

Payments for Crowdfunding

How to overcome common challenges with crowdfunding platform payments

Crowdfunding sites are an interesting breed of business that have shown rapid growth worldwide. Whether your campaign is to pay for medical bills, to raise money to create a new product, or to fund your future honeymoon, these sites can be useful to tap into your network for financial assistance. Crowdfunding platform models cover areas as diverse as rewards, equity, donation and debt/lending. Last year, [crowdfunding sites processed over \\$16 billion in the United States alone](#). This number is bound to increase as more innovative and [niche crowdfunding sites](#) emerge. The World Bank estimated that crowdfunding could [exceed VC funding by 2020 with over \\$90 billion processed](#). With such a high processing volume, it is important for crowdfunding sites to consider payments, security, and user experience when doing business.

Crowdfunding sites face an early choice of whether they want to hold donated funds for the benefit of their fundraisers (the merchants in this case). Many sites choose not to because it forces them to focus on three additional business operations: payment processing, risk management, and compliance. Instead, many sites partner with a payment facilitator, who shoulders many of those burdens. A payment facilitator can help a crowdfunding site securely embed payments into its system in contrast with building necessary systems from scratch.

Crowdfunding also brings unique risk challenges around the identity of campaigns and validity of donations, so crowdfunding sites need advanced risk capabilities. Other fraud items include fake campaign identities, stolen credit card payments and needing to reimburse customers through chargebacks. In particular because of very high volumes, crowdfunding sites are popular venues for fraudsters to test stolen credit cards to see if they are still valid. Some user satisfaction items to consider are merchant onboarding, user experience control, and merchant customer support. With all of these challenges, there are also logistical elements to consider, like settlement, political sensitivity, and customer support.

From a logistical standpoint, settlement is extremely important for crowdfunding sites because it determines how, when, and how much each of your fundraisers will be paid for the donations their fundraising pages' received. Settlement, or payout, can be a key point of friction between your fundraisers and your platform. Your fundraisers will always want their funds as soon as possible. As with any platform, you will balance how fast your fundraisers get their funds against how much fraud your willing to tolerate on your platform. A final

wrinkle is determining the fees you will charge fundraisers for using your platform. In addition, crowdfunding has an additional settlement wrinkle since not all crowdfunding is set up by the intended beneficiary. Thus settlement must sometimes be made to an unknown third party.

There are also several ethical and political considerations that crowdfunding sites must face. A question to ask is what guidelines will we set for our campaign launching users? Defining what is and isn't acceptable will affect how users interact with the site. This can be referred to as the Acceptable Use Policy. Clearly, illegal activity is not allowed and neither is activity that violates human rights. However, terms of service can also include things that aren't necessarily illegal or controversial. For example, crowdfunding around medical marijuana is often not allowed because the banks handling payments [will not allow electronic payments around marijuana in their own terms or service.](#)

An important facet of user experience is the level of customer support offered. Some platforms need high levels to assist users in issues regarding both their campaign and payments. The advantage of a crowdfunding site running its own customer support team is that they know their users better than anyone else. However, the disadvantage is that they may have limited knowledge of payments, risk, and compliance unless they are an advanced payment facilitator. It is crucial for a crowdfunding site to establish expectations and to assess the future support needs of their customers. While most payment facilitators offer customer support to some extent, this area is often under-developed for crowdfunding sites. It is important to consider the volumes of inquiries, complexity of inquiries, and demands on staff.

Interested in learning more about crowdfunding payments? Contact sales@wepay.com to consult an expert or build payments into your service offering.