GET PAYMENTS GOING YOUR WAY™

PAYMENT FACILITATOR MODEL

What is a payment facilitator?

Payment facilitators (Payfacs®) are service providers sponsored into the payments network(s) by an acquirer. They are able to contract with, oversee, and manage a portfolio of submerchants, i.e., handle underwriting, risk monitoring, settlement, etc.

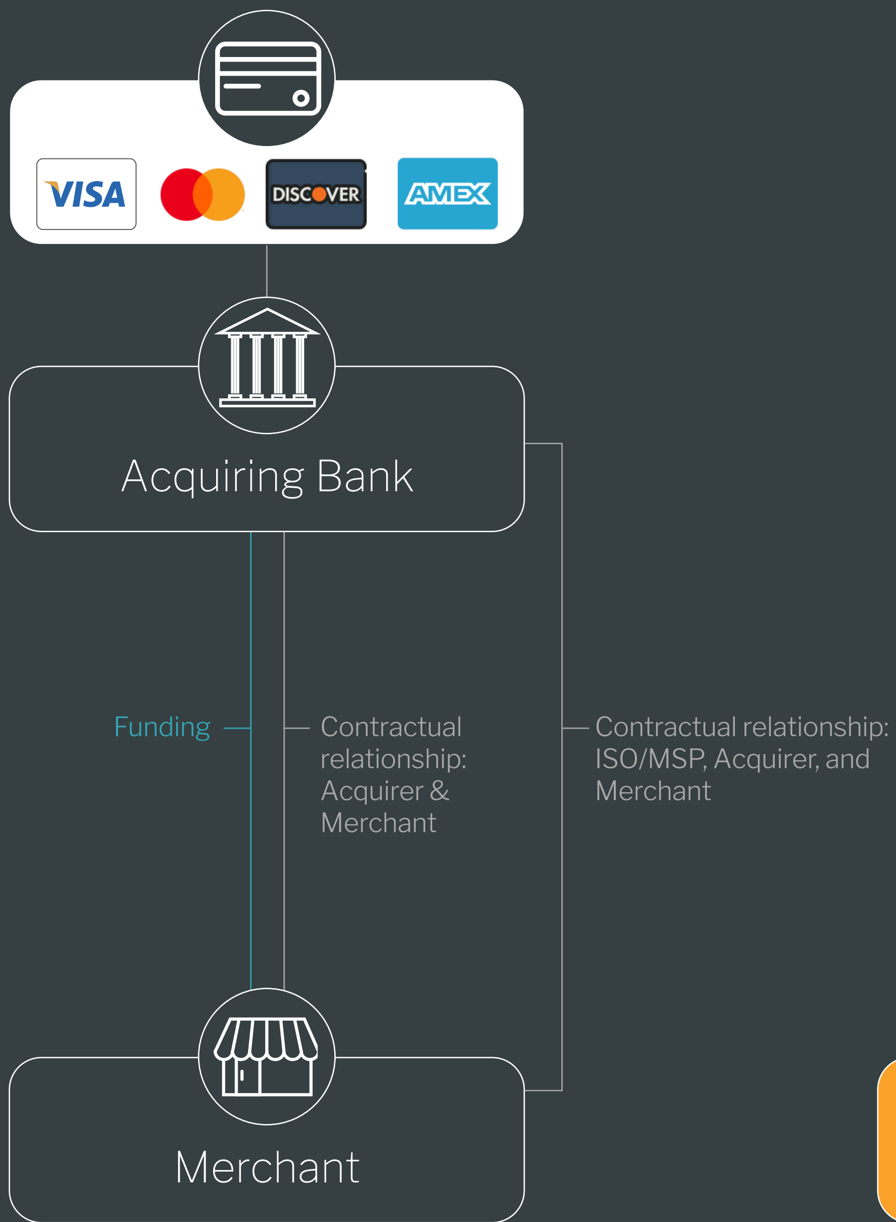
Who is a good fit to be a Payment Facilitator?

Usually, the payment facilitator model is leveraged by companies who:

- ✓ Want to add payment acceptance solutions to their portfolio and, at the same time, manage more of the customer experience
- ✓ Will deliver a highly digitized customer experience
- ✓ Are primarily targeting SME and micro businesses and/or are focusing on specific verticals
- ✓ Are not obtaining an acquiring license, instead leveraging the Payfac model to enter the payment acceptance space

Customer Centricity: Key advantages for Payfacs center on a fast and highly automated merchant onboarding process combined with risk-based/tiered underwriting to deliver a best-in-class user experience for merchants that also manages costs and enables simplified pricing models for their submerchant customers

