Becoming a Payment Facilitator, Payment Service Provider [PSP] or Payment Aggregator.

Being a Payment Facilitator can be thought of as being a Master Merchant, facilitating credit and debit card transactions for sub-merchants within your payment ecosystem. Becoming a PSP lends itself well to some businesses that fall into the software provider classification. However, with the many advantages come some unique challenges. We'll discuss both in this article.

WePay, Square and Stripe are some of many new players on the scene attracted to the Aggregator model. More than a few of these PayPal competitors grew from their founder's frustration with PayPal limitations.

So what makes this model so attractive, what is involved in enabling your business to coopt this strategy and most importantly what are the advantages and risks?

Before we talk about the Payment Facilitator model, let's briefly take a look at the standard merchant account model. In the US, the Visa and MasterCard network providers like First Data and Vital allow Third Party Processors [TPP] to connect to the network to facilitate real-time transactions on behalf of a merchant. Merchants go through an underwriting process whereby the TPP satisfies their risk assessment of the merchant applying. This process can take anywhere from a day to a week or longer. Once approved, the merchant can then originate transactions, which are funded by the network provider, typically in 24-48 hours.

With all of these Standard Merchant accounts comes risk. So we can shed appropriate light on the Payment Facilitator Model that we will soon discuss, let also briefly examine two risk scenarios of this standard merchant approved above:

1. The approved merchant is struggling financially. They continue to take in orders, but either their product or services provided begin to suffer, or perhaps they fail to even deliver on their products. This leads to chargebacks by consumers not happy with the products / services from the merchant. Situations like this ultimately lead to a loss for the Third Party Processor, as they are the one who must pick up the bill if the merchant defaults or goes under.

2. The approved merchant was a scam from the start. Elaborate schemes are concocted every day in an effort to acquire a credit card merchant account. Some TPP's are better than others at the underwriting process, but none are totally immune from scam risks. This scam company purchases stolen credit card numbers, and once approved to process they originate transactions using the stolen card numbers for a few days, get funded many thousands of dollars and vanish. Once again, it's the TPP who is left holding the tab as the consumer is protected from unauthorized debits.

This is why there is a comprehensive underwriting process in a typical merchant account scenario. The goal is to vet businesses as completely as possible and mitigate risk exposure.

Now lets examine the Payment Facilitator model and the companies like Stripe and Square who play in this space. How are they different? In both instances Stripe/Square underwrite and provision the merchant accounts themselves and may fund their sub-merchant's payments. MOST importantly, Stripe and

Square assume the risks as outlined above in the standard merchant scenario. Some companies are in a position to know their customer [sub-merchant] far better than a TPP could ever hope to. **Knowing the customer is significant to risk mitigation itself.**

The disadvantages to the Payment Facilitator model

- Potential risk of financial loss
- Customer support burdens
- Integration demands
- Approval process to become a PSP can be somewhat burdensome
- Compliance with KYC/PCI and potential tax reporting

The advantages to the Payment Facilitator model

- Speed of boarding process: Being a Payment Facilitator allows you the ability to setup sub-merchants extremely fast, removing a choke point to new client acquisition. Potential clients love that it is so easy to get the account going with no paperwork or documentation burdens. This dramatically improves the client boarding process. Buy a Square reader at Walgreens, go online and create your account and within an hour you can be swiping payments. That's a very attractive acquisition tool.
- Merchant Control: Sub-merchants are under contract with you, the Master Merchant.
- Flat fee structure: Easy to understand flat fees for your merchant customers. No needs to understand interchange tables.
- Earnings: Master merchants are able to earn money from network and transactional fees, and potentially float.

Revenue is derived simply from the difference in buy rate from the processing networks and the sell rate charged to the end customer. For illustration, if a Payment Facilitator knows their true overall cost amounts to 2.4% of processed volume and they sell at 2.9% their margin is .5% of dollars processed. If they process $10,000,000 per day that works out to $50,000 in revenue per day. Very attractive business model and you might say sign me up. Not so fast.

There is still the risk exposure that must be examined. Any business that chooses the PSP model will likely face loss from fraud, going out of business, non-fee payment, etc. In addition, small dollar average ticket merchants that do very few transactions per month are typically not profitable. A merchant that does three $40 transactions per month might generate $4 in revenue. If acquisition, boarding and support cost an average of $40 per merchant, the ROI is almost a year to break even.

Risk mitigation is tremendously important. Some PSP's fund their clients one week after transactions are processed to reduce potential losses. This can create friction with their client base that might really need that money for Friday payroll. There are of course many stories of businesses getting their accounts shut down without notice and having their funds frozen for 60-90 days. Their contract with the PSP usually gives this right to the aggregator as part of the risk mitigation component.

In addition as the PSP you will be front line for payment related support and when money is on the line you know people want service ASAP. There must be thought given to the support burden when pursuing the PSP model. The more you "know" your client base and the potential for dollar loss the more informed your decision could be.

So it for you? Definitely a decision your business needs to give a lot of thought to. ***If fast/easy client boarding is a must the PSP model is very tough to beat***. There is of course the risk mitigation that MUST be addressed. There are certainly cases where payment processors have gone down because they did not properly mitigate exposure. Customer service burdens are also a part of your decisioning. Typically you will also have an integration timetable to ensure the account provisioning, application process and KYC [know your customer] obligations are programmatically correct.

Your company must apply to become a Payment Facilitator. You will be required to explain your business model, what your projected processing dollar volumes are, how your compliance burdens [PCI, KYC] will be met. Also of importance is that you are financially sound. If you're a start up, co-founders and any financial backing will be looked at.

Another factor is understanding that your pricing "cost" may be higher than a TPP. This is of course down to risk. A 2.9% sell rate is relatively common and this in many cases may be higher than a merchant that is underwritten conventionally by a TPP. However, smaller merchants that don't process a lot of transactions might find a flat fee with no additional monthly fees a better value. So the barrier of "getting better pricing" typically is mitigated by ease of set up and deployment and in some cases is unwarranted. The point is that in the revenue potential planning phase your hard costs may be higher than a standard TPP [or merchant service provider]. Typically your buy rate as a PSP is dependent upon business model, financial soundness and other considerations. In talking with your aggregation provider partner this would be decided based on factors above.

Another Option?

There is an alternative to becoming a PSP while still being able to offer fast account set up. You may find a TPP with slick API's for merchant account onboarding that offers a hybrid blend between traditional reselling merchant accounts for a TPP and acting as a Payment Facilitator. Advantages are no risk, no support and much lower implementation costs. You still gain revenue benefits without admin burdens. It is unlikely you would be able to provision accounts as quickly as if acting as the PSP, but a middle ground may be the best fit for you.

In summary payment aggregation isn't for everyone but that s not what is important. The question is "Is it right for you"?

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