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CONSIDERATIONS WHEN BECOMING A PAYFAC OR MARKETPLACE

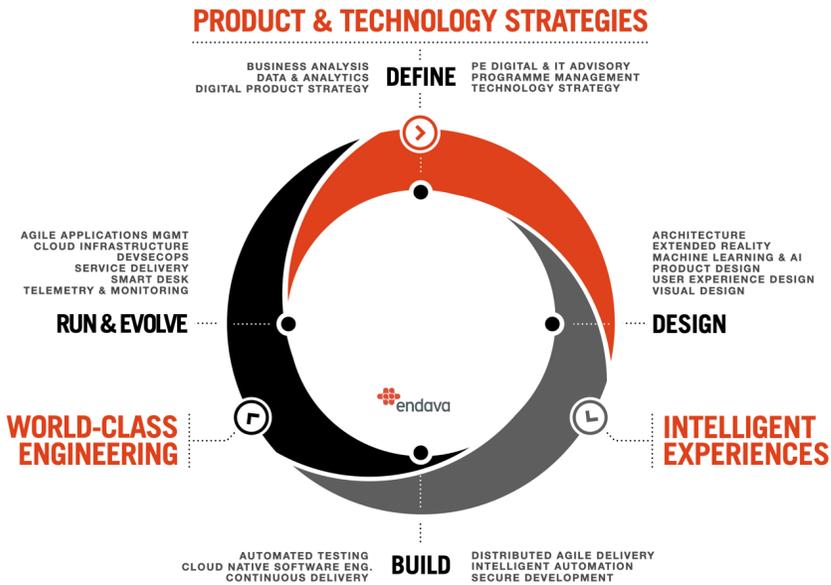


- I. ENDAVA OVERVIEW**
- II. SHOULD YOUR ORGANIZATION BECOME A PF?**
- III. POTENTIAL PF BUSINESS MODELS**
- IV. KEY RESPONSIBILITIES**
- V. HYBRID APPROACH**
- VI. ARCHITECTURE EXAMPLE**
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Endava Overview

WHAT WE DO



WHERE WE ARE

CLOSE TO CLIENT ADVISORY

- Australia
- Austria
- Denmark
- Germany
- Ireland
- Netherlands
- Poland
- Singapore
- Switzerland
- United Kingdom
- United States

NEARSHORE DELIVERY

- Latin America: Argentina, Colombia, Mexico and Uruguay
- Europe: Bulgaria, Croatia, Romania, Slovenia, Bosnia & Herzegovina, Moldova, North Macedonia and Serbia



GLOBAL EMPLOYEES

12,000+

AS OF AUGUST 2022

58

LOCATIONS ACROSS NORTH AMERICA, EUROPE, AND LATIN AMERICA

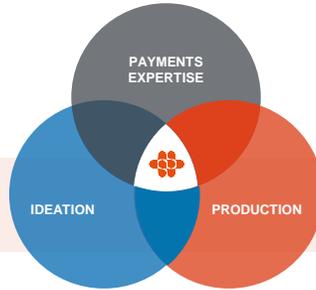
90%

PREVIOUS FY REVENUE FROM EXISTING CLIENTS

30%

REVENUE INCREASE YEAR OVER YEAR.

Payments experience



PAYMENTS

LANDSCAPE

21 YEARS
BUILDING
PAYMENT
SOLUTIONS

CARD PAYMENTS

- Acquiring
- Issuing
- On-boarding
- Clearing and Settlement
- Disputes
- Merchants Settlement
- Value Added Services

BANKING PAYMENTS

- Real-time Payments
- P2P Payments
- Open Banking
- Digital Banking
- API-driven Payouts

CROSS-BORDER PAYMENTS

- FX
- International Payments (e.g. SWIFT)
- Integration with Liquidity providers
- Digital Wallets
- Disbursements
- Mass Payouts

CRYPTO PAYMENTS

- ICO – Initial Coin Offering
- Crypto Wallets
- Client Accounts Management
- Crypto Deposits and Withdrawals
- Transaction Ledger
- Backoffice & Reporting

3,600+
PEOPLE
WORKING
ON
PAYMENTS
PROJECTS

Clearing & Settlements	Ecommerce Gateway / Build	Open Banking	In-Store Innovation	SWIFT / Ripple	POS / MPOS / Smart POS	Merchant Portals
Invoices	Disputes	PSD2 / SCA	E-Wallets / Mobile	Banks Integration	Loyalty / Rewards	P2P Payments
Authorisation	Tokenisation	APMs / LPMs	Mobile Payments	Mass Pay-Outs	Scheme Integration	Crypto Wallets

300+
ONGOING
PAYMENTS
PROJECTS



80+
PAYMENTS
CLIENTS

Should Your Organization Become a PF?

Answers to these key questions should be explored:

- How well do you know your business vertical and customers?
- How large is your customer base?
- Do you accept card payments today?
- Is your organization risk adverse?
- Is your business strategy to become a PF focused on revenue generation from payments or the the integrations of payments into product(s) to create a seamless customer experience?
- Do you want to build or partner to offer a PF solution?



Potential Business Models

ISO Referral

- Agreement between the Merchant and Acquirer to refer new customers for payment processing.
- Acquirer sets new customer pricing and is required to service the new customer's payment processing needs.
- Referral revenue for the merchant.
- Typically lose referred customers to the Acquirer if the organization decides to move to a Managed or Fully Registered PF model.

Managed PF

- PF partners with a third-party PF solution provider and white-labels their solution.
- Allows the PF to stand-up their product quickly with minimal development.
- PCI compliance and Payment Network reporting is provided by the PF solution partner.
- Lower risk to the Merchant with a managed PF solution.

Fully Registered PF

- Requires registration with a Sponsor Bank.
- Merchant bears all risk for their Sub-Merchants.
- Requires development of a PF platform, program management systems, and middleware.
- Third-party underwriting, on-boarding, and risk software can reduce internal system development.
- Requires approval and registration with the Card Networks.
- Requires PCI-DSS certification and detailed compliance policies and procedures.



PayFac Key Responsibility Ownership

ISV responsibilities vary across the different models, though they can be shared with the partner provider(s) in some instances.

Required Activity	ISO Referral	Managed PF	Fully Registered PF	Hybrid
Marketing and Customer Acquisition	ISV	ISV	ISV	
Underwriting and Compliance	Processor	Shared	ISV	
Contracting and Pricing	Processor	Shared	ISV	
Onboarding and Service Provisioning	Processor	PayFac	ISV	
Network Functionality	Processor	PayFac	ISV	Platform outsources some components to descope some areas – but this varies from business to business.
Merchant Settlement/Risk/Reporting	Processor	Shared	ISV	
Sub-Merchant Settlement	Processor	PayFac	ISV	
Sub-Merchant Risk Management	Processor	PayFac	ISV	
Sub-Merchant Compliance Reporting	Processor	PayFac	ISV	Will look at some options next.
Transaction (Cardholder) Risk Management	Processor	Shared	ISV	
Security	Processor	PayFac	ISV	
Back-Office Support	Processor	Shared	ISV	
Customer Support	Shared	Shared	ISV	



Some options for a hybrid approach

INFINICEPT

- Underwriting with dashboards.
- Seamless onboarding.
- API connections to multiple gateways.
- Simplified pricing structure..
- Funding options
- Transaction reporting.
- Easy integration and UI.
- Customizable applications.

FINIX

- Fast integration through APIs.
- Merchant onboarding.
- Process transactions and pay-outs.
- Operations dashboard.
- Post payment exception management.

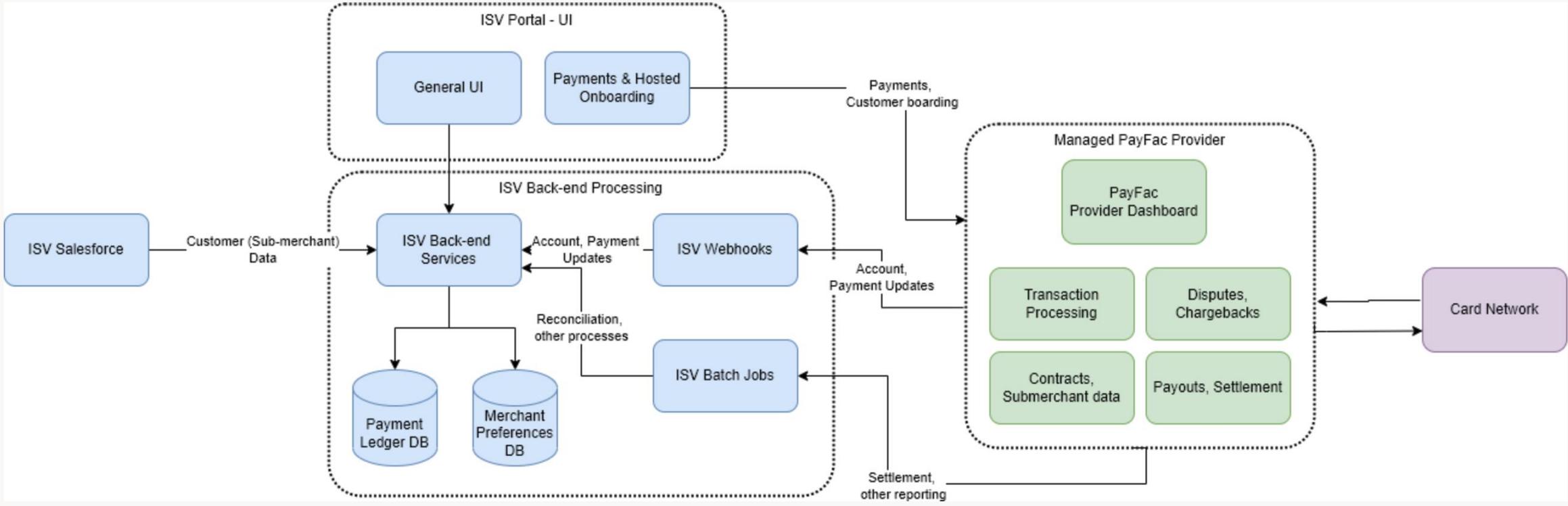
PAYRIX

- Two options – White Label through Pro or fully registered through Premium.
- Focus on CP, CNP, Mobile and E-wallet.
- Onboarding.
- Underwriting.
- Partner billing and funding.
- Contract functionality.
- Partner integration through APIs.
- Reporting and analysis.



Architecture Example – Managed PF

The example below will vary based on each client's tech stack, however this demonstrates at a high-level what a Managed PF partnership may look like.



Fully Registered PayFac vs. Marketplace

Key

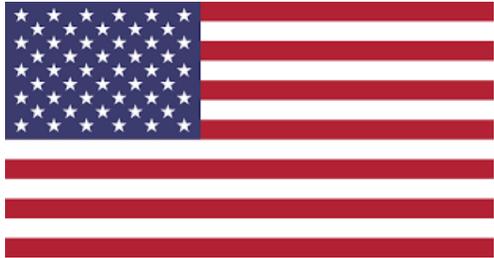
Minimal requirements/cost
Reduced requirements/cost
Most complex/costly

There is significantly **less burden** if your goal is to sell things under your **own brand or only on your own platform**

	Fully registered Payfac	Regulated Marketplace	Outsourced Marketplace	Exempted marketplace
Service scope	Payments only - Services can be used on 3 rd party web sites and in similar ways to typical PSP's	Retail, Logistics, SaaS, Finance - Marketplace only	Retail, Logistics, SaaS, Finance - Marketplace only	Retail, Logistics, SaaS, Finance - Marketplace only
Regulatory requirements	Requires registration with a Sponsor Bank.	PI regulated in EU. EMI options position EU well for future Exempt in US	Managed by the partner	No formal regulation needed: <ul style="list-style-type: none"> - Limited options in EU - More acceptable in US
Regulatory Restrictions	You need to be regulated in each country – can be limited by scheme license rules	You need to be regulated in some countries	Restricted to where the partner can operate	Becoming increasingly difficult in EU
Who bears the risk?	Merchant (Typically)	Marketplace	Marketplace + Partner	Marketplace
Card scheme requirements	Requires approval and registration with the Card Networks.	Registered with, but no membership of card schemes.	Managed by the partner	None
Reporting requirements	Requires Card Scheme detailed Sub-Merchant reporting to ensure compliance.	None (payment partner may request sub merchant balances)	Managed by the partner	None
Merchant onboarding	Needs to fully comply with regulatory requirements and satisfy sponsor bank.	Risk based decision by the marketplace	Managed by the partner	Best practice only, no mandates
PCI-DSS	Full tier 1 provider requirements	Many still operate under SAQ but should be classified as service provider	Often managed by the partner – still some requirements	Many still operate under SAQ but should be classified as service provider
Outsourcing cost	Wide scope and can get costly	Reduced complexity / reduced OPEX	Can be high as the business scales – not all vendors can support	Still an option
Additional scope	Minimal	Responsibility for tax, import and export complexity (where relevant)	Responsibility for tax, import and export complexity (some partners can help)	Responsibility for tax, import and export complexity (where relevant)



US v EU considerations



- Has been operating with **PayFac models for many years**. Largely driven by the need to be federally regulated to offer anything else at scale.
- **Lots of options available** in the market to outsource some or all your solution.
- **Marketplaces is less well adopted** in the US.
- Marketplaces is known to be complex with regards to **intrastate tax laws**
- Marketplaces offer a **lower regulatory bar** for businesses in the US



- PayFac is **less well adopted in EU** likely due to a wide range of other options being available to businesses.
- The number of vendors offering PayFac **outsourcing solutions/options is lower** than US. Leading to costly build exercises.
- Marketplaces as a model is **well understood** and adopted in EU.
- **EU EMI models position EU marketplaces** well to move further into consumer space, wallets, Peer 2 Peer.



Appendix



PF Key Considerations

Whether you choose a Managed PF or Fully Registered PF model your organization will need to ensure that these areas are addressed:

- Selection of a Sponsor Bank and Acquirer
- Registration as a PF with the Card Payment Networks
- Address compliance and mitigation of risk
- Creation of clear and concise Sub-Merchant contracts and pricing
- Development of Sub-Merchant underwriting processes, policies, and procedures
- Quick and seamless Sub-Merchant on-boarding
- Clear understanding of the PF settlement requirements
- Transaction level reporting for the PF and Sub-Merchants
- Monthly Reporting to monitor Sub-Merchant activity to ensure risk compliance for the Payment Networks
- Provide 24/7 customer service
- Technology and ease of system integration. Typically done through APIs
 - On-boarding
 - Underwriting
 - Transaction processing including terminal management
 - PF and Sub-Merchant funding
 - Report and reconciliation
 - Dispute management
 - Security and risk management
- Organizational structure to support a PF model
- Security such as tokenization and end-to-end encryption
- Back-office support for exception resolution
- Marketing and customer acquisition of Sub-merchants

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Transaction (Cardholder) Risk Management	Processor	Shared	ISV
Security	Processor	PayFac	ISV
Back-Office Support	Processor	Shared	ISV
Customer Support	Shared	Shared	ISV

PayFac vs. Marketplace Responsibility Ownership

Description	Fully Registered PayFac	Regulated Marketplace	Exempted Marketplace
MOR	ISV		
Regulated Entity	ISV		
PayFac/Marketplace Funds Management	ISV/Processor/Sponsor		
Merchant Contract Ownership	ISV		
Goods/Services Delivery Risk	ISV		
Sub-Merchant/Seller Settlement	ISV		
Sub-Merchant/Seller Risk Management	ISV		
Sub-Merchant/Seller Compliance Reporting	ISV		

Fully Registered PayFac vs. Marketplace

FULLY REGISTERED PAYFAC

- Requires registration with a Sponsor Bank.
- Merchant bears all risk for their Sub-Merchants.
- Typically operates funding from a FBO account held at the Sponsor Bank to avoid MTL requirements.
- Requires approval and registration with the Card Networks.
- Requires PCI-DSS certification and detailed compliance policies and procedures.
- Requires Card Scheme detailed Sub-Merchant reporting to ensure compliance.

REGULATED MARKETPLACE

- PI regulated in EU.
- Can sell regulated payment contracts off platform, and Visa/Mastercard services in own name (owned contract).
- Manages funds and nets fees.
- Consumer sees Marketplace as MOR not typically the of sellers.
- Seller is listed as well as Marketplace as MOR.
- Contracts with merchant but does not sell regulated payment contracts.
- Registered with, but no membership of card schemes.

EXEMPTED MARKETPLACE

- Acting on behalf of sell or buyer only, or for a very limited range of services in the EU or using commercial agent exemption in the US.
- Marketplace takes ownership of funds and seller settlement,
- Risk of regulated investigation.



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- Typically operates funding from a FBO account held at the Sponsor Bank to avoid MTL requirements.
- Requires approval and registration with the Card Networks.
- Requires Card Scheme detailed Sub-Merchant reporting to ensure compliance.

REGULATED MARKETPLACE

- PI regulated in EU.
- Sells payment services only as part of the wider marketplace proposition.
- Manages funds and nets fees.
- Consumer sees Marketplace as MOR not typically the of sellers.
- Seller is listed as well as Marketplace as MOR.
- Contracts with merchant but does not sell regulated payment contracts.
- Registered with, but no membership of card schemes.

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End-to-End Services

Endava has the capabilities to support our clients across all aspects of the Delivery Lifecycle, or deploy specific skills as and when they are needed.

