

Visa Authorization and Reversal Processing

Authorization and Reversal Processing Requirements for Merchants



Performing estimated and incremental authorizations

Overview

Authorizations are a key element of the payments ecosystem. Merchants submit authorizations when cardholders identify goods or services they want to purchase. With each successful authorization, available funds from cardholders are reduced to cover an approved authorization, commonly referred to as an authorization hold.

Most authorizations are for a known, final purchase amount. However, merchants are developing new and innovative commerce experiences for their customers where the final amount is not known when the customer purchase journey begins. Estimated and incremental authorizations provide significant value and flexibility to merchants by enabling them to secure approved cardholder funds before the any goods or services are consumed, and as the transaction journey progresses.

The best practices in this document can help merchants to maximize the benefits of this authorization processing capability, while creating the best experience for the customer.

Efficiently managing authorizations

Authorizations give merchants the ability to complete a transaction. With each successful authorization, the issuer typically reduces the amount available to the cardholder for other purchases to cover the approved transaction - this is commonly known as an authorization hold. Authorizations are meant to be settled; however, when they are not, it can cause a problem for cardholders when the authorization is tying up money that can be used for other purchases and cause customer complaints where merchants are often blamed. This guide outlines simple steps that can be taken to prevent such problems.



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Benefits of estimated and incremental authorizations

Visa Rules allow any merchant to seek an estimated authorization when the final amount of the transaction is not known at the time a purchase begins and to use incremental authorizations when the initial estimated amount is insufficient. This helps:

- Facilitate innovation in the retail space, providing a foundation for creating frictionless consumer experiences, satisfying cardholder needs for speed, completeness, ease of consumption and other conveniences.
- Reduce a merchant's exposure to bad debt from cardholders who consume goods or services but ultimately do not have the appropriate level of funds to pay.
- Increase opportunities for incremental sales by making upsell purchases seamless and easy for the cardholder.
- Provide a cost-effective solution by avoiding the need to revisit purchase decisions with cardholders via multiple transactions during consumption. Estimates and increments allow merchants to secure additional funds, as needed, from a cardholder without the cardholder having to be present. This can reduce the need for merchants to authorize for an amount, then reverse the transaction and submit a new authorization when the amount changes.

Estimated and incremental authorizations are intended to be used for purchase transactions only (with the exception of cryptocurrency purchases). As such, they cannot be used for account funding transactions (AFTs), cryptocurrency purchases, automated teller machine (ATM) transactions, manual cash and quasi-cash transactions.

How to use estimated and incremental authorizations

Inform cardholders

Merchants that use an estimated authorization must inform the cardholder that the authorization is an estimate and not final and provide the authorization amount. Merchants must also inform the cardholder at the time of the estimated authorization that subsequent authorizations may occur. This avoids surprising cardholders when they receive a transaction alert or see an online statement that contains the estimated amount.

Note: Merchants may inform cardholders in writing or verbally.

Estimated authorization request

As the name implies, an estimated authorization is the merchant's estimate of what the cardholder will spend. An estimated authorization must be a genuine estimate and must not be an arbitrary amount. Merchants that wish to check the status of a credential must not use an estimated authorization and must use an account verification request. Conversely, to prevent over-authorization, Visa requires that an estimated authorization must not contain incidental spend amounts such as tips or a buffer for damage.

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Following an estimated authorization request, Visa provides merchants the flexibility to adjust the authorized amount at any time. If the cardholder spends more than expected, the merchant may obtain an additional authorization using an incremental authorization request. If the estimated authorization exceeds the final amount, the merchant must reduce the authorized amount using a partial authorization reversal. Details of both message types are set out below.¹

Incremental authorization request

An incremental authorization is used to increase the total authorized amount. The amount in the request is the additional amount by which the merchant wishes to increase the total authorized amount. A merchant may request an incremental authorization any time the total authorized amount appears to be insufficient. A merchant may request multiple incremental authorizations for a single transaction.

Note: An incremental authorization request must only follow an estimated authorization or another incremental authorization.

Authorization reversals

Authorization reversals notify the issuer that all, or part, of a transaction has been cancelled and that the authorization hold should be removed and open to buy amounts should be adjusted.

To help ensure that cardholders have access to all their available funds, merchants should process authorization reversals in a timely manner:

- *Transaction not completed:* Entire authorized amount must be reversed within 24 hours of when the merchant becomes aware that that transaction would not be completed or the end of the authorization validity period.
- *Completed transaction* where the sum of an

¹ **Note:** Special rules on using incremental authorizations and reversals apply to certain sectors such as restaurants and hotels

estimated authorization and any incremental authorization(s) exceeds the final amount: the difference between the authorized amount (or amounts) and the transaction amount must be reversed within 24 hours of when the transaction is completed.

How to process

A transaction initiated with an estimated authorization is often followed by an incremental authorization or a reversal. Visa processing requirements are designed to assist issuers in matching these multiple authorization messages with the clearing. Missing or non-matching data elements may mean issuers are not able to affect a match, which often means that funds remain held for a longer period or in duplicate. Cardholders may interpret this as an extra charge by the merchant, which may result in inquiries or complaints from cardholders to issuers and merchants.

Merchants should work with their acquirers to ensure all messages are coded properly. Key data elements are set out at the end of this document.

Acquirers and merchants may be subject to dispute liability (Dispute Condition 11.3 – No Authorization) if estimated and incremental authorizations are not coded properly, including but not limited to the following errors:

- No Estimated Authorization Indicator present in the first estimated authorization message
- No Incremental Authorization Indicator(s) present in all subsequent incremental authorization messages
- Mismatching Transaction Identifier between the estimated authorization message and any subsequent incremental authorization messages

Important: The first estimated authorization determines the final transaction characteristics (i.e., whether a transaction took place in a card-present or a card-absent environment), and the channel of an incremental authorizations is not taken into consideration for this purpose.



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Authorization validity periods

Visa Rules set out the length of time an estimated authorization is valid to complete the transaction:

- Lodging, Vehicle Rental, Cruise Lines – 31 days from day of estimated authorization approval
- Commuter Transportation, Bus, Railway Merchants – 7 days (in the U.S. 3 days) from the day of estimated authorization approval
- Other Rental Merchant Categories – 7 days from day of estimated authorization approval
- Other Card-Present Transactions – Day of the approval (same as transaction date)
- Other Card-Absent Transactions – 7 days from day of authorization approval

Incremental authorizations do not extend authorization validity periods. In the case of extended stays, cruises or rentals longer than the validity period of the original estimated authorization, the original transaction must be closed within the corresponding validity period and a new authorization must be requested. The validity of period for the new authorization is also as shown above. Reauthorizations can be estimated authorizations and followed by incremental authorizations, as necessary.

Prepayments (including travel), delayed charges, cancellation penalties (no-shows) are valid for the day of approval (same as transaction date). Merchants should work with their acquirer for the complete list of segment and validity periods.

Misuse of authorization system fee (U.S. only)

In order to maintain the data integrity of the Visa authorization system, a Misuse of Authorization System Fee is assessed by Visa to approved and partially-approved authorizations that cannot be matched to a settled transaction. If an authorization was attempted and received but the transaction was not settled, merchants must reverse the authorization.

Common causes leading up to Misuse of Authorization System Fee for lodging, car rental and cruise line merchants include:

- Not processing estimated, incremental authorizations and authorization reversals according to Visa's Rules and technical requirements.
- Usage of \$1.00 "test transactions" in certain circumstances instead of the Visa Account Verification Service.

Note: In the event of any conflict between this guide and the Visa Core Rules and Visa Product and Service Rules ("Visa Rules"), the Visa Rules govern.

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Common Questions

What is an estimated authorization?

An estimated authorization is an authorization request and approval that occurs before the merchant knows the final transaction amount. It enables the merchant to secure approved funds based on the merchant's estimated value of the goods or services the cardholder will purchase. It is typically used when the cardholder consumes or is in the process of obtaining goods or services before the final purchase amount is known.

When would a merchant typically use an estimated authorization?

The most common use of an estimated authorization is when the cardholder will be consuming goods or services before the final purchase amount is known. When that happens, a merchant can use an estimated authorization even before knowing the final amount to: secure approved funds, get comfort that the cardholder has funds to pay, create a seamless payments experience, increase opportunities to upsell more goods, provide seamless substitutions or fit payments into an innovative retail experience.

Is there a maximum amount for an estimated authorization?

The amount of an estimated authorization must represent the merchant's genuine estimation of what the cardholder will spend.

Note: other authorization types (initial authorizations, status checks, AFD authorization frameworks) may have maximum amounts.

What is an incremental authorization?

An incremental authorization enables a seller to increase the amount of funds secured through the estimated authorization. As the name implies, it is for an additional amount, and can be used by a seller when the initial estimated authorization does not cover what the cardholder is consuming.

