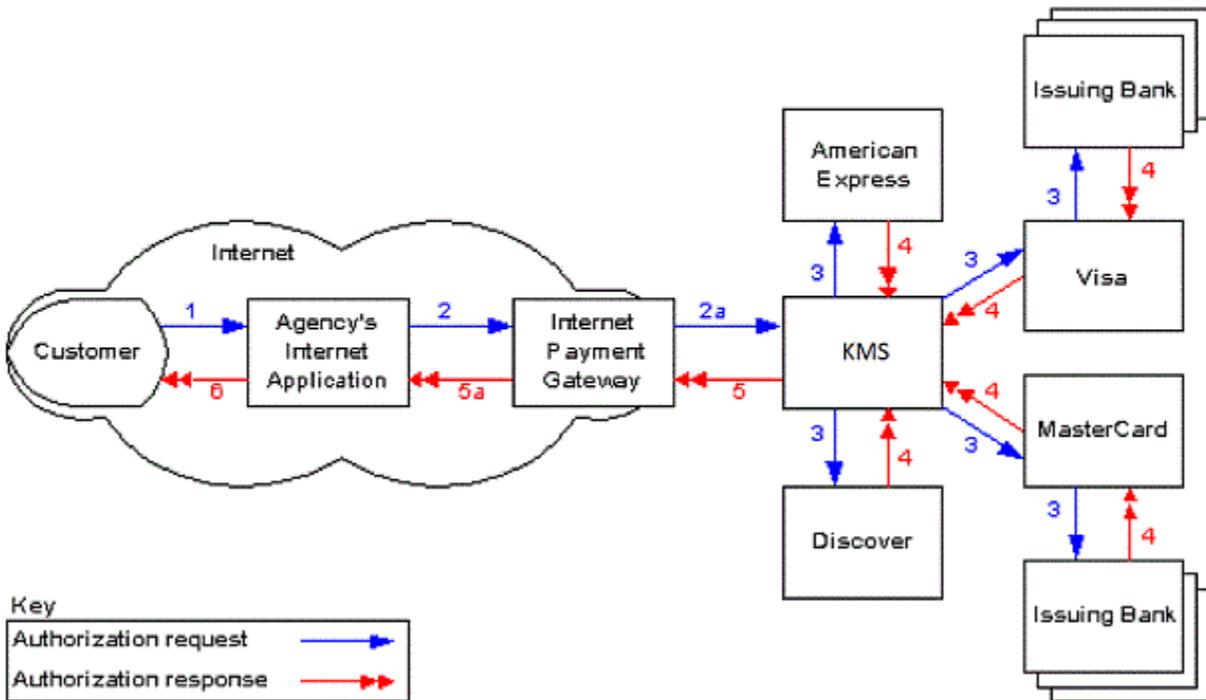
1. Card information is captured from the magnetic strip by swiping the card through a point-of-sale terminal, or by data entering the card and payment information into the agency's payment device (e.g., PC-based software). Information from the card (e.g., card type, account number, expiration date) is combined with information about the transaction (e.g., dollar amount) to create the authorization request.
2. The agency's payment device connects to KMS' system and transmits the authorization request via one of the five communications methods (i.e., dial-up, leased line, host-to-host, ISDN or wireless).
3. KMS' system recognizes the authorization request as being for a Visa, MasterCard, American Express or Discover card. In the case of Visa or MasterCard, the request is transmitted to the appropriate association, which, in turn, routes the request to the member bank which issued the card. If the authorization request is for an American Express or Discover card, KMS transmits the request to American Express or Discover respectively.
4. The card issuer (a Visa or MasterCard issuing bank or American Express or Discover) verifies that the cardholder's account is valid, and that the amount of the transaction is less than their remaining credit limit (if such a credit limit exists). The approval (with authorization number), referral or declination is transmitted directly back to KMS for American Express and Discover transactions and indirectly back to KMS through an association for Visa and MasterCard transactions.
5. KMS transmits the response to the agency's payment device.
6. The cardholder is made aware if the transaction is approved or denied. If approved, a confirmation number (which can be the authorization number) is typically provided to the cardholder. Since most authorization requests are approved, the term "authorized" denotes an approved authorization request.

From the cardholder/agency perspective, this process is seamless, taking only seconds for completion.

## Typical On-Line Authorization Process, Internet Payment Device

Authorization through an Internet application differs from other payment devices in that data must be encrypted before it travels over the Internet. To support such encryption, Internet payment gateways are available but not provided by the EVT contracts. Authorized users must make arrangements through approved third party gateways or through gateway service available through KMS. Additional costs apply for these gateway services (see KMS contract for list of approved third party gateway providers). The following diagram depicts the typical on-line authorization process using an Internet application.