TRADITIONAL MODEL



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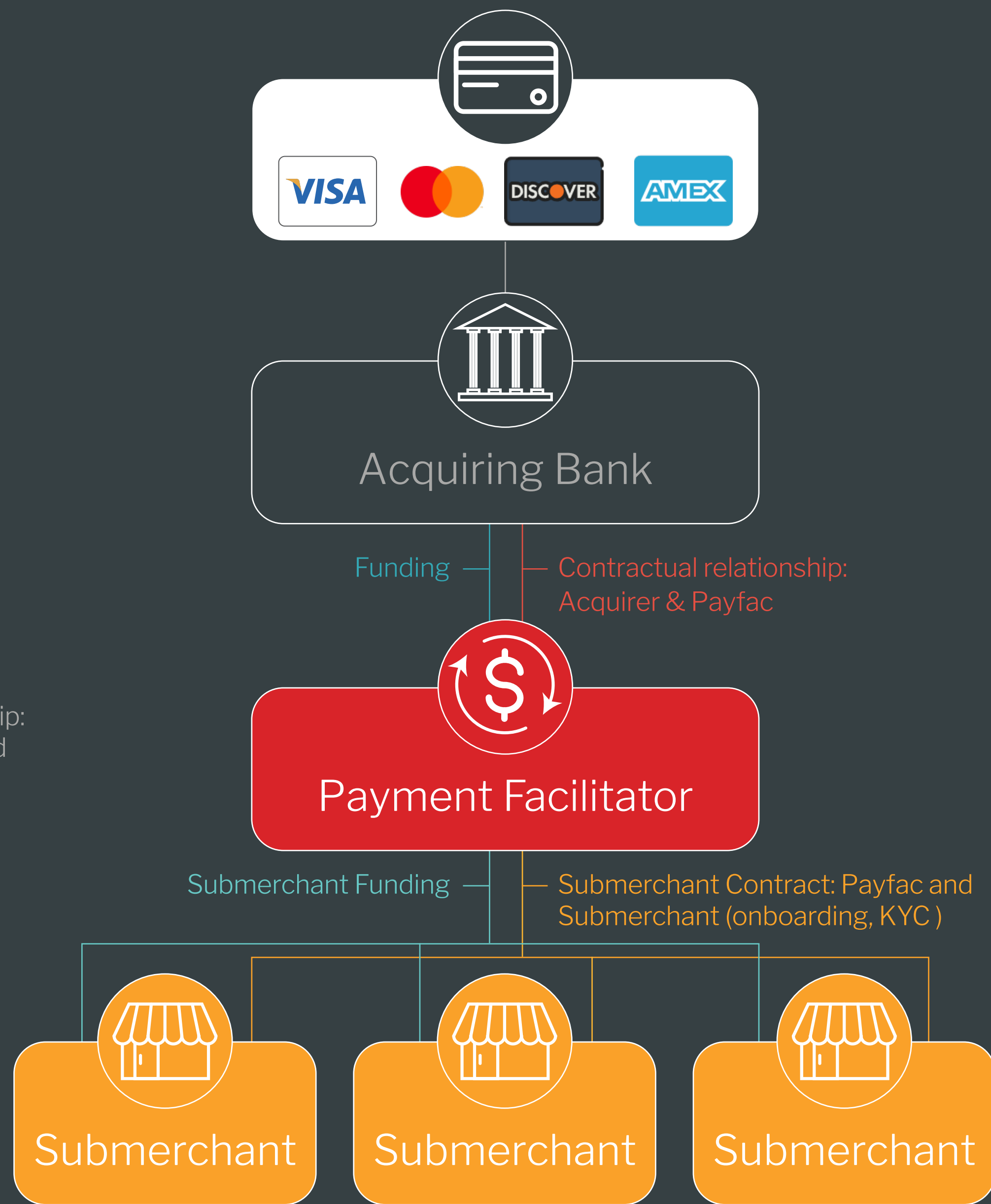

CHARACTERISTICS / KEY BENEFITS

Compared to most (traditional) acquirers, Payment Facilitators are typically known for:

High degree of digitalization

Digitalization acts as one of the main differentiators between traditional players and payment facilitators.

Merchant application and onboarding can take only a few minutes, as the key data points are entered online and typically evaluated by an underwriting tool (versus days / weeks in the traditional model, with more forms / paperwork required).

Transparency & simplicity

Simple pricing structure: Contrary to traditional acquirers, Payfacs provide simple and transparent pricing and an upfront cost structure.

Easy access for merchants: Payfacs feature an absence of paperwork and easy access through digital channels (phone/ tablet) for onboarding and management.

SME & vertical specific focus

Expertise: Payfacs improve retention and strengthen relationships with sub merchants by having a developed and thorough understanding of the unique (processing) needs of SMEs and / or certain industry verticals

VAS focus: Offering targeted (vertical-specific) value-added services, such as inventory management, customer management or marketing can drive value for the submerchants.

KEY FUNCTIONS

The exact responsibilities might differ depending on geography or the contractual relationship with a sponsoring acquire. Nevertheless, the following functions are usually performed by most Payfacs:

Underwriting

- **Signing up and servicing merchants:** Payfacs must set up appropriate onboarding processes.
- **Performing due diligence (KYC, MATCH) on merchants:** Payfacs need to verify and screen submerchants before onboarding them.

