



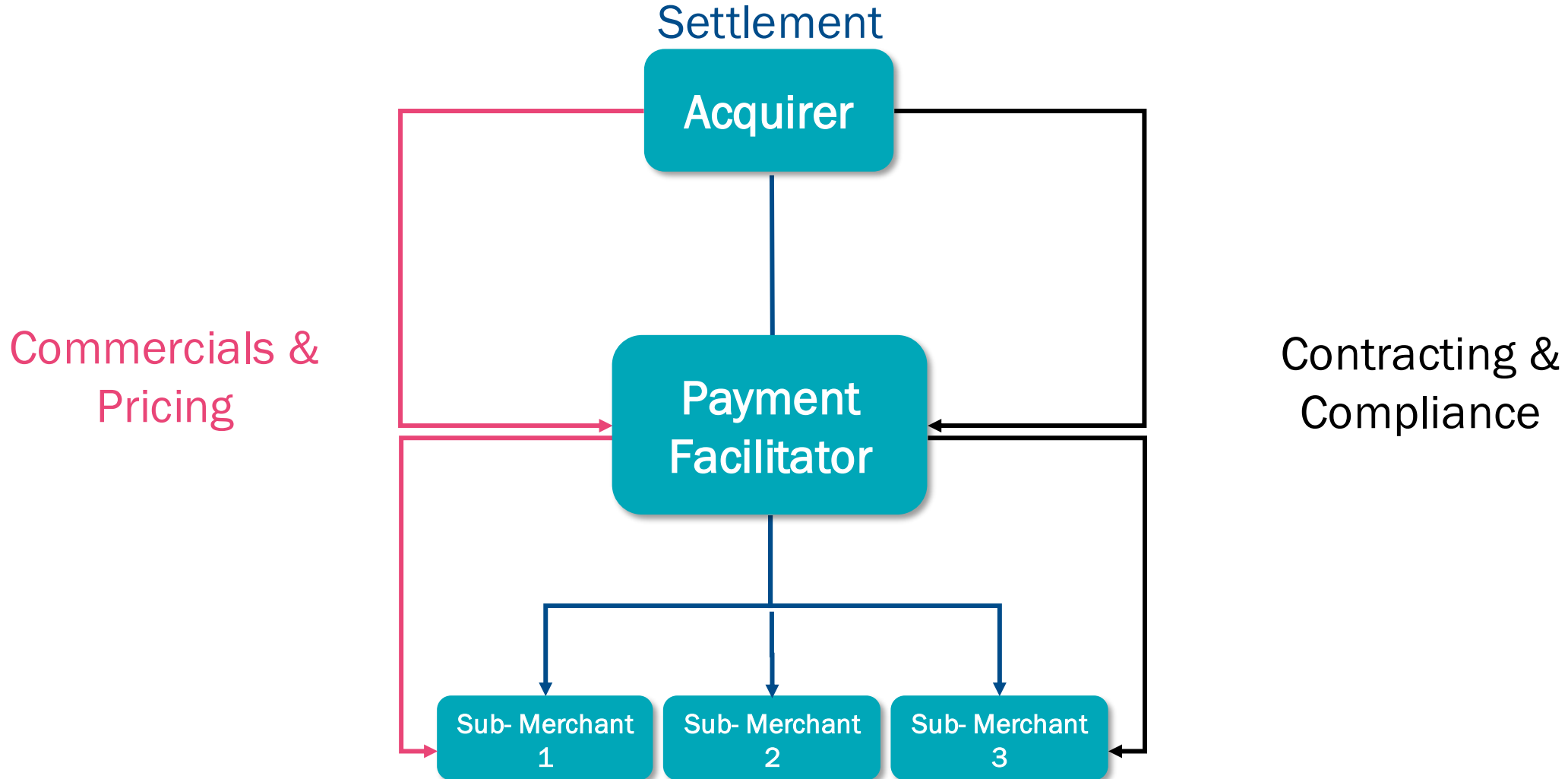
Where next for the PayFac in Europe?

Merchant Acquiring Conference

November 2024

What is a Payment Facilitator?

A PayFac is a regulated entity which can sign contracts with sub-merchants, set pricing, take ownership of funds and settle directly. They also provide full lifecycle support from onboarding through to support



US v Europe PayFac Considerations

In the US the PF model is better established than in Europe, however the UK has the most PFs. In Europe around half of PFs are eCom related whereas there is a far greater spread in the US. Marketplaces are better established as a preferred PF model within the EU.

