

DECISION GUIDE

PYMNTS
INTELLIGENCE

VISA

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HOW TO PAYFAC

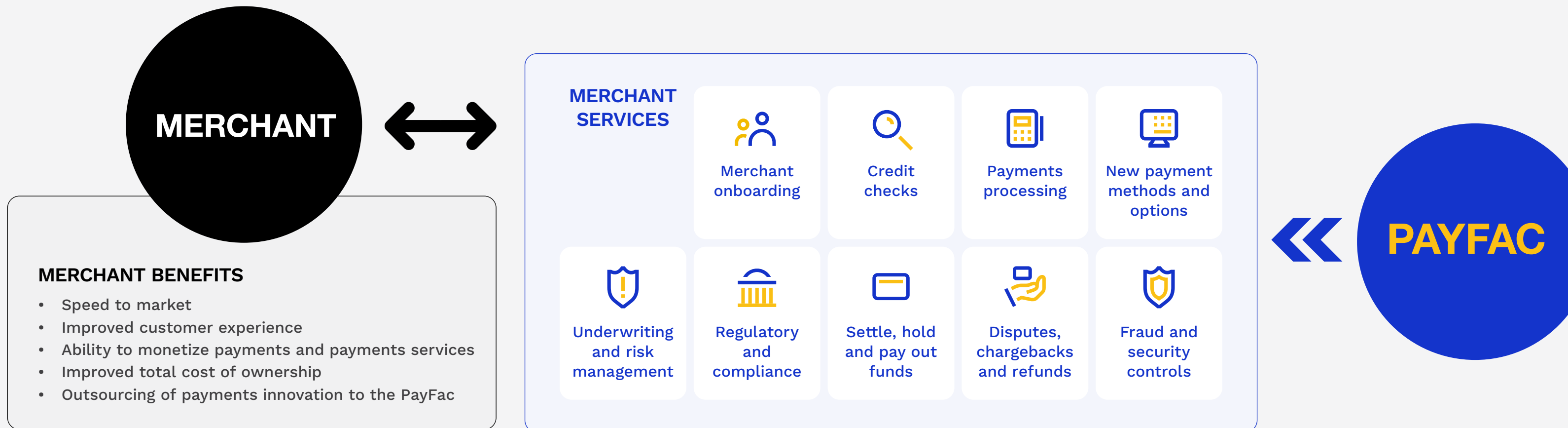
Introduction

A payment facilitator, or PayFac, is a business entity that simplifies the process of accepting and processing digital payments for software platforms, business solutions and eCommerce marketplace sellers that want to make payments a part of their end customer experience. The PayFac does so by working with an acquirer, which assumes the risks of merchant underwriting, onboarding, compliance and security, and the delivery of merchant services; in exchange, the PayFac offers improved payments, payments services economics and the delivery of a more tailored merchant experience for its merchant customers.

“ A PayFac is an entity that has **control** of the transaction and merchant experience end to end. ”

CASEY PORTER

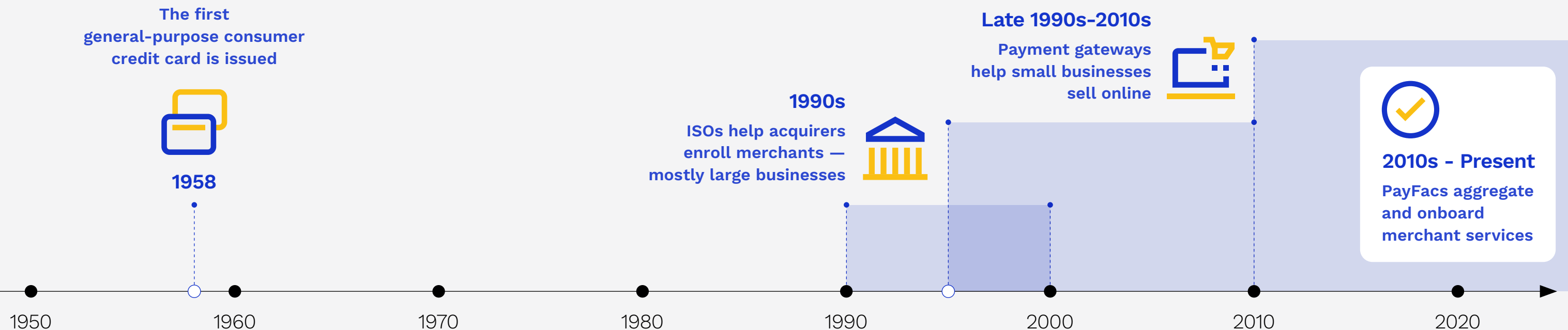
Vice President, Global Acceptance Fast Track



