# The Ultimate Guide to Choosing a Payments Processing Company

Find out how your software platform can turn payments **into a profit center**

FINIX

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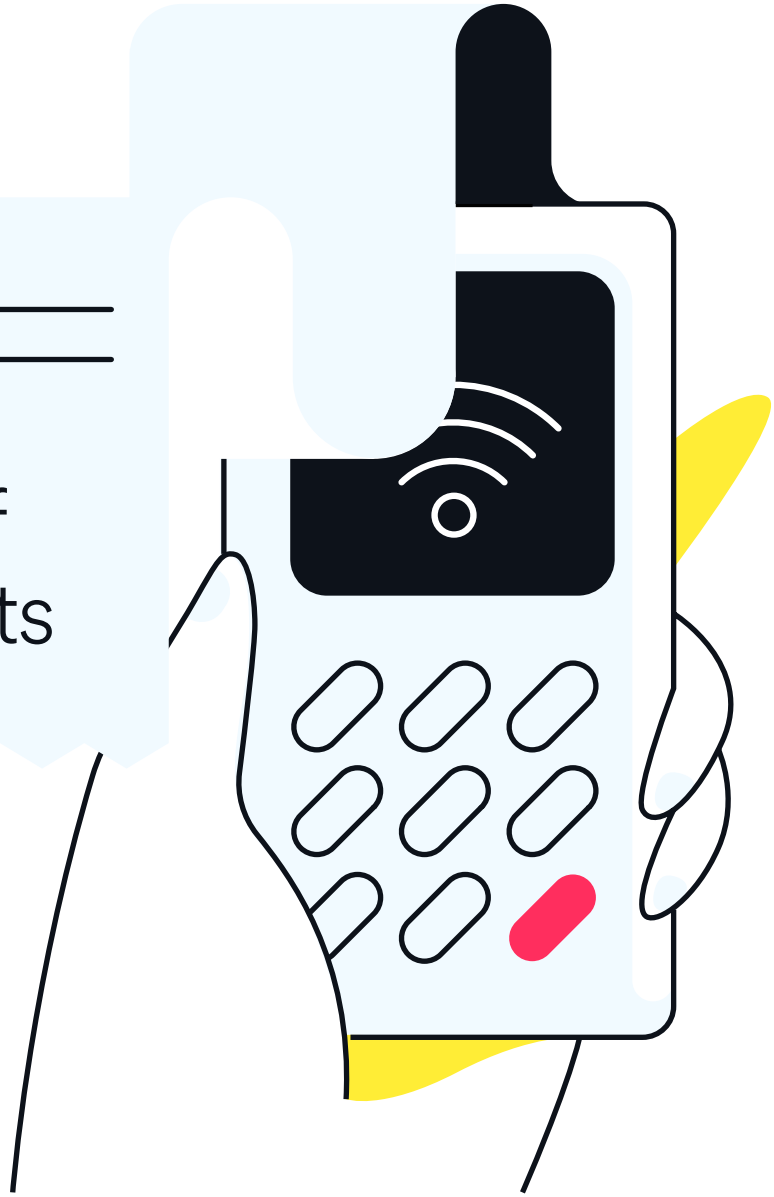

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# 01

# Introduction

Everywhere you look you encounter payments technology. From paying by QR code at your favorite coffee shop, to the suite of software products you subscribe to on a monthly basis, to buying a new shirt through an ecommerce store. These transactions all fall under non-cash payments; a rapidly growing segment of the financial market.

## In 2018 the value of non-cash payments in the USA totaled $97.04 trillion[1].

That's more than triple the national GDP2 for the same year. This volume is due to money passing hands several times in the same time period. Each time money passes hands, there is a collection of fees taken for the processing of those payments. When you think about the volume of payments passing hands, it's understandable to wonder who is profiting from those fees, and more importantly, how you can get in on this profit-center.

# Payments for Software Platforms

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Software companies have a unique opportunity to access more revenue from payments processing. They also have an opportunity to seamlessly integrate payments into their core product, creating a better customer experience. And better customer experiences lead to higher transaction volumes. It's a cycle that has turned payments into the largest profit silo for the smartest of software companies.

In order to access this profit-center, your software company needs to own their payments infrastructure. Previously, this meant building out complicated and regulatory-laden tech in-house, but times are changing and the barrier to entry is lowering. You no longer need to build a team of engineers focussed solely on payments infrastructure.

You can own the payments experience and draw in more of the revenue from each transaction, all by building the right payments processing stack with a technology partner.

# Choosing a Payments Partner

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Now comes the fun part: choosing that partner. At minimum you need to choose a payment processor to integrate with, but then you'll need a partner that deals with the payment facilitation, payment gateway and the integration into a processor. If you're coming to the table with a processor in mind (or have already integrated with one with a referral partner) you'll need to find a payment facilitator that will allow you to keep the same processor, or find a way to migrate you to a new one.

You will also need to consider the team you will need to run your payment operations. Working with a payment facilitator will mean less work for your internal team, and many can run internal payment operations with a team of 1-3 people. Becoming a payment facilitator will require a larger internal team.

Regardless of your stage of growth or product offering, choosing a payments processing company to work with can be a time consuming process packed with questions, feature comparisons, compliance reviews and more. But we're here to tell you that it's worth it. When you find the right partner you'll be able to own the payments experience, allowing you to provide world-class service to merchants and consumers, and better yet, increase your share of revenue from payments processing.

## Ready to learn more about what it takes to find the right payments processing partner?

This guide will walk you through the things you need to know along the way, and which models or integrations are most suited to your business type and stage of growth.

# 4 Integrated Payments Models

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There is more than one way to integrate payments into your platform, and they're ot all created equal. Each model comes with varying levels of risk and responsibility between you and your payments processing company.

While it may seem like a good idea to pass off most of the risk to a partner, it results in loss of control over the payments experience and more of the transaction revenue heading their way as well, so it's important to find the right balance for your company and stage of growth. While passing on most of the risk and work when you are first starting to process payments likely makes sense, as your transaction volume grows you'll miss out on a big revenue opportunity by passing on a larger portion of the transaction fees.

# 4 Payment Models for Your Software Platform

### ISO / Referral Model

Provider Manages — Platform Manages

- Payment forms
- Payouts
- PCI Level 1 Certification
- Payment Operations Team
- Registration w/ Networks
- Merchant Underwriting
- Fraud Detection
- Reconciliation
- Disputes

### Outsourced to a PayFac

Provider Manages — Platform Manages

- Payment forms
- Payouts
- PCI Level 1 Certification
- Payment Operations Team
- Registration w/ Networks
- Merchant Underwriting
- Fraud Detection
- Reconciliation
- Disputes

### Become a Payfac with Enablement Partner

Provider Manages — Platform Manages

- Payment forms
- Payouts
- PCI Level 1 Certification
- Payment Operations Team
- Registration w/ Networks
- Merchant Underwriting
- Fraud Detection
- Reconciliation
- Disputes

### Become a Payfac via Custom In-house Build

Provider Manages — Platform Manages

- Payment forms
- Payouts
- PCI Level 1 Certification
- Payment Operations Team
- Registration w/ Networks
- Merchant Underwriting
- Fraud Detection
- Reconciliation
- Disputes

### Legend:

- Payments Provider Manages
- Platform Manages

01

## ISO or Referral Model