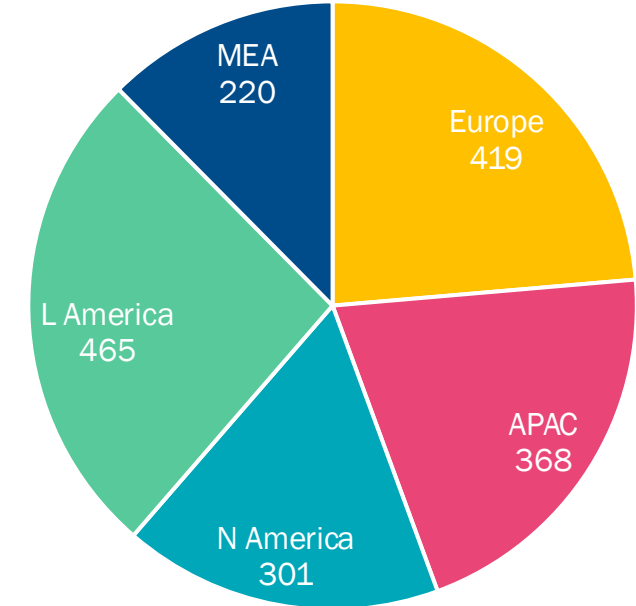


- Has been operating with **PayFac models for many years**. Largely driven by the need to be federally regulated to offer anything else at scale
- **Lots of options available** in the market to outsource some or all your solution
- **Marketplaces is less well adopted** in the US
- Marketplaces is known 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
- Around 50% of European PFs are engaged wholly with **eCom merchants***
- 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 & P2P

Payment Facilitators



Source: Mastercard



Over the next 5 years these models are likely to grow, displacing PayFacs as an end-to-end integrated service.

Source: PSE Consulting

PayFac EU regulation

The EU licensing and regulatory landscape has undergone substantial change with Pan-EU regulators recognising the dangers and risks associated with the regulatory arbitrage that occurred as a result of Brexit and the expansion of the fintech sector

- **Supervision of PI licences**

EBA paper (June 2023) highlighted issues relating to the regulatory arbitrage that has occurred and the risk exposure this generates. Similar, CEO letters in the UK have pre-warned PIs of the key focus areas.

- **Regulators have tightened up the licence application**

Vetting processes and applying much more stringent criteria.

- **More cautious appetite**

For licensing and low to no tolerance of applicants who are unable to provide a clean submission – regulators no longer offer the flexibility of post licence improvement implementation.

- **Extended approval timeframes**

Light touch regulators want evidence that applicants wish to establish businesses in their country and not just seeking passporting enablement.

- **On Soil requirements are increasing**

E.g. local employees staff level.

- **Focus on AML/KYC**

Much more stringent criteria and the need for strong operational management.



Regulated vs Unregulated Services

Sponsoring acquirers can begin supporting PF services for ISOs/ISV in advance of the Payment Institution licence being granted and allows for an earlier set up once PF services have been developed.

Processes	ISOs/ISVs (Unregulated)		PFAC As A Service (Unregulated)		PayFac (Regulated)	Sponsoring Acquirer's Obligations
KYC/CDD	Acquirer	→	ISO	→	PF	• Acquirer would need to ensure that merchant set up by the ISO meets their KYC/CDD processes and procedures
Onboarding	Acquirer	→	ISO	→	PF	• ISO would on board all merchants directly into the acquirer's pressing platform with the required set up.
Transaction Monitoring	Acquirer	→	Acquirer	→	PF	• If acquirer is providing the transaction monitoring functionality this would form part of the current proposition
Merchant Settlement	Acquirer	→	Acquirer	→	PF	• Acquirer would perform the merchant settlement until the PF gains its PI licence and would take over this responsibility
Merchant Support	ISO/ISV	→	ISO	→	PF	• ISO/PF would support customers directly including any reported, management information along with other support services
Value Added Services	ISO/ISV	→	ISO	→	PF	• Value added services will be provided as normal with a mix of direct services offered by the ISO/PF or indirect services via Acquirer
Timeline	1 to 6/9 Months		3 Months +		9 Months +	• Once the PII licence has been granted, the ISO can now operate as a PF

