

Authorization Best Practices for Processing Prepaid and Debit Transactions

Estimated Tip in the Authorization

Recently, both the prepaid and debit space has seen exponential volume growth, leading to an increased number of prepaid and debit transactions being processed. As consumers gravitate towards using prepaid and debit cards for everyday purchases, they are more likely to frequently review transaction details affecting their prepaid balances or checking accounts. This is important to understand as a merchant, because customer dissatisfaction can arise when an authorization request includes an estimated tip amount.

As a best practice, we suggest merchants authorize all Discover transactions for only the “known” check amount, and not the amount plus estimated tip. This will help you avoid customer service issues and any negative response to your business.

Example:



Discover Recommends Merchants:

- ✓ Ensure your terminal, systems, software, and back-office processes are set up to authorize without an estimated tip amount.
- ✓ Train staff to authorize only for the check amount. Emphasize that the authorization amount should equal the check amount and exclude any tip percentage.
 - Once a prepaid card transaction has been approved, please note that the authorization code is typically the balance remaining on the card. (For example, 000136 means there is \$1.36 balance remaining. The authorization code 000001 indicates a zero card balance.) This is helpful for your customer to know if they would like to leave a tip on the card.
- ✓ Work with your point-of-sale (POS) provider to ensure your authorization system is properly programmed to authorize only for the check amount before the tip is added.

Merchant Benefits:

- **Reduced cardholder complaints** – Consumers have the ability to view account activity in real-time online, mobile or at an ATM. An authorization including an estimated tip reduces a cardholder’s available funds and can lead to consumer confusion. If a customer leaves a cash tip or tip that differs from what you’ve included in the authorization, the customer could contact your establishment asking why there’s an overcharge, or worse yet, the customer stops coming in.
- **Dispute protection** – An authorization obtained by a merchant operating in the MCC for restaurants, drinking places, fast food restaurants, beauty/barber shops, spas and taxicabs/limousines is valid for that amount plus 20 percent, so chargeback liability is reduced when a tip is not included in an authorization request. Protection from chargebacks exists provided all other authorization requirements are met, for example, valid authorization, signature requirements.

Partial Authorization

A sale does not have to be declined when the balance on a customer's prepaid or debit card is less than the amount of purchase.

Partial Authorization creates the ability to complete transactions using the available funds on a prepaid or debit card, plus an additional form of payment such as cash or other payment cards. For merchants, this is referred to as a "split tender" transaction.

Merchant Benefits:

- Increased sales
- Reduced average decline rates
- Increased throughput at POS processing
- Reduction in consumer confusion from declines
- Automatic reversals can be initiated if the sale is not completed with other payment forms

Consumer Benefits:

- Ability to complete a purchase for a dollar amount in excess of their prepaid funds available
- Avoid the embarrassment of being declined at POS if they are unsure of their remaining balance
- Fully utilize all funds on their prepaid card

How it Works:

