



# Recurring Payments Best Practices Guide





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## Definitions

### Recurring Transaction

The Visa International defines a recurring transaction as:

*“Multiple transactions processed at predetermined intervals, not to exceed one year between transactions, representing an agreement between a Cardholder and Merchant to purchase goods or services provided over a period of time.”*

Key components to this definition include:

- ▶ Cardholder establishes a relationship with a merchant to receive ongoing services or goods until the contractual arrangement is cancelled
- ▶ Cardholder gives permission to the merchant to bill his account on a recurring basis
- ▶ Transaction amount may be a fixed amount or may vary with each billing
- ▶ Payment relationship consists of more than the initial transaction, with future payments occurring on a regular cycle not to exceed twelve months

### Installment Transactions

Installment transactions are often confused with recurring transactions. Visa International defines an installment transaction as:

*“A single purchase of goods and services billed to an account in multiple segments, over a period of time agreed between a Cardholder and Merchant.”*

The distinction between the two transactions is that, a recurring transaction is payment for goods or services that are received over time, however, an installment transaction represents a single purchase, with payment occurring on a schedule agreed by a cardholder and merchant.



## Recurring Payment Indicator

Visa has improved the identification of recurring transactions within the authorization and settlement messages to facilitate more accurate decision-making by Issuers and recognition by Cardholders. Visa requires the Recurring Payment Indicator in all authorization and clearing records. Recurring transactions tend to be low risk than single occurrence card not present transactions, and therefore, should be approved if the account is in good standing.



## Cardholder Benefits & Best Practices

### Cardholder Benefits

Recurring Payments offer many benefits to cardholders by:

- ▶ Ensuring timely payments, thereby providing uninterrupted service and elimination of any late payment fees
- ▶ Eliminating the time and expense associated with initiating manual payments, such as postage expenses
- ▶ Providing convenience with quick access to billing details and payment options online

### Cardholders Best Practices

Cardholders should consider the following when entering into a recurring payment agreement with a merchant:

- ▶ Advise merchants of any changes to card billing details such as new expiration dates, new account numbers, etc. This will ensure that the services provided continue uninterrupted, and any potential late fees are avoided
- ▶ Understand the merchant's cancellation policies and method of contacting the merchant
- ▶ Retain a copy of the payment agreement



## Merchant Benefits

### Merchant Benefits

- ▶ Increases customer loyalty
- ▶ Increases customer service value by facilitating payment convenience
- ▶ Improves cash flow via timely and regular payment
- ▶ Reduces cash handling and check management, number of touch points (manual processes)
- ▶ Eliminates cash handling and check management costs
- ▶ Improves efficiency



## Merchant Best Practices

This section identifies common best practices for merchant who process recurring transactions.

### General Practices

The following best practices will help merchants manage recurring transactions effectively:

- ▶ Allow customers to choose the billing date. This will help ensure that the cardholder's funds are available.
- ▶ Inform the cardholder the name that will be presented. Ensure that the "Doing Business As" name, or some other name easily recognized by the cardholder is used when billing or corresponding with the cardholder.
- ▶ Provide a clear statement of the cancellation policy on the cardholder's agreement or merchant website. This will help minimize chargebacks.
- ▶ Provide the cardholder with clear information concerning the billing arrangements, all charges related to the delivery of goods and services, and merchant contact details for any inquiries or changes to the contract. If billing notification is via online, send a pre-authorization reminder 14 days prior processing event. (see Section 9 for sample template).
- ▶ Ensure that billing is discontinued immediately upon the cardholder fulfilling the cancellation terms – provide the cardholder with cancellation confirmation including when the last billing will occur if this has not already occurred, or if a credit is due when the credit will be processed. This will help minimize chargebacks.
- ▶ Ensure that the cardholder is notified when goods or services cannot be delivered or provided on the agreed upon date. This will help minimize inquiries or chargebacks.
- ▶ Provide cardholder with an easily assessable merchant contact number for customer service



inquiries, and also the right to terminate the recurring transaction

- ▶ Ensure an authorization request is made for all payments and approved before submitted for clearing
- ▶ Ensure all transactions reflect the Recurring Payment Indicator
- ▶ Contact the cardholder to obtain alternative account billing details if the authorization response is a decline.



## Merchant Pre- Billing Notification

Merchants who provide this type of customer notification prior to submitting an authorization request for a recurring transaction should see less disputes when done regularly.

### Merchant Pre-Billing Notification Sample

**To:** customer name@account.com **From:** merchant name@account.com

**Subject:** Recurring transaction notification **Date:** 3 May 2004 03:15:02 -0500

Dear Customer Name,

This email confirms your authorization\* of the transaction listed below, entered on 5/3/2004 at 3:14:49 AM has been processed and will be debited from your account.

Transaction Origination Date: 5/3/2004

Name on Account: Cardholder Name

Amount: \$14.95

Description: Approved recurring charges on 2004-04-03

\*You have authorized Merchant Name Services, Inc and your financial institution to initiate the transaction detailed below. You have acknowledged that the origination of debit or credit transactions to your account must comply with the provisions of local laws. This authorization is to remain in full force and effect until Merchant Name Services, Inc has received written notification from you of its termination in such time and manner as to afford Merchant Name Services, Inc and your financial institution a reasonable opportunity to act on it.

Processed for: Merchant Name Services, Inc

Phone #: 909-832-8879

Email: merchant name@isp.com