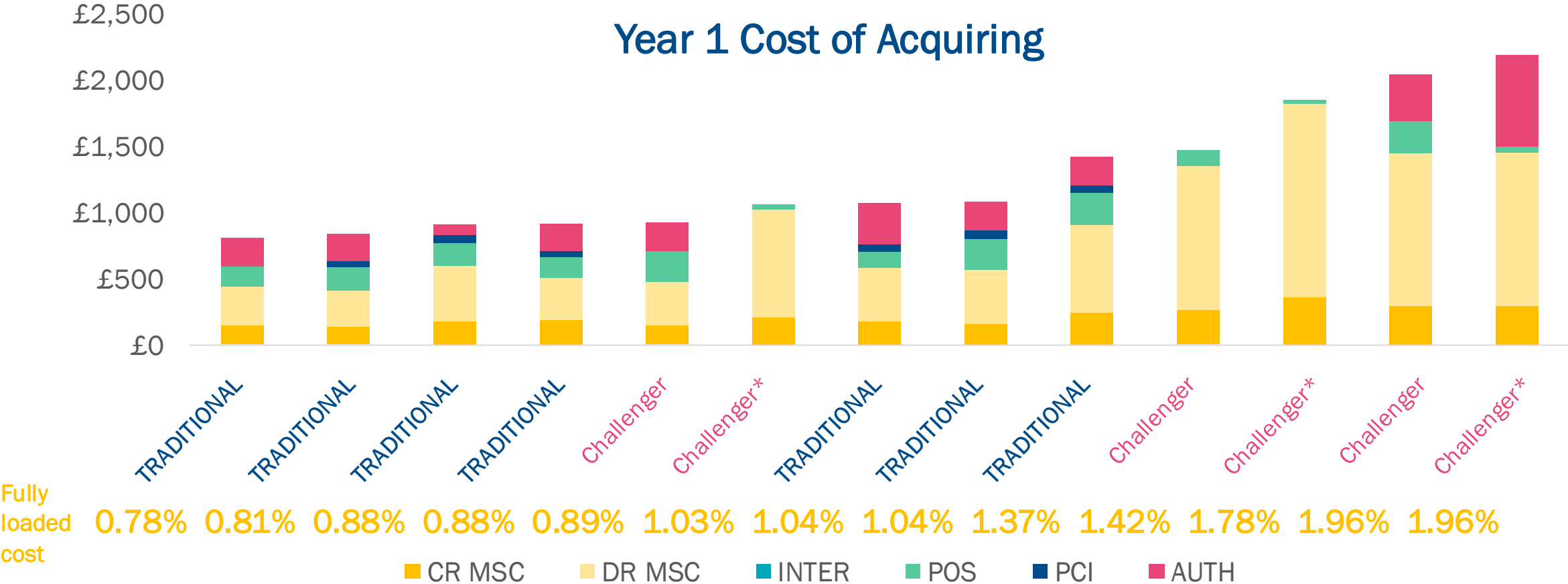
Comments

- Sponsoring acquirer can immediately support ISOs/ISVs whilst they wait for regulatory approval of their payment institution licence covering all services with the exception of merchant settlement
- Once the PI licence has been processes can be altered with the PF taking over control of all activities e.g regulated activities e.g. merchant settlement KYC/CDD
- This would require minimal changes with the commercial model adapted as in when the PF is granted a PI licence

Why the interest in the PayFac model?

Challenger players, many of whom use a PayFac model, can price SMB contracts 80-100bps higher than traditional players, at the same time as growing their books, because they deliver a better onboarding experience, product and service wrapper

Year 1 Cost of Acquiring



*Current or recent PayFac

© 2023 Payment Systems Europe Limited Source: PSE UK Acceptance Benchmarking December 2024 – Small bookshop £135,000 turnover, 90% F2F

What is an Internal PayFac?

An internal PayFac allows the bank to set the guide rails for risk and compliance while also giving the PayFac the freedom to compete with a lower costs, more modern tech stack, and agile risk model

“Parent” Bank

- Retains the **acquiring role** and Visa/Mastercard BINs
- Creates overall **risk guide-rails** (e.g. prohibited sectors) within which the PayFac can operate
- Provides the **freedom** to the PayFac to operate when and how it wishes within these boundaries
- Allows the PayFac to run its own **independent technical infrastructure**
- Leaves large merchant relationships & current contracts unaffected
- Set-ups **referral links** from branches/websites to continue to provide an integrated service offering
- Rolls up revenues from “child” PayFac into the group entity

Internal “Child” PayFac

- Its own **PI/EML licenses** and therefore own AML/KYC risk/compliance rules (creating a better onboarding experience)
- **Commercial freedom** to set its own terms with the merchant, using a “buy” rate from the parent bank
- Hold its own end to end **tech stack** focussed on payment acceptance, separate from legacy suppliers and core bank systems
- Has its own **engineering function** to attract/retain talent
- Self-service **onboarding and support** tools to reduce costs to serve, and enables it to service SaaS/marketplace partners
- **SMB sales** are generated from banking clients and direct sales in the open market
- The ability to integrate other **core bank capabilities** (bank accounts and lending) when possible, or utilise specialist third parties when relevant

Case Study: PayPlug



Several of the French banks have set up their own “internal” PayFacs as a way of separating their portfolio.
BPCE for example owns PayPlug

History 2012



- Launch of online payment solutions for SMEs and major accounts

2014-2016

- Opening of offices in Amsterdam and Milan

2017

- PayPlug and Dalenys join Groupe BPCE

2019

- Launch of the omnichannel offer

2021

- Launch of the PayFac offer

2022

- PayPlug and Dalenys join forces to become Payplug

Integrations



RoverCash is a new generation cash register adapted to all sizes of businesses.

Developed by Payplug



KinTPV is a complete business management software entirely customizable.