Is there a maximum amount for incremental authorization?

No, there are no amount limits to the number of incremental authorizations.

Is there a limit to the number of incremental authorizations that can be submitted?

No, there are no limits to the number of incremental authorizations that can be submitted as long as they are submitted within the applicable authorization validity timeframes.

Do incremental authorizations extend authorization timeframes?

No, incremental authorizations do not extend the timeframes. Authorization validity timeframes can be found in the Visa Rules under Rule ID #0029524.

If an estimated authorization is card-present and the incremental(s) or reversal(s) are submitted card-absent, how is the transaction categorized?

The first authorization (estimated or initial) determines the final transaction characteristics.

Are there any costs associated with an estimated and incremental authorization request?

Yes. In addition to standard authorization processing fees, a 2 basis point fee is charged for each estimated and incremental authorization.

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Should fuel merchants use Estimates and Incremental authorizations?

There are no restrictions for fuel merchants to use estimates and incremental authorizations, however, Automated Fuel Dispenser (AFD) transactions have a customized authorization framework which does not utilize Incremental authorizations or Estimated amount indicators for Initial authorizations. For more information on AFD transaction processing consult these publications as applicable; *Visa Payment Acceptance Best Practices for U.S. Retail Petroleum Merchants*, *Visa Global Acceptance Best Practices for Fuel Merchants*.

What is an initial authorization? Is it the same as an estimated authorization?

An initial authorization is used by a limited number of unattended merchants, including Automated Fuel Dispensers (AFDs), laundries, quick copy, car wash, video rental and vending. Under that construct, the merchant sends an authorization for a fixed amount before the final transaction amount is known.

The amount of the authorization is capped. The merchant **is not** permitted to do an incremental authorization following an initial authorization and must stop the transaction if the purchase hits the authorized amount.

Finally, there is no need to flag an initial authorization message with an indicator, unlike an estimated authorization.

For more information on issuer best practices for processing Automated Fuel Dispenser (AFD) transactions please consult the following Visa Business News articles:

- Best Practices for Mitigating Automated Fuel Dispenser Fraud dated 28th October 2021
- Transaction And Authorization Limits and Fraud Liability Will Be Updated for Automated Fuel Dispenser Transactions dated 24th March 2022

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Processing requirements for estimated authorizations, incremental authorizations and reversals

Key data elements

Field Name	Description	Estimated Auth	Incremental Auth	Reversal	Clearing
Additional Authorization Indicator	Field 60.10. This field is utilized to indicate an estimated authorization and must carry either a value of "2" (estimated amount), or "3" (estimated amount and terminal accepts partial authorization responses). To help ensure authorization approvals, it is recommended that merchants support partial authorization responses.	Yes	N/A	N/A	N/A
Message Reason Code	Field 63.3. This field is utilized to the reason for authorization and must carry the value of "3900" for incremental authorizations. Characteristics Indicator – Field 62.1 to also identify an incremental authorization, and must carry the value of "1" (incremental).	N/A	Yes	N/A	Yes
Transaction Identifier (TID)	Field 62.2. This must match the Transaction Identifier (TID) generated by Visa and returned as part of the response message to the original estimated authorization request. The TID from the estimated authorization must be retained and sent in all incremental authorization requests and reversals, as well as the clearing. It is a key element that links original estimated authorization request to subsequent messages.	Yes	Yes	Yes	Yes
Retrieval Reference Number (RRN)	Field 37. This field must contain the value from the original authorization request message. The Retrieval Reference Number is used with other key data elements to identify and track all messages related to a given cardholder transaction. It is usually assigned by the acquirer, but it may be assigned by a merchant or by an individual electronic terminal.	Yes	Yes	Yes	N/A
System Trace Audit Number (STAN)	Field 11. This is a number assigned by the merchant that uniquely identifies a cardholder transaction and all the message types that it comprises. The same trace number is used in an estimated authorization request and response, incremental authorization request and response and in a subsequent reversal request and response.	Yes	Yes	Yes	Yes
Transaction Amount	For incremental authorizations, this field should contain the additional authorization amount being requested. Authorization reversals (full or partial) should always contain the original transaction amount in this field. In the case of authorizations which have been incremented, this field should contain the total amount authorized (sum of all original and incremental authorizations).	N/A	Yes	Yes	Yes
Replacement Amount	Contains the corrected amount of an authorization transaction.	N/A	N/A	Yes	N/A