The evolution of PayFacs

The merchant acquiring model has undergone many changes since the first general-purpose credit card was introduced in 1958. That year, Bank of America launched BankAmericard, creating a four-party scheme that facilitated payments with credit cards that would later become Visa in 1976. Back then, acquiring banks were responsible for finding merchants and signing them up to accept payments from consumers using those cards. In the 1990s, independent sales organizations (ISOs) stepped in to enroll merchants, operating largely as an outsourced sales and service agent selling point-of-sale hardware and processing services for acquirers, who remained involved in provisioning and underwriting as well as merchant onboarding. At the time, card acceptance — and, therefore, the acquiring process — was more suited to larger merchants for which the acquiring bank was comfortable providing a merchant account and underwriting the merchant and transaction risk associated with this new form of payment.

The advent of payment gateways in the late 1990s helped smaller merchants bring their business to the Internet but added an element of complexity: Payment gateways were the online version of ISOs, signing up online merchants and enabling them to accept digital transactions. As with their physical ISO counterparts, merchants had to be underwritten by the payment gateway's sponsor bank and given a merchant account before they could accept digital payments.





“ The PayFac needs to convince the seller that their solutions are **future-proof.** ”



BILL DOBBINS
Senior vice president and head of acquiring



“ Merchants are realizing that there is much more technology out there that they can embrace **to help them run their businesses.** ”



MARC-ALEXANDER **CHRIST**
Co-founder



PayFacs are the next evolution in this model of acquiring merchants and accepting payments. PayFacs came to solve the small merchant problem, first in the physical world and later online and via mobile, by using their own master merchant account with a sponsor bank to onboard small merchants using sub-merchant accounts to process payments. In this model, the PayFac’s acquirer partner assumes the merchant and transaction risk in exchange for the PayFac processing the volume from all the small to mid-sized merchants brought onto its platform. The PayFac model has helped accelerate the acceptance of digital payments among small physical and online merchants, expanding the depth and breadth of commerce across those channels.

Why be a PayFac?

PayFacs have carved out a desirable market for themselves — one that has been mutually beneficial to the acquirers that once viewed them as a competitive threat. Rising payment volumes have helped the PayFac market grow, generated increasing transaction volume and expanded the market for digital payments acceptance. The PayFac model today lives side by side with payment gateways and ISOs, even as many have become technology enablers of the PayFac model for software platforms and marketplaces that want to bring payments into their environment and have control over the end-customer and payment experience that ISOs and gateways may not be able to provide.

“PayFacs are really understanding the needs that small businesses have, and they’re designing **capabilities and propositions** around those quite niche needs that have been quite hard to serve before.”

LYNSEY VERRILLO

Head of Enablers and Small Businesses, Europe

VISA



WHY PAYFAC?



IMPROVE CUSTOMER EXPERIENCE

- Enable digital payments acceptance
- Expand suite of available services to merchants
- Eliminate friction in end-user workflow
- Serve higher-risk merchant categories



IMPROVE PAYMENTS ECONOMICS

- Capture a greater share of processing fees
- Monetize value-added services
- Monetize new payment types



IMPROVE “TOTAL COST OF OWNERSHIP”