Payplug and Wanapos cash register software offer you a simple and complete payment solution.



Clyo Systems offers restaurateurs an all-in-one cash register solution.

Key Clients



allopneus.com



Key Partners



17 000+

merchants, e-merchants and Fintechs work with PayPlug

Stats



- €11bn payments annually
- 800+ partners
- 350+ employees

Ownership



GROUPE BPCE

Benefits of the Internal PayFac.....

There are several benefits of the Internal PayFac

- Allows the bank to **retain the full acquiring role** and Visa/Mastercard relationship ownership
- Enables to bank to make a **compelling self-service offers** to smaller merchants using a lower cost base which allows the group to generate a margin
- Enables to bank to make compelling tech-forward offers in **emerging distribution channels** such as embedded finance and SaaS
- Can provide a new technical “front door” and sales engine for **other bank services** such as BaaS and embedded lending (akin to an internal orchestration layer)
- Creates an independent gateway/acquiring **tech stack** that can attract and retain innovative engineers who may not want to work in a trad-bank environment
- The bank can manage its overall **risk** by setting risk guide-rails (e.g. prohibited sectors) within which the PayFac can operate. In Europe the PayFac would hold its own PI/EM license and therefore can run its own **AML/KYC policies**. This allows them to be much more dynamic in their approach to compliance as well as commercial risk
- Possibility to use the vehicle **outside Europe** (where the role is not regulated) to provide localised acquiring with a local partner
- Leaves **large merchant** relationships with the wider bank group & current contracts unaffected
- Retains relationship (and data) of **smaller merchants** within the bank to sell other core bank services e.g. lending, FX



However.....

An internal PayFac is not without its own risks and effort



1

Potential of **tension between parents** and their offspring

2

Most importantly **risk committees and compliance bodies need to feel comfortable with a more arm's length** customer relationship.

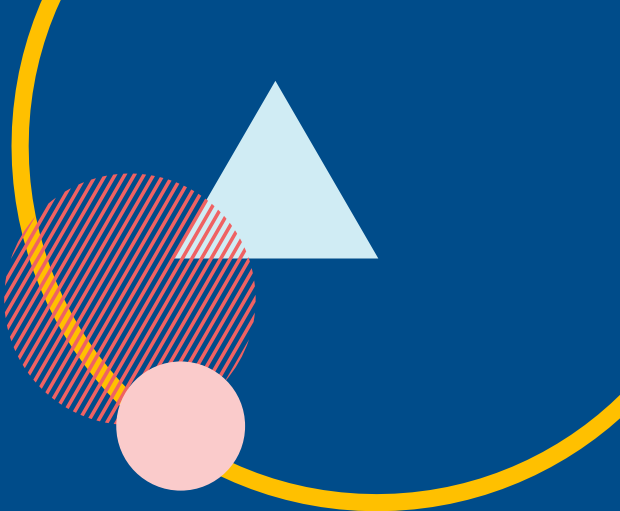
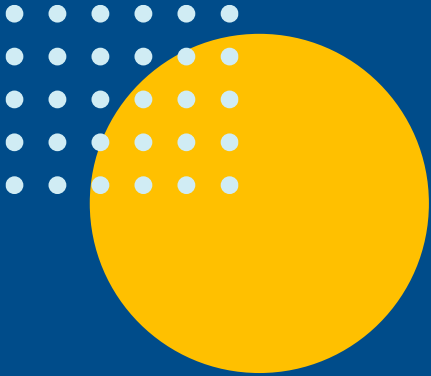
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The technology stack **needs to be digitally native, and operate within a very different model** to the bank's other systems.

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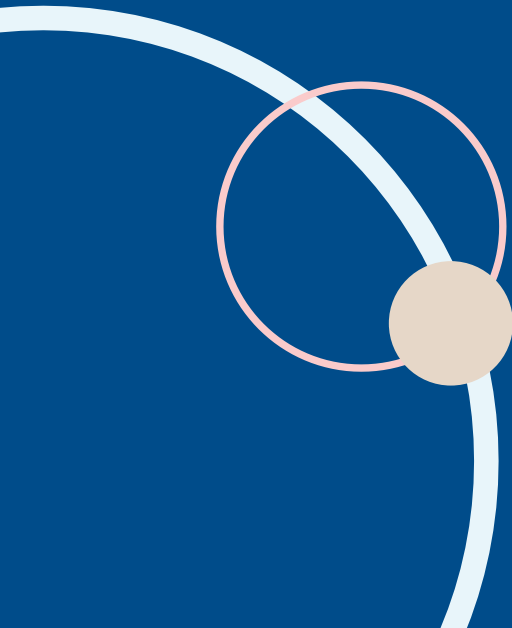
Danger that the offspring outgrows the parent and **requires continued investment or becomes too big and leave.**





Thank you

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