**Diagram 2., Credit Card Authorization Process Using an Internet Payment Gateway**



1. Card information (e.g., card type, account number, expiration date) is entered into the Internet application by the cardholder in a secure environment using Secure Socket Layer (SSL) technology. Information about the card is combined with information regarding the transaction (e.g., dollar amount) to create the authorization request.
2. The agency's Internet application, which automatically links to an Internet payment gateway, transmits the encrypted information to the selected gateway. Agencies may use approved third party gateways listed in the KMS EVT Contract, the KMS gateway, or one developed by the agency in-house, certified by KMS. Additional costs apply for these gateway services that are not included in the EVT Contract.
  - 2a. The gateway accepts the encrypted data via the Internet, decrypts the information, reformats the information to KMS' specifications and transmits it to KMS over a leased-line.
3. KMS' system recognizes the authorization request as being for a Visa, MasterCard, American Express or Discover card. In the case of Visa or MasterCard, the request is transmitted to the appropriate association, which, in turn, routes the request to the member bank which issued the card. If the authorization request is for an American Express or Discover card, KMS transmits the request to American Express or Discover respectively.
4. The card issuer (a Visa or MasterCard issuing bank or American Express or Discover) verifies that the cardholder's account is valid, and that the amount of the transaction is less than their remaining credit limit (if such a credit limit exists). The approval (with authorization number) or declination is transmitted directly back

to KMS for American Express and Discover transactions and indirectly back to KMS through an association for Visa and MasterCard transactions.

5. KMS sends the authorization response over the leased-line to the gateway.
  - 5a. The gateway encrypts the authorization response and forwards the response over the Internet to the agency's Internet application.
6. The cardholder is made aware of the response, and, if approved, is typically provided a confirmation number. If declined, customers are typically afforded the opportunity to use another card.

This process is also seamless to the cardholder and the agency and only takes seconds for completion.

### **Voice and Touch Tone Authorization**

If an agency's payment device for face-to-face transactions (e.g., Point-of-Sale Terminal, PC-Based software) is not operable or is unable to connect to, or receive a response from KMS' system, the agency will need to utilize the voice authorization systems at KMS, American Express or Discover. If an agency is unable to obtain an authorization through its payment device, the agency will be instructed to call KMS (for a Visa or MasterCard transaction), American Express (for an American Express transaction) or Discover (for a Discover transaction), and provide the card number, expiration date, transaction value, bank identification number and merchant number to a customer service representative. Alternately, KMS provides a touch tone phone system for authorization of Visa or MasterCard transactions. Approval, referral or denial will be provided back to the agency at the end of either the voice or touch tone authorization call.

Transactions approved through this voice authorization process will need to be entered into the agency's payment device and transmitted to KMS for settlement after a connection has been established.

More information regarding voice authorization, including the numbers to call, is available in the KMS and American Express acceptance guides.

Additionally, KMS' touch tone system can support both authorization and settlement and can be used in lieu of a payment device for low transaction volume programs. This system provides a toll-free number which an agency can call and enter card and transaction information using a touch tone phone. The authorization response is returned during the call session, and the settlement file is created by KMS.

Agency's with low volume card processing programs, or with remote locations which experience low volumes, should consider touch tone authorization and settlement as a "terminal-less" alternative.

### **Authorization Response**

Regardless of the dollar value of a transaction, all Visa, MasterCard, American Express and Discover transactions must be authorized. Each authorization request will return either as approved (with an associated authorization number), referral (the agency is directed to contact KMS for further instructions) or denied. The term "authorized transaction" refers to an approved authorization request since most requests are approved. A denial means the transaction is simply declined. The agency should advise the cardholder to contact their card issuer if they want more information about the denial. A referral may occur if a cardholder is over their credit limit, has not paid their balance due in a timely fashion or has used the card frequently in a short period of time. For referrals, the agency will be instructed to call KMS' voice authorization number.

### **Valid Authorization Timeframes**

In most cases, authorized transactions will be submitted for settlement at the end of the processing day. However, for payment programs in which the goods or services being purchased are not delivered until some future date, the transaction is not submitted for settlement until such time of delivery. While authorizations remain valid for thirty days, the agency will be charged a higher rate for Visa and MasterCard transactions which are not submitted for settlement within three days of authorization.

If the goods or services being purchased are not shipped within three days of authorization, the agency should re-authorize transactions to receive the lower processing rate. In all cases, agencies should submit authorized transactions for settlement on a timely basis to reduce the likelihood that a cardholder's account status changes (e.g., closes) between authorization and settlement. However, when agencies re-authorize transactions, the second authorization will decrease the cardholder's remaining credit (termed their "open-to-buy") by the amount of the second transaction (in addition to the initial authorization) for 30 days.

### **Recurring Payments**

Recurring payments permit an agency to receive customer payments on a scheduled basis. With recurring payments, the agency must obtain consent of the cardholder authorizing the charge to their account for the same amount or for a different amount at specified or different times. The agency will be required to submit the transaction and relevant data to KMS at an agreed-upon predetermined interval as KMS will not store or "warehouse" the information. The agency must obtain authorization before each transaction is submitted for settlement. The cardholder can stop authorization of recurring payments at any time.

Agency's which receive scheduled payments from their customers should consider developing a recurring payment option within their payment program