

Payments Ecosystem

Who are all the different players of merchant services platforms should know?

For any platform business, merchants (or anyone who takes payments in the lingo of the payments industry) are effectively your customers. In the same way, the people who make the payment (payers) are the customers of your customers. There are other players in the payments system as well: issuers (i.e. the cardholder's bank), and the card networks (e.g. Visa, Mastercard, American Express) and several others. In order to understand how to provide the best services to your customers, the merchants, you need to understand these other players, starting with the most important: an acquiring bank.

Acquirers

Chances are, if your business is already up and running, it has signed an agreement with an acquiring bank. The acquiring bank is where a business holds a merchant account. That is, the place where the business' money is located. There are a few other services that acquirers can provide to a business:

- **Banking:** Merchants cannot process transactions (with some exceptions) without an acquiring bank. Merchants need a place to keep the revenue gained from processing payments.
- **Gateway:** A merchant needs to do more than sign up for a merchant account with an acquirer to start processing payments. A gateway is one way to integrate with an acquirer and processor. The other options are either to use an ISO, another type of Merchant Service Provider (MSP), or integrate directly with a point of sale (POS) system.
- **Hardware:** Acquirers offer POS terminals, mobile point of sale (mPOS) technology for smartphones, and other card swipe capabilities to merchants who process a significant portion of in-person transactions.
- **Front-End Processing:** This is the authorization messaging sent by the merchant. When a payer uses a credit card at a merchant's store, there are two main actions occurring: authorization and payment flow. Authorization is the behind-the-scenes communication to make sure the card being used is in good standing with sufficient funds.
- **Back-End Processing:** This is how the merchant gets paid out at the end of the day. The acquirer makes sure that all payments went through, distributes fees to the card network and the issuer, and informs the merchant of net revenue.

Fifty years ago, it was easy for an acquiring bank to offer services to merchants. Typically, the merchants who wanted to use credit cards were large chains like department stores, processing high transaction volumes. But as credit cards became more popular and consumers expected all merchants to accept credit cards, it became more difficult for acquirers to sign up and underwrite merchants (i.e. making sure the merchant is in good standing and wouldn't be a liability for the acquirer).

Payment Service Providers

Effectively, payment service providers (PSPs) and merchant service providers (MSPs) are the same, offering merchant services on behalf of an acquiring bank. Independent Sales Organizations (ISOs) are a type of PSP. ISOs are resellers of bank services, and a bank's subsidiary can essentially serve as their ISO - Vantiv is the public entity that used to be Litle, a processor, and Fifth Third, its bank. These companies are affiliated indirectly with card networks through acquiring banks.

Because of the cost of acquiring merchants, many acquirers started using ISOs to sign up merchants for the acquirer's services. PSPs, MSPs, and ISOs are just terms for intermediaries selling the services of an acquiring bank. Acquiring banks have a direct, contractual relationship with card networks; ISOs do not. ISOs became specialists in finding merchants and connecting them to the payment network described above. Some ISOs offer merchants services from multiple acquirers.

Payment gateways are another service offered to merchants. Just because you as the merchant have an acquiring bank does not mean you're ready to accept payments. A gateway helps you connect your online or brick-and-mortar store to payment methods offered by your acquiring bank.

A final way PSPs, MSPs, and ISOs are different is that PSPs do not typically process settlement for their merchants. Ensuring the right merchants are paid the correct amount is more difficult than it seems. This function can be left to either the acquirer or the following two types of companies.

Payment Facilitators

The relationship between acquirers and ISOs was largely static until the late 1990s when the internet reduced the barriers to entry for all kinds of businesses looking to sell online. Soon ISOs and acquirers found it harder to keep up with merchant acquisition. Specifically, the merchant underwriting process was slow. This friction point gave rise to a different kind of PSP, payment facilitators, who are merchants to an acquirer, and sign up other merchants who accept payments under their umbrella.

Now, not all payment facilitators are alike. They can differ in three primary ways:

- **Policies:** Different payment facilitators reach different agreements with their acquirer. This means some facilitators may permit different types of business with different levels of risk. Some relationships with acquirers split roles differently. Some facilitators are ISOs in name only, while others do most of the leg-work involved in underwriting, processing, and settlement.
- **Capabilities:** Some facilitators may just be offering a relationship with an acquirer. Some can offer international capability, risk management, customer support, data analysis, mPOS solutions, working capital loans, and other features.
- **Price:** Price is not always determined by the volume a facilitator processes. Usually, it's a combination of policies and capabilities. If the facilitator does more than the acquirer, the facilitator faces higher costs.

It's important to note that payment facilitators never hold the funds they process. Funds are routed from the payer's bank account to the merchant's bank account, with multiple intermediaries taking a fraction of the total purchase price. Some business types, however, require holding onto funds.

Payment Aggregators

To hold funds in the United States, a company must be a regulated financial entity and be insured through the Federal Deposit Insurance Corporation (FDIC). Many companies choose not to jump through all the hoops that those requirements entail. Some, however, have a business that requires them or their processor to hold funds. The company processing, holding, and settling funds is known as a payment aggregator. Airbnb is an example of an aggregator. Airbnb has someone who wants to book a place to stay in New York four months from now. The "merchant," or the person renting out the apartment, won't receive the funds until after the payer stays. Airbnb, therefore, holds the funds and settles the payment once the service has been delivered.

Conclusion

Acquirers, PSPs, facilitators, and aggregators are just a few of the payment organizations related to a merchant's banking services. If you'd like to learn more about other parts of the payments ecosystem, consider looking at our [Payments Basics guide](#) or contact us at sales@wepay.com.