



The Cost of Payment Facilitation





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Some platforms businesses consider becoming a payment facilitator as a means to move money between their users (buyers and sellers). Although many companies assume the extent of their costs will be limited to a payment facilitation fee, network fees, and a per transaction rate to the acquirer, the associated costs are much higher and more complex. This document provides a high level set of requirements and costs to help you make a more informed decision on your integrated payments strategy. Due to the complexity, we make several assumptions about your business, including that you process millions and you're looking to onboard micro, small, and medium size businesses to your software quickly.

We've condensed the process into three sections: sponsorship, risk and compliance, and processing. When handling payments internationally, each of these steps will be re-adjusted per market.

SPONSORSHIP & POLICIES

Before an acquirer decides to “sponsor” your company, you need to make a case for how you will operate. You will need to create three principal policies: an Anti-Money Laundering (AML) policy, a Credit and Fraud Risk Policy (CFRP), and an Acceptable Use Policy (AUP). These policies detail not just how you will operate but how you will limit your acquirer's exposure to risk. Many companies find this documentation difficult and hire a consultant to help them through the process. This is also a difficult step to approximate cost - not knowing what you're doing will cost you precious time and resources. Once you have created policies, an acquirer will perform due diligence, including an on-site inspection and meetings with various members of your company to ensure you are capable of meeting the policies set forth.

RISK & COMPLIANCE

There are several steps in creating a risk management program, starting with obtaining appropriate information from your users. To ensure compliance with your acquirer policies, you will also need to purchase access to a number of third-party data vendors to verify the authenticity of your merchants and payers. Which vendors you use will depend upon your risk tolerance and the type of services your business provides. Once you have the appropriate data, you will need to build a risk infrastructure to connect both your user data to your third-party vendors as well as generate signals to help you accept or reject decisions efficiently. You will need engineers to build this system, risk analysts to perform manual reviews, customer support agents to handle payment complexity, and at least one compliance officer to ensure you have a system in place to handle Suspicious Activity Reporting, subpoenas, government inquiries, and tax forms.



Some companies choose to buy a risk management system instead of building their own. Keep in mind that despite vendor claims, there is no wholesale replacement for a risk management program. There are several companies that offer a system to help your user data and third-party vendor data interact, including a way to create risk signals. You will still need to obtain data, make determinations on what signals are important, decide what decisions to make, and support this system with engineers, analysts, customer support, and compliance.

PROCESSING

Processing exceeds the most visible costs of handling credit cards (interchange and card network assessments) and ACH payments (bank account verification, deposits, and returns). It is costly to build systems and rules for merchant onboarding, payment acceptance, settlement, pricing, merchant reporting, and banking setup. Chargeback administration is an often overlooked cost - you need a system in place to debit and credit merchants, notify parties, and document decisions. Reconciliation for yourself and merchants is a final step. You need to ensure there is a system in place not just to bill customers, but to ensure both your company and its merchants receive the funds they are owed.

COST APPROXIMATION*

	Category	Note	Variable	Low Range	High Range
Upfront	Development	Engineering		\$400,000	\$800,000
	Risk Systems	Engineering		\$200,000	\$600,000
	Legal			\$25,000	\$75,000
	Policy	Consulting		\$20,000	\$40,000
				\$645,000	\$1,515,000
Annual Variable	Interchange			1.40%	\$1.90%***
	Network / Assessments	Fees		0.08%	0.13%
	Acquirer Fee			0.04%	0.08%
	Payout Fee	Consulting		0.02%	0.10%
	Risk & Compliance**			0.07%	0.20%
	Customer Support			0.05%	0.10%
	Loss Rate	Percentage		0.30%	0.80%***
	Total Variable Rate			1.96%	3.31%
				\$980,000	\$1,655,000
Total Year 1 Cost				\$1,625,000	\$3,170,000



*Based on an annual Total Processing Volume of \$50,000,000 and 500,000 transactions

**Risk management includes vendors and risk system maintenance. This is a simplified rate. Vendor costs change depending upon your business, your needs, and risk tolerance. You may use some vendors more often than others. Most vendors charge on a transaction basis rather than a monthly basis.

***These rates can both be higher, depending upon the riskiness of your business.