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# Card authorization explained: How it works and what businesses need to know

Learn about the card authorization process to give your customers the smoothest transaction experience possible.

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Introduction

What is card authorization?

How does card authorization work?

What is capturing?

What is settlement?

What is a credit card authorization form?

Are credit card authorization forms safe?

What is a card authorization hold?

If you've ever used a credit or debit card to make a purchase, you've been involved in the card authorization process. The same is true if you have a business that accepts credit and debit card payments from customers. There are over **one billion credit card transactions** processed worldwide every day, and all of them require authorization to be completed. But despite being a routine aspect of most people's daily lives and a pivotal part of doing business, most people don't know very much about the card authorization process.

Card authorization is far more complicated and consequential than simply checking to see if a cardholder has the funds available to complete a purchase. This process is a powerful security measure that gives card issuers and businesses a routine way to screen for potential fraud before it turns into a successful transaction. As a business owner, understanding how card authorization works and why some authorizations fail will enable you to set up your business and give your customers the smoothest transaction experience possible.

## What's in this article?

What is card authorization?

How does card authorization work?

What is capturing?

# What is card authorization?

Card authorization is approval from a credit or debit card issuer (usually a bank or credit union) that states the cardholder has sufficient funds or the available credit needed to cover the cost of a transaction they're using a card to complete.

In one sense, the term "card authorization" can refer to the authorization itself, as in, "We have card authorization for this purchase." It can also mean the process by which authorization is sought, as in, "We are in the middle of card authorization right now."

# How does card authorization work?

Before we get into the actual process of card authorization, let's quickly run down all the key players involved. Card authorization involves four parties:

- The customer, often referred to in this context as the cardholder

- The business

- The issuer, or issuing bank

- The acquirer, or acquiring bank

Card authorization usually happens through a **payment processor** as part of the scope of services they provide for businesses. Many payment processors play multiple roles for businesses around payment processing, including serving as the business's acquirer. Stripe, for example, offers payment processing for businesses, as well as the functionality of a business account and acquirer. An acquirer—also called an acquiring bank—is a bank or financial institution that processes credit or debit card payments on behalf of businesses, specifically in the context of communicating with cardholders' banks—called issuers, or issuing banks—to authorize transactions.

Here's the process in which all these parties communicate with each other to approve a transaction (or not approve it):

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