



WHAT IS A PAYMENT GATEWAY ?

Everything you ever need to know about payment gateways.

INTRODUCTION

Did you just order groceries online? Paid your electricity or DTH bill via a recharge app? Most of our activities have made a drastic online shift.

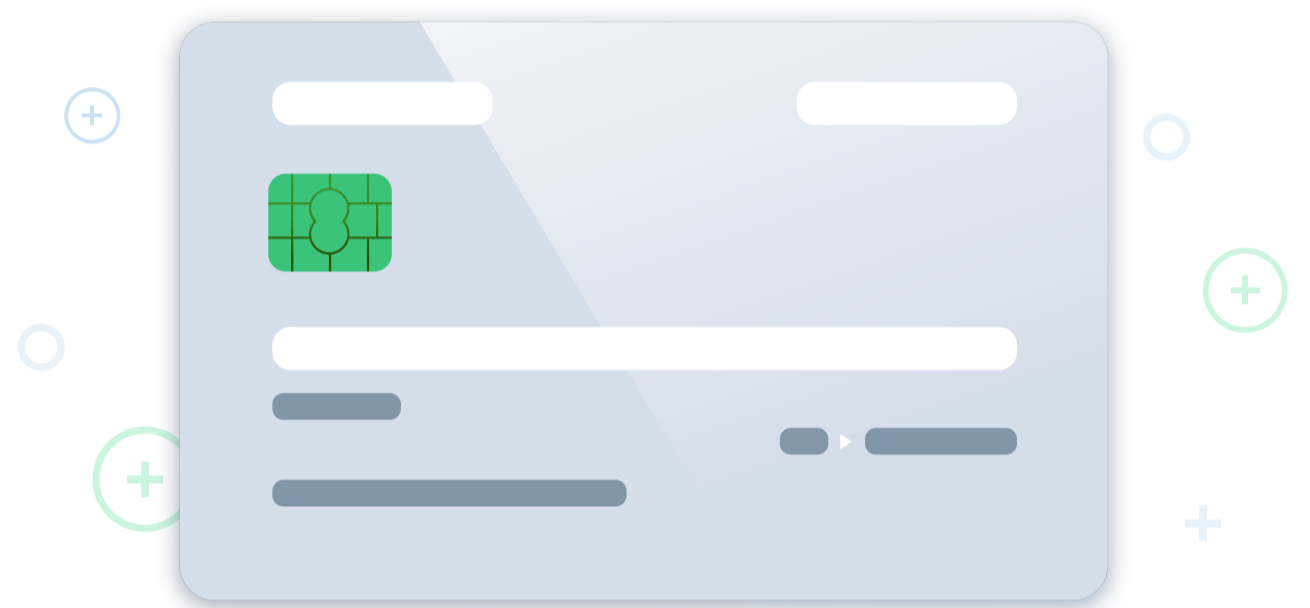
We're not saying it, the numbers are!

The rate of online payments has increased over 2016, especially after demonetization.

Currently, there are a total of

700
MILLION

Debit cards in use in India.



A recent study by Google predicts digital payments in India to grow:

10 times to \$500 billion by 2020 and contribute to 15% of the total GDP.