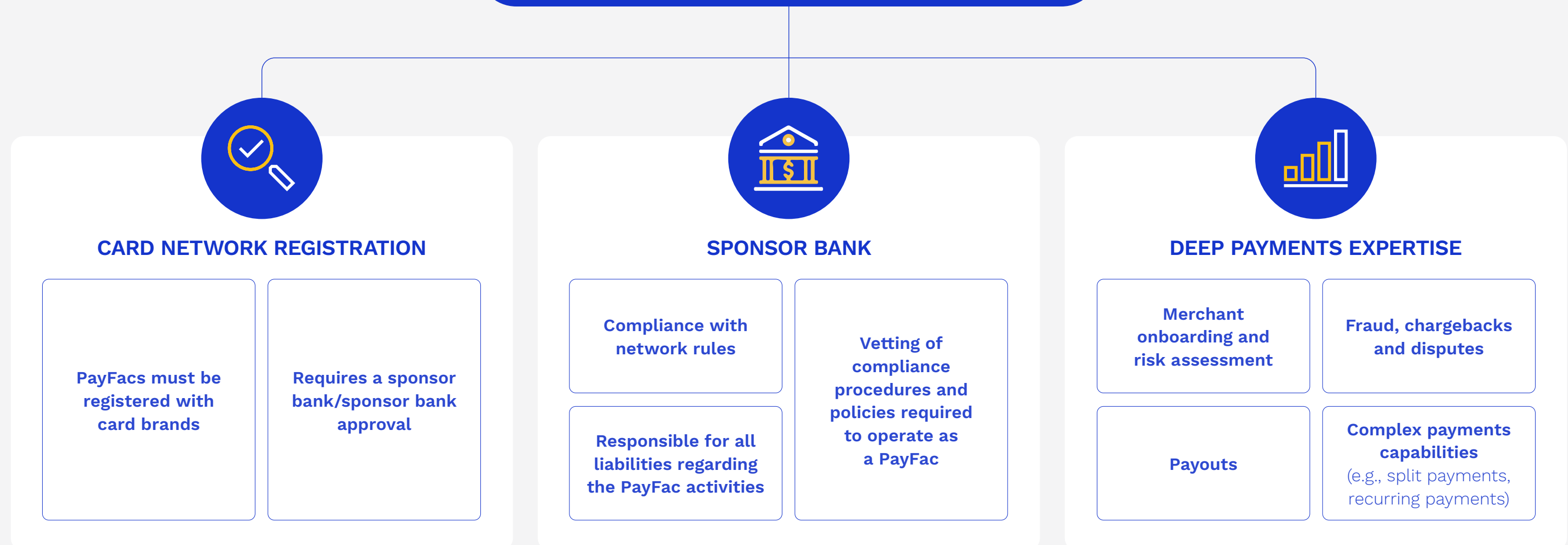
- Negotiated fees with card networks and acquirers based on volume and payments portfolio

In addition to capturing more of the payment economics by becoming part of the payments flow, PayFacs fill a gap in extending digital payments acceptance to higher-risk merchant categories, such as health and wellness, fitness services, direct-to-consumer sales and electronics.

What it means to be a PayFac

Being a PayFac means having risk management as a core competency. PayFacs not only enable payment processing for digital payments but also hold or share responsibility for a number of details, including merchant onboarding. Some of these can be delegated, as the PayFac's acquirer bank is ultimately responsible for compliance with the variety of payments and money transmission regulations, managing merchant and transaction risk for fraud and other security threats, settling funds and paying merchants, managing chargebacks and disputes, and more. PayFacs must be registered with the card networks and agree to abide by their operating rules; PayFacs must also have a sponsor bank that holds their funds and assumes the aforementioned key compliance risks.

What does it take to be a PayFac?



PayFac Enablers and Personas

When it comes to PayFacs, one size doesn't fit all, even as the baseline technology required to enable their end merchant capabilities may be similar. Below is a non-exhaustive list of different types of PayFacs that have emerged over the years.

SMB AGGREGATORS

Aggregators facilitate transaction processing and other merchant services for small to mid-sized businesses (SMBs) without the need to establish a merchant account directly with an acquirer that can operate in the physical and digital worlds.

BUSINESS SOFTWARE

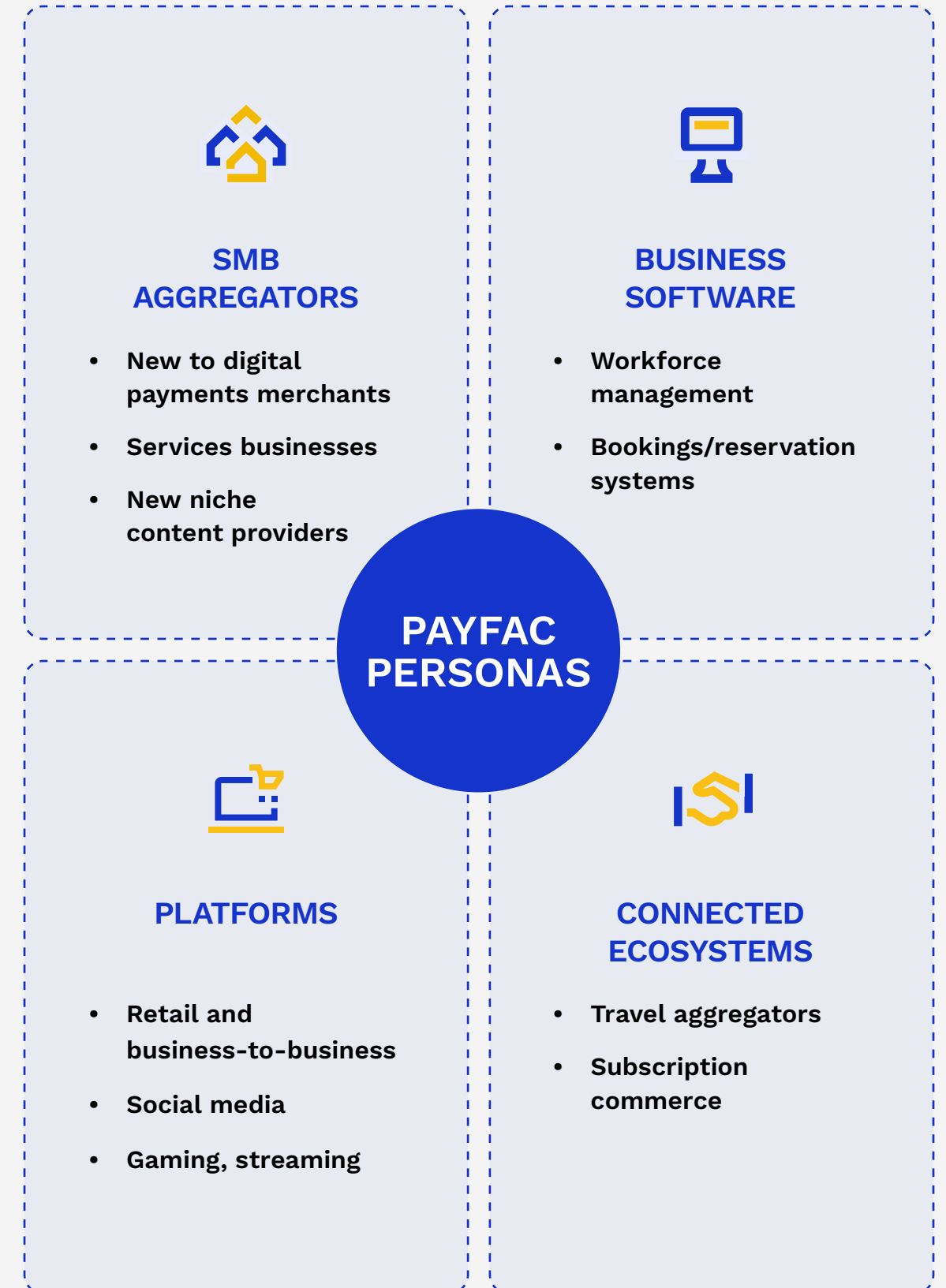
These are software platforms that typically solve a business problem for a merchant, such as appointment scheduling or sending eInvoices, and assist those that want to embed payment services into their software to capture new revenue streams.

PLATFORMS

Platform businesses make it possible for buyers and suppliers or consumers and merchants to transact in a single place. Onboarding third-party sellers is critical to growing and scaling the platform, as is accepting a variety of digital payments and paying out payments to sellers that are part of the platform.

CONNECTED ECOSYSTEMS

The rise of the connected economy has made it easier for platforms and marketplaces to leverage their scale to enter adjacent sectors, adding to the complexity of merchant onboarding, servicing and compliance.



The path to Payfac

The PayFac continuum is a way to look at how the PayFac model is deployed across the payments ecosystem and who enables those services on their behalf.

Many large platforms may decide that payments are such an integral part of their experience that they invest in building a payments business inside their business. Although they connect to acquirers and gateways for processing connectivity, managing the end-to-end payments flow — from merchant onboarding to acceptance to payout to the post-purchase experience — is handled entirely in-house. PayPal, Square and Stripe are a few examples of SMB aggregators that have built and maintain the PayFac model in this way.

“ [PayFacs] become the distribution arm and the enablement of acceptance. ... They **understand** the local needs and the payment methods that the merchants can accept that the consumers prefer. ”

CHUN HSIEN PENG

Vice President, Seller Solutions and Acceptance, APAC

VISA



The advantage of this is that they have full control over the end-to-end experience, can add or upgrade features and services based on feedback and the behavior of their end use and can monetize that. The downside is that it is an incredibly time- and cost-intensive process to build PayFac capabilities in-house, taking, on average, 18 months and approximately \$500,000 in licensing, infrastructure and other development costs in addition to the cost of maintaining that business and remaining compliant with regulations.

Marketplaces, business software and platforms see an opportunity to embed payments and payment services into the workflow to complement their core business. For example, an appointment software for spas and salons or a food delivery aggregator may want to enable the customers of those spas and salons to make a payment within the workflow associated with booking an appointment or paying for food when they place the order. Most software platforms would prefer to work with one of the many PayFac-enabling platforms to create a better user experience with more favorable payment economics instead of creating a capability in-house.

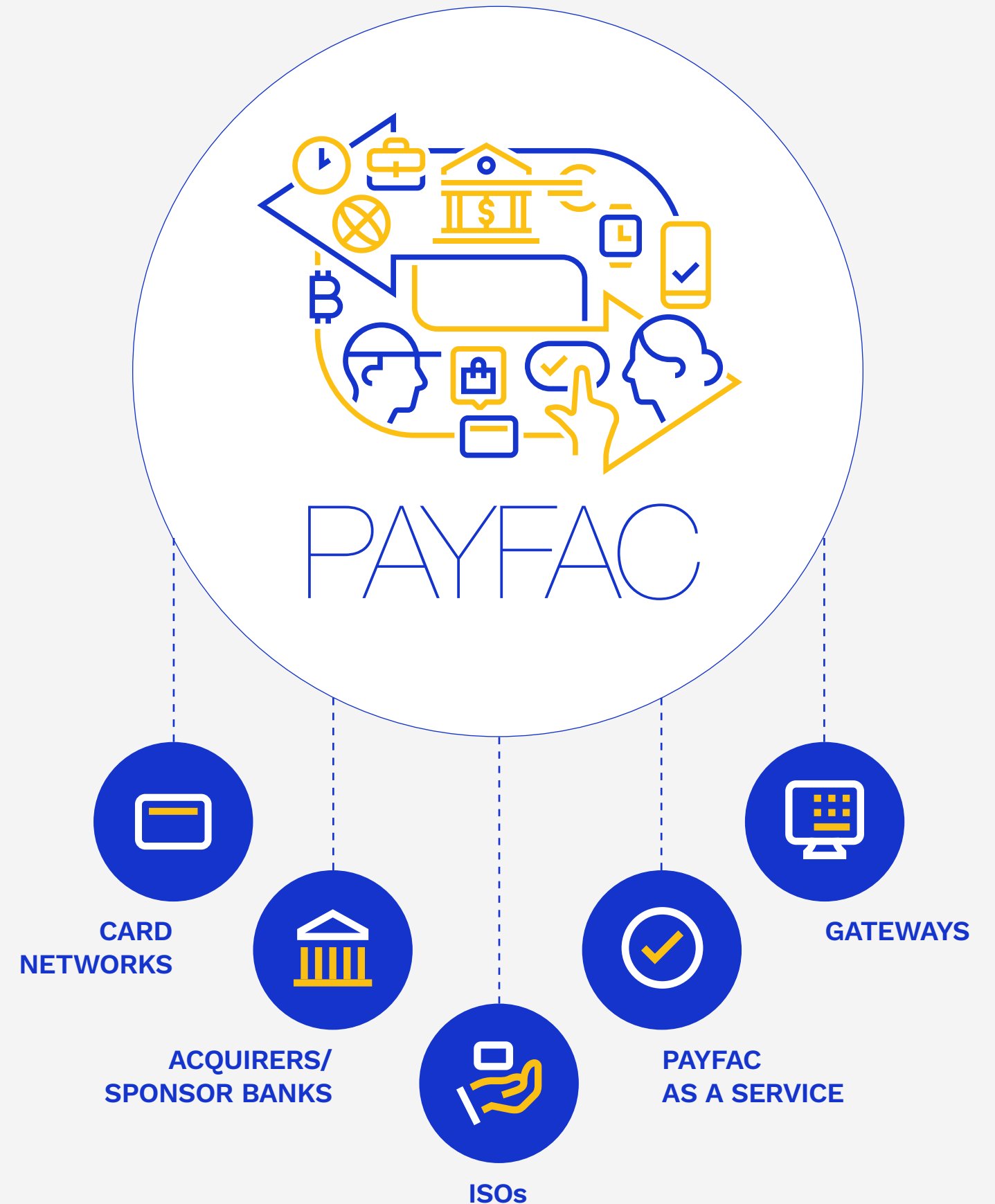
Who powers the PayFac ecosystem?