Monitoring

- **Monitoring submerchants and their transaction activity (including fraud and risk):** Payfacs should have appropriate measures in place to track and mitigate any risky submerchant activitiy on an ongoing basis.
- **Underwriting risk:** Payfacs are fully liable for the risks associated with their submerchants.

Settlement

- **Paying** submerchants
- **Submitting** valid transactions to an acquirer

Compliance & Admin

- **PCI compliance:** Payfacs need to be PCI-compliant (renewing the PCI license annually)
- **Must ensure** that submerchants that exceed $1M in either Mastercard or Visa annual transaction volume enter into a contractual relationship with an acquirer.
- **Adhering** to all banking, card brand and government agency regulations.

BECOMING A PAYMENT FACILITATOR – STEPS

1. Pre-assessment

- Conduct readiness assessment
- Check pre-req. regarding licenses needed
- Model the business case
- Assess financial risks
- Assess merchant verticals

2. Getting Started / Setup

- Obtain PCI DSS Level 1
- Obtain PI / EMI License (Europe-specific)
- Find acquiring sponsor
- Register as Payfac through an acquirer
- Build your platform
- Set up merchant management systems
- Set up payment processing
- Choose a terminal solution
- Establish connectivity to acquirer's systems

6 - 12 months, depending on the initial setup

3. Live Operations

- Perform due diligence
- Manage ongoing merchant operations
- Pay submerchants
- Test / monitor the systems
- Report to an acquirer
- Maintain PCI compliance

Enter into a direct relationship with a sponsoring acquirer

- Register with a sponsoring acquirer.
- Get underwritten by the sponsoring acquirer (includes checking of legality of the business, funds analysis, etc.).
- The sponsoring acquirer registers the business as a payment facilitator.
- After registration, your sponsoring acquirer will provide the business with a unique Payfac identifier.
- A MID (Master ID) account is granted to the business after successful registration as a Payfac.
- Written registration confirmation is needed before you start operating.
- The sponsoring acquirer reviews the Payfac on an annual basis.

Obtain appropriate PCI certification, if needed

- Ensures security of sensitive data (including storing, transmitting and processing card data).
- All entities must be PCI compliant, depending upon their processing amounts and their exposure to cardholder data.

Time frame: 3 - 5 months

Obtain Payments Institution (PI) or Electronic Money Institution (EMI) license

- Europe-specific (other local licenses might apply across different geographies).
- Allows for providing merchant services and handling and initiating the payments.

Build your platform

- Choose between building systems / platforms vs. leveraging third party vendors.

Establish connectivity to the acquirer's systems

Two-way information flow:

- Th Payfac pushes messages the acquirer (transaction info).
- The acquirer has access to Payfac system to oversee their performance and compliance.

Set up merchant management systems such as dashboards, payout systems and dispute management systems to deal with chargebacks.

Set up payment processing

- Payfacs use the acquirer's processor to process payments.
- If contracted with more than one acquirer, the Payfac uses respective processors for different submerchants.

Choose a terminal solution

- A hardware solution is needed for Payfacs with a focus on verticals such as restaurants / brick and mortar retail.
- Cloud-based / portal-based solutions are needed for e-commerce.

Perform due diligence

KYC (Know Your Customer) to verify the merchants you are taking under your umbrella.

To help identify high-risk merchants before taking them onboard, KYC includes checking:

- Business structure
- The business owner
- Business locations
- Business financial situation (including fraud, reputation, compliance)
- Monthly volumes
- Average tickets
- Consistency of parameters with MCC
- Web pages (e.g., products sold, delivery & return policy, terms & conditions etc.)

MATCH (Member Alert to Control High Risk Merchants) Report

- This is required by card networks prior to transaction processing.

Ongoing submerchant operations

a. Underwriting new merchants who are coming on board.

Tier underwriting:

- Basic checks upon initial signup.
- New info / checks requests (from Payfac) as the (sub)-merchants grow (& approach new tiers).

b. Ongoing payment processing under your unique **Master ID** (MID).

c. Ongoing (real-time) risk monitoring (including any changes in average ticket, delayed delivery, transaction anomalies based on MCC, etc.).

d. Ongoing fraud monitoring, preventing fraud by blocking or proactively reviewing suspicious transactions.

e. Managing chargebacks on behalf of submerchants (by submitting evidence to card networks).

f. Mitigating risks as needed (e.g., by holding reserves, applying processing caps, etc.).

Maintenance of PCI DSS Level 1. The PCI license needs to be renewed on an annual basis.

Testing / monitoring the systems on an ongoing basis and refining / adjusting these if necessary.

Paying the funds out to your submerchants, ensuring every submerchant is paid on time.

Reporting submerchant activity to your sponsoring acquirer on a quarterly basis or when requested.

To speak with a Payment Facilitator Model expert or to learn about how Infinicept can help you better understand the world of payments, contact us.

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