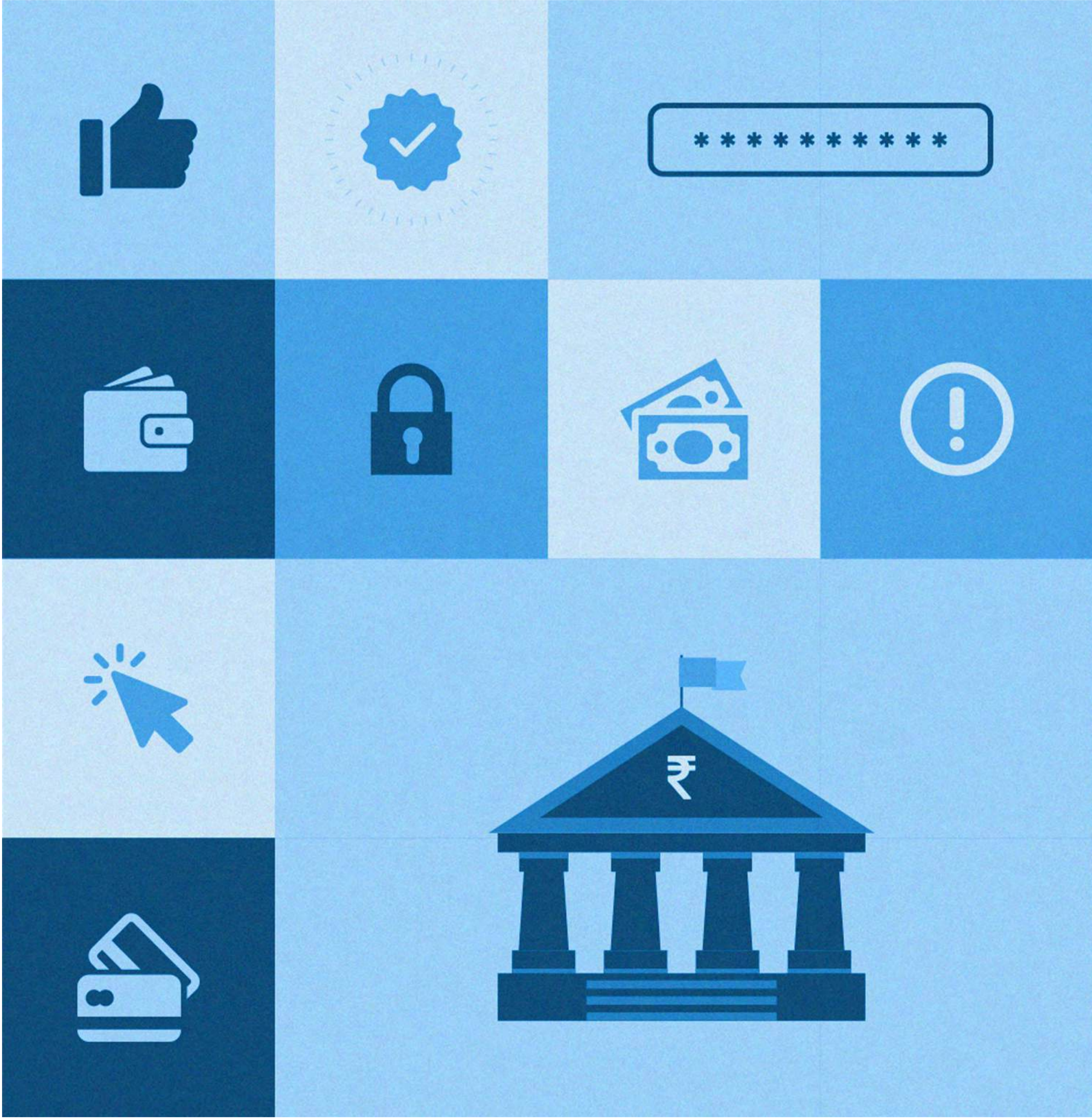
As more of us take our transactions online, you may wonder if your money is safe on the internet.

This eBook will help you understand how your money travels online and how a payment gateway works.

We'll also answer some basic questions that will help you understand how online card payments work in India.

Don't forget to check out the glossary section at the end of the eBook. It should help you understand the terms used in the payments industry.

Understanding How Online Card Payments Work



UNDERSTANDING HOW ONLINE CARD PAYMENTS WORK

The online card payments mechanism is interesting because what you see on the screen is just a fraction of a long process that takes place within seconds!

We'll try to simplify that process for you in this chapter.

When you shop online and make a payment with a Debit or Credit Card - this is what you see/do:

STEP 1

You enter your card details, including the expiry and CVV number (the 3-digit number at the back of your card).



Verified by **VISA** **HDFC BANK**

Merchant Name:

Date:

Total Charges:

Card Number: ●●●●●●●●●●

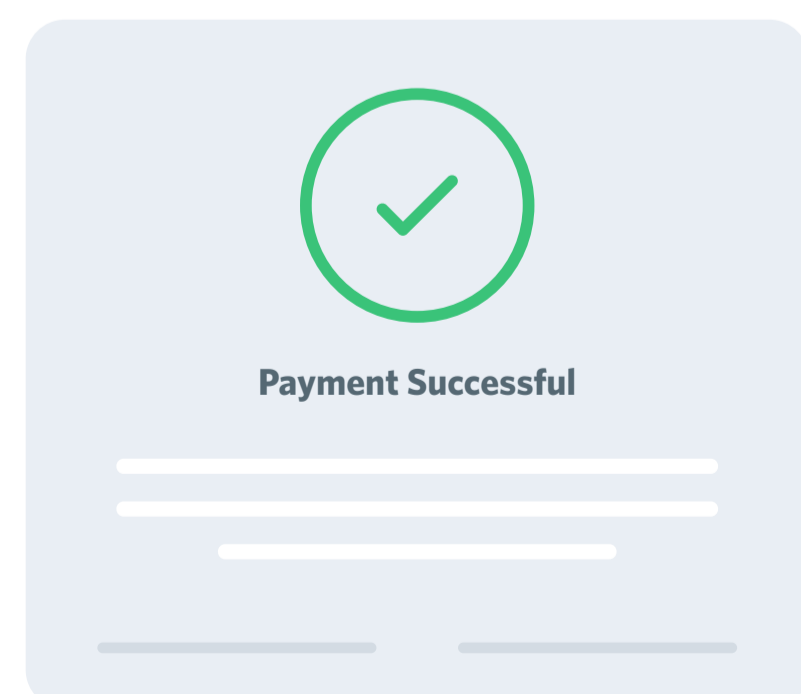
Secure PIN: ●●●●

STEP 2

You are then led to a bank page, where you can enter your OTP (one-time password) or 3D Secure number.

STEP 3

Your payment is successful and money gets deducted from your account.



This is what actually happens:

You enter your card details on the seller's page and are then redirected to a payment gateway page.



The payment gateway then routes your payment request to the seller's bank.



The seller's bank then sends a request to an Interchange Network (IC) - VISA, Mastercard, American Express etc. - where an authentication of your card details happen. The IC checks if your card details are correct and gives the request a green signal.



Once the authentication is done, the IC sends the payment request to your bank asking for permission to debit the amount from your bank account.



After the IC sends this request, your bank authorizes or rejects the payment depending upon factors like funds in your bank account.



Once your payment is authorized, the money is debited from your account and is sent back through the same route (backwards) to the payment gateway and a "payment successful" message is displayed on the screen.

QUICK QUESTIONS:

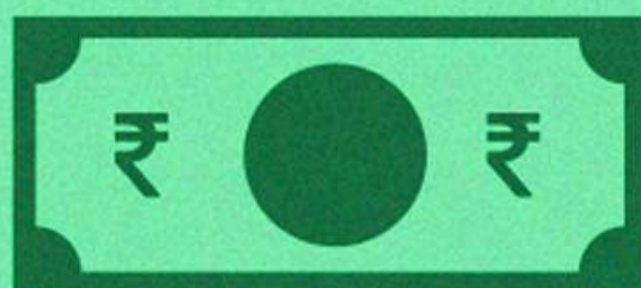
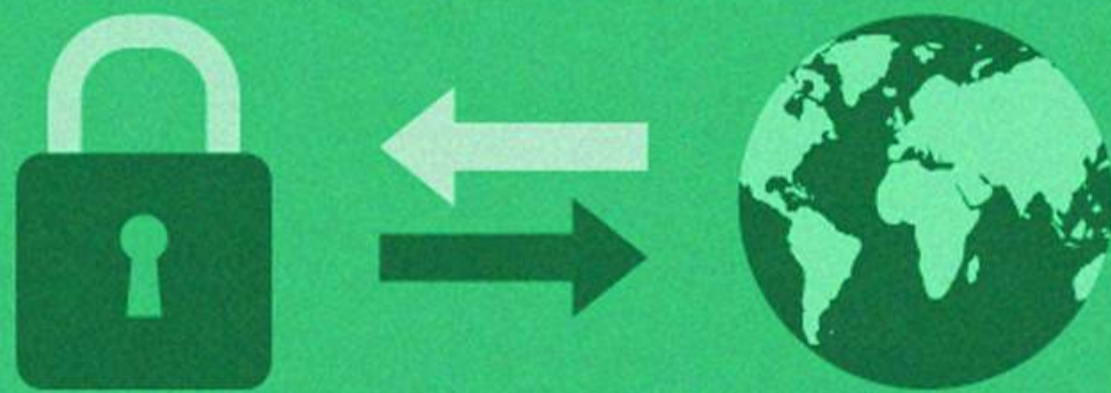
Does the money directly go to the seller's account from my account?

No! The money is held in the nodal account of the payment gateway and is settled to the seller typically between 0 and 7 days. The settlement depends on the transaction cycle of the payment gateway.

Does this mean my money is stuck somewhere?

No! Your money is absolutely safe with the payment gateway and will be released to the seller in due time.

What is a Payment Gateway ?



WHAT IS A PAYMENT GATEWAY ?

A payment gateway is a “switch” that allows the flow of money from the buyer to the seller securely, while acting as a middleman.

It securely takes money from your bank account and sends it to the seller, while receiving authentication and authorization commands from the banks and the Interchange Networks (ICs)

What does a payment gateway do?

In simple words, a payment gateway:

- **Captures a transaction**
- **Encrypts the information**
- **Routes it to the card processor/banks and then;**
- **Returns either an approval or a decline notice.**

QUICK QUESTIONS:

How is the payment gateway involved in the online payment flow?

Once you place an order on the seller’s page, the information is securely transferred to the payment gateway.

The payment gateway then sends and receives payment requests from the banks and the Interchange Networks (ICs).

Depending on the status of the transaction (success or failure), the payment gateway sends a message to the seller. The banks settle the money with the payment gateway and then the payment gateway settles the money to the seller.

How do payment gateways make money?

Simply by charging a flat fee or a commission on every transaction. Payment gateways are also charged a fee by banks and Interchange networks because they act as middlemen.

These fees are inclusive of processing charges and a service charge for modes of payment like Netbanking (NB), Credit & Debit Cards, wallets etc.

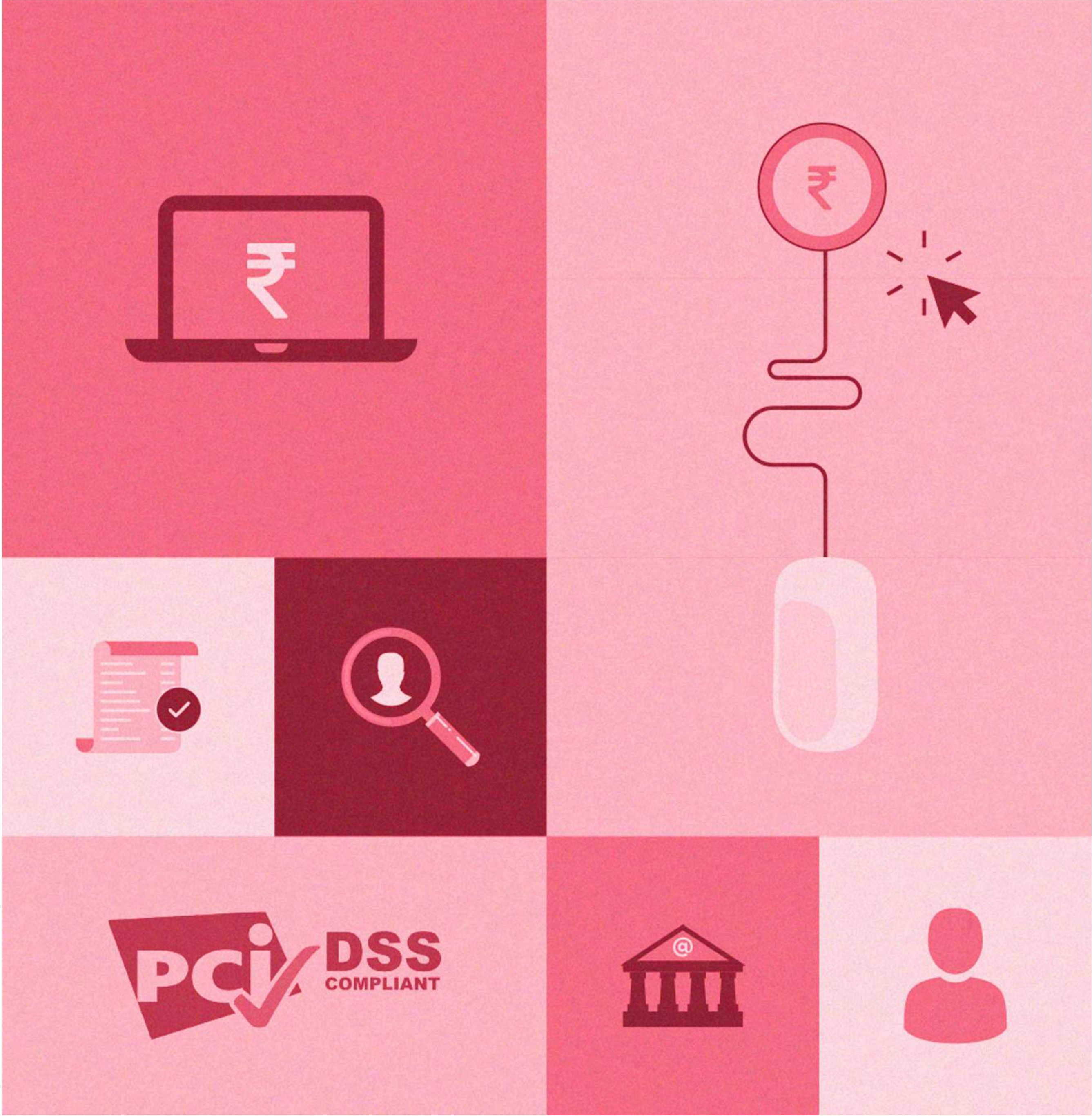
Payment gateways also have AMC (annual maintenance charges), TDR (transaction discount rates), and setup fees.

Who needs a payment gateway?

If you are an online business (you have a website or an online store) you may want to consider getting a payment gateway.

Getting a payment gateway will allow you to accept online payments from customers and grow your business.

How To Get a Payment gateway



HOW TO GET A PAYMENT GATEWAY

To start accepting payments online, you need a merchant account. There are two ways to go about accepting payments online from your customers.

For this you can:

- **Apply to a bank directly,**
- **Or go via a payment aggregator.**

1- Getting a Merchant Account with a Bank

You can apply directly to the bank to get your merchant account. This requires you to verify your business documents which is known as 'credit underwriting'.

A payment gateway also charges a basic setup fee and AMC (annual maintenance fee).

Getting a payment gateway requires you to have your paperwork and documents in place.

Here is a checklist of everything you need while applying for a payment gateway:

- Certificate of Incorporation of your company
- Memorandum of Association & Articles of Association
- Partnership Deed, in case of LLP
- PAN Card for the Company or LLP
- A bank account where your payments can be routed

Once you have these in place, you can approach a payment gateway to help you set it up on your website or online store.

To choose a payment gateway in India, you can go through this list:



2 - Skip all the Drama and Choose a Payment Solution

A payment aggregator usually has relationships with multiple banks to help you collect payments via different modes. An aggregator like Instamojo bundles a netbanking (NB) solution with the gateway so you can collect NB as well as card payments.

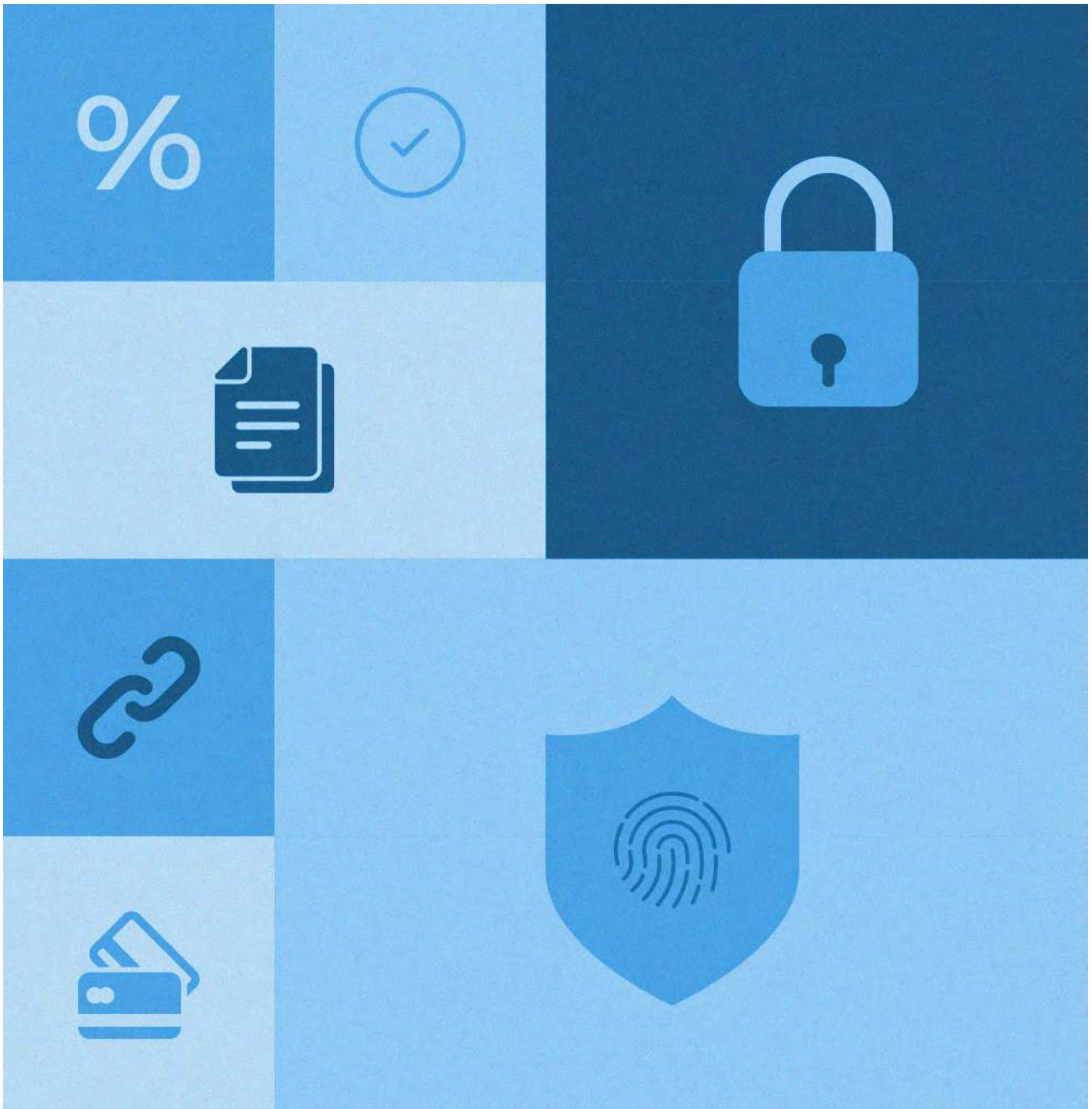
Some payment solutions can help you start collecting money online without having to set up a payment gateway or a merchant account.

You can also save on setup fee in some cases. They charge you on a transaction basis .

Available options in India (with supported payment modes):



Things to Consider While Getting a Payment Gateway



THINGS TO CONSIDER WHILE GETTING A PAYMENT GATEWAY

1. INTEGRATION: What platform is your e-commerce website based on? Your payment gateway should be able to integrate with your platform.

2. SET UP FEES: How much does your payment gateway charge you to set up an account? Don't forget to compare setup fees for each payment gateway. Some are more expensive than the others and can become a pain if you're just getting started.

3. PRICING: Check on the fees your payment gateway charges. Some payment gateways charge a flat fee on each transaction while others may charge a percentage commission on each transaction.

4. ON SITE OR OFF SITE: Do you want to send your customers to another website, where they can proceed with the payment or do you want a pop-up on your website so your customer does not have to leave your website?

5. MODES OF PAYMENT: What does your customer want? Netbanking, credit card, debit card or just a wallet option? Most of the payment gateways will provide these basic options but make sure to look up transaction success rates for each mode. You don't want to lose customers because of transaction failures.

6. SUCCESS RATES: Payment success rates are a crucial aspect of online payments. Failed transactions are a big turn off. The higher your success rate, the happier your customers. Make sure the payment gateway/solution you choose has a proven success rate of at least 80% or more.

7. SECURITY: Your payment gateway should comply with bank grade security level, like PCI DSS and provide a secure encrypted environment for payments.

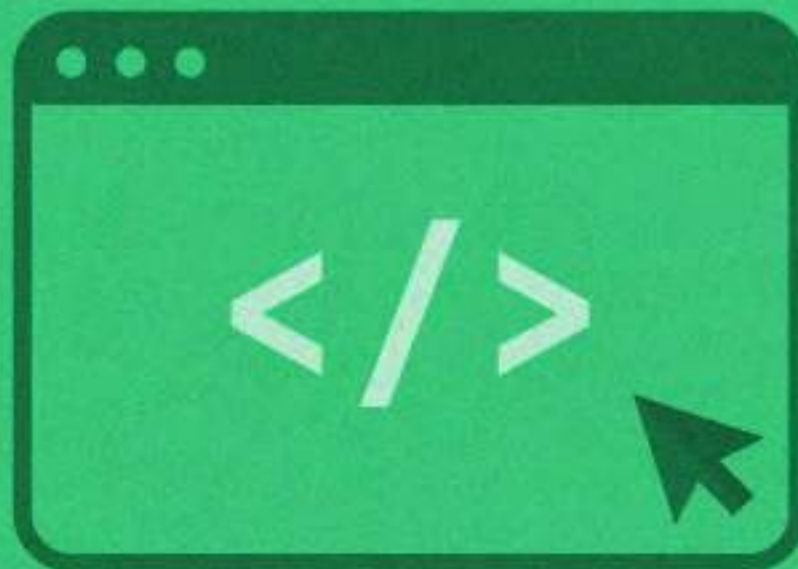
8. KYC AND PAPERWORK: Check how the payment gateway validates KYC (Know Your Customer) documents and legal paperwork. Make sure the payment gateway has a proper refund and legal policy in place.

9. RISK & FRAUD PREVENTION SYSTEMS: Find out if your payment gateway provides protection, not just to you as a seller but also to your buyers. Do they have a proper refund policy in place for buyers? Do they protect sellers from chargebacks?

10. PAYOUTS: Does the payment gateway settle money timely to sellers and buyers? It matters because you don't want to run out of funds if the payout time is too long.

Thorough research on the above points can help you figure out the best payment solution for your business.

Choosing a Payment Solution for Your Business

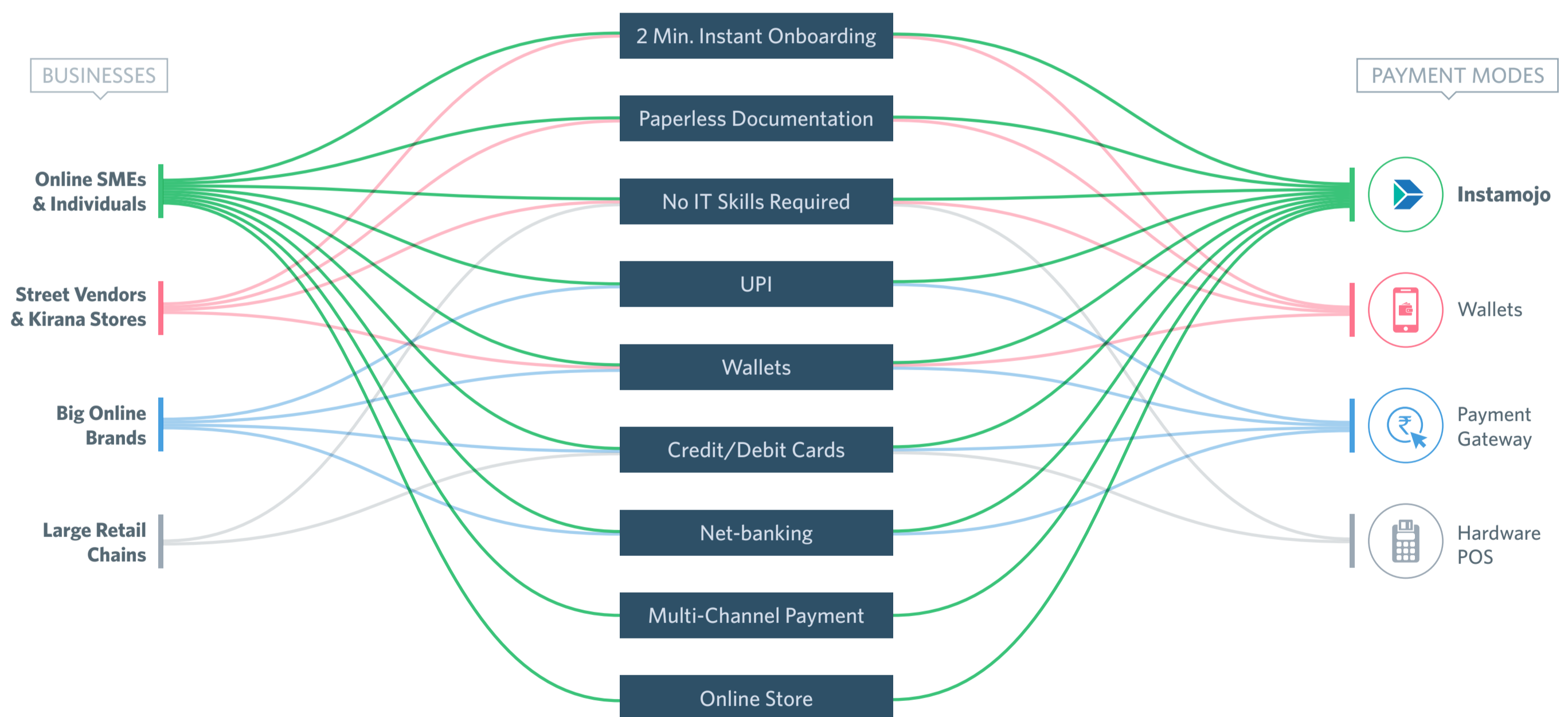


CHOOSING A PAYMENT SOLUTION FOR YOUR BUSINESS

No two businesses are the same. Every business has different payment needs, which is why, we've put together a graphic that can help you trace which payment solution suits your business the best.

Simplified Payments for all

Difference in various payment options available in the market according to industry usage.



NOTE: Street vendors and Kirana Stores are small hyperlocal businesses; Large Retail chains signify big hyperlocal businesses that are offline;

Big Online Brands are big size (more than 100 employees) businesses operating online and SMEs signify small and medium size businesses (typically 1-25 employees).

DO MORE WITH INSTAMOJO



INSTAMOJO HELPS OPTIMIZE CART ABANDONMENT

- Fast payment page load time
- Best payment success rate
- Awesome checkout flow
- Mobile optimized payment pages



INSTAMOJO SENDS YOU A NOTIFICATION ON PAYMENT FAILURE:

You are notified, every time there is a payment failure on Instamojo. You can use this to send emails to your customers saying their order has been accepted but payment wasn't successful. You can also request them to try again.



INSTAMOJO SUPPORTS MULTIPLE MODES OF PAYMENT:

With Instamojo, your customers can choose from multiple ways to pay online:

- Internet Banking - All banks are supported
- Debit Card from all banks
- Credit Card
- Mobile Wallets
- UPI (Unified Payments Interface)

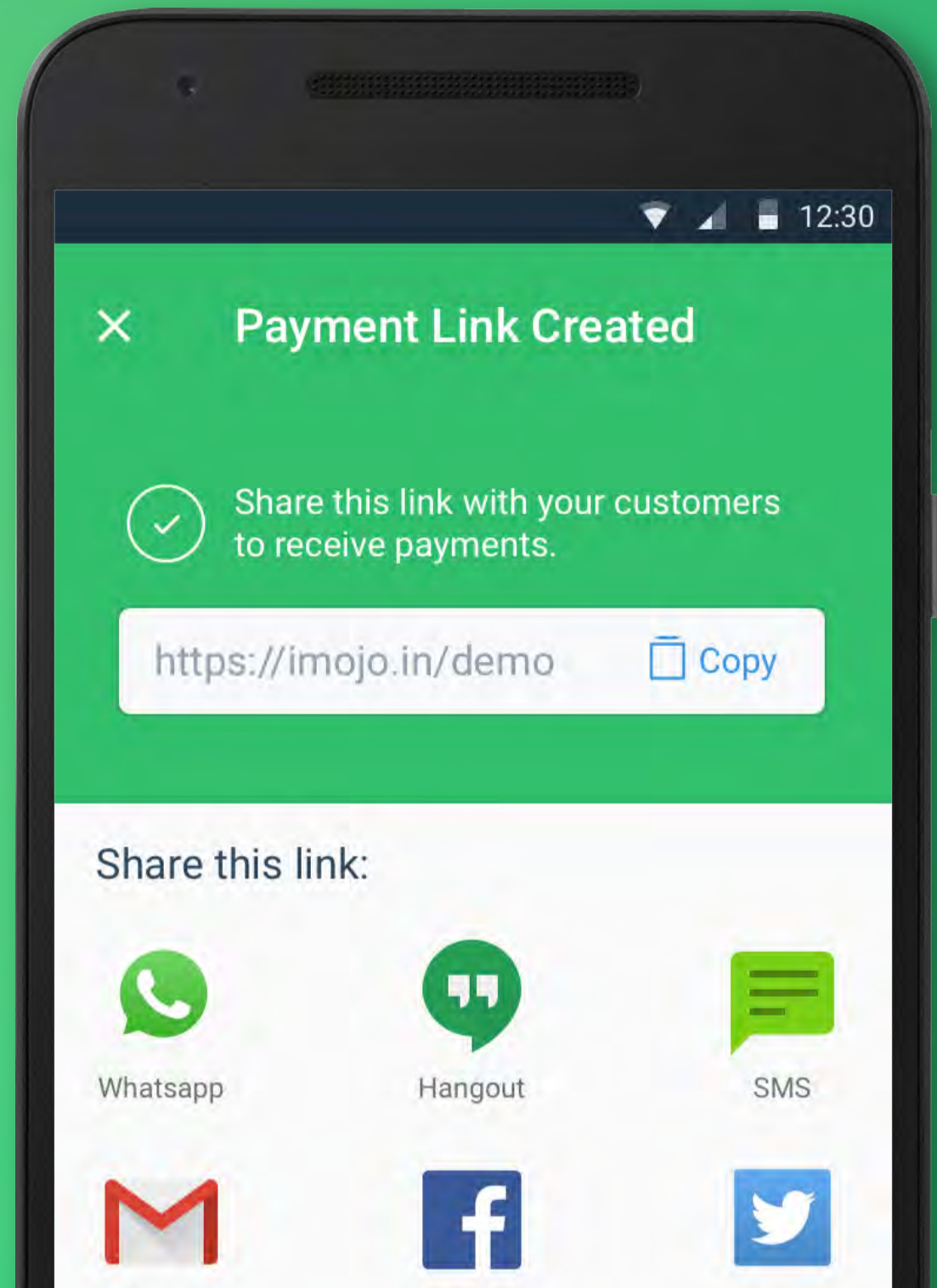


THERE ARE MULTIPLE WAYS TO COLLECT PAYMENTS FROM YOUR CUSTOMERS USING INSTAMOJO

- Share Payment Links
- Request a Payment
- Integrate payment button on your website
- Sell directly from Online Store

GET THE APP!

TRACK PAYMENTS ON THE GO..



Create payment links



Track your payments



Request payments



Issue refunds



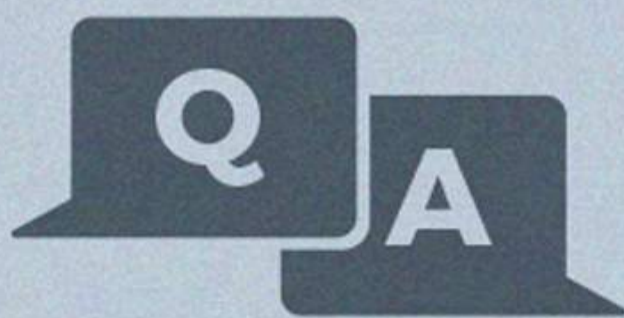
Monitor payouts



Handle customer disputes



Glossary



GLOSSARY

- **Merchant:** Someone who sells a products or service. They are mainly businesses -small or big.
- **Merchant Account:** A merchant account allows businesses to accept payments in multiple ways, typically debit or credit cards. Merchant accounts are setup by payment gateway providers in India.
- **MID:** A merchant ID is a unique 16-digit number provided to the seller by the payment gateway.
- **Order:** Orders are a potential sale. A completed order becomes a sale only after the payment is successful.
- **Transaction:** The process of sending and receiving money.
- **PCI-DSS:** Payment Card Industry Data Security Standard is a set of security rules accepted widely in the payments industry to protect cardholders from online fraud and misuse. All online payment service providers need to adhere to these security guidelines that include firewalls, passwords, a secure network, authentication etc. This was set up by the Interchange Networks (ICs) to ensure utmost safety of money online.
- **Interchange Network:** An Interchange network is a card network that facilitates different card payments from different banks.
- **AMC:** An Annual Maintenance Cost charged by the gateways that typically ranges between Rs. 1200 - Rs. 10,000
- **MDR:** A Merchant Discount Rate is a percentage charged by banks/ payment gateway to a seller for accepting Debit and Credit Card payments. This typically ranges between 1-3%.
- **TDR:** A Transaction Discount Rate is a flat fee charged to a seller by a payment gateway on each transaction for its services.
- **Authentication:** Authentication is the first set of checks by a bank to validate the identity of the person making the payment. Your PIN, OTP, CVV no., card number, 3D Secure number, biometrics - retina scans/fingerprints etc are authentication parameters.
- **1FA:** One Factor Authentication is usually a single check where the system checks for a single authentication parameter only - namely - card details. This is enabled on international cards alone.
- **2FA:** Two Factor Authentication comprises of two layers of security checks. It requires PIN, OTP, and/or, 3D secure number to further process the payment This is enabled on all Indian cards and is rapidly being adopted in other countries too.
- **Authorization:** Once the payment has been authenticated, it is sent to the customer's bank via the interchange network to check:
 - If user making payment has sufficient balance in their account.
 - If the transaction initiated meets the issuing bank/buyer's bank policies.

- **Clearing:** If the payment is successful (after authentication + authorization checks), the transaction is posted “successful” in the buyer’s transaction history and the seller’s statement as well.
- **Settlement:** When the money is credited to the seller’s account.
- **Chargeback:** When a customer disputes a transaction and directly reports this to the bank, the bank puts a hold on the money involved. The money is held with the bank until the seller proves the transaction is legitimate. If the seller fails to do so, the money is reversed to the customer. This process is called a chargeback.

[Start collecting payments with Instamojo Now](#)

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LET'S BE FRIENDS