Powering the PayFac ecosystem requires the coordinated involvement of multiple entities. The major players in the ecosystem include card networks, acquirers, ISOs, payment gateways, PayFacs and the sponsoring bank.

“When we look at it from the purchase perspective, 75% is still done in cash, so no wonder we have a lot of PayFacs coming to the region [that] want to grab a part of the **\$3 trillion opportunity.**”

SIMON DAHLMAN

Head of Value-Added Services and Partnerships, CEMEA





Card networks connect credit cards to payers, merchants and issuing banks, setting the rules and protocols for how cards are processed and authorizing and processing transactions. The networks also regulate other aspects of the payment process.



Acquirers or acquiring banks act as middlemen between the credit card network and merchants, accepting card payments on their behalf and setting up and maintaining merchant accounts that accept deposits. Acquirers also assume the liability and risk for PayFac activities.

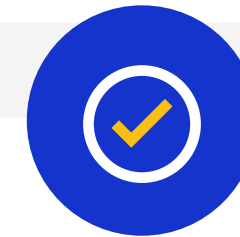
Since PayFacs are not banks and banks are the only entities that can have direct relationships with card networks, a **sponsor bank** is required for PayFacs, gateways and ISOs to process card transactions.



A **payment gateway** is a technology platform that links retailers and credit card processors, enabling customers to pay for goods and services through mobile apps and eCommerce websites. The gateway often provides clients with a variety of payment options, including digital payments, digital wallets, automated clearing house payments, debit cards, credit cards and even cryptocurrencies, but does not have a direct relationship with card networks. When transaction data is transferred from an online shop to the back-end processing platform or processor, a payment gateway adds an additional layer of protection to help safeguard it.



ISOs serve as a middleman between a retailer and a bank or payment processor but do not have a direct relationship with card networks. They might offer their own proprietary processing solution or resell processors' goods and services, and some ISOs also provide other financial services to retailers, including cash advance loans, gift cards, check verification, leasing and equipment sales for point-of-sale terminals, and remittance processing.



A PayFac is a **payments services provider** that provides an all-in-one payment processing solution that makes it easier for merchants to accept electronic payments by setting up a master merchant identification account and onboarding merchants using the account at scale. PayFacs typically provide an all-in-one payment processing solution that includes payment acceptance, fraud management, and disputes and chargebacks, and they connect the merchant to a card network to provide clearing and settlement. In essence, the PayFac establishes and manages multiple relationships and systems that a merchant would otherwise have to set up and maintain with each individual trading partner.

The PayFac ecosystem is still evolving, but the opportunities for embedding payments inside the digital or physical ecosystems that are still cash- or check-based are enormous.

About



Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network — enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device, for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce. For more information, visit www.visa.com, <https://usa.visa.com/solutions/visa-business-solutions.html> and [Visa Commercial Solutions: Overview | LinkedIn](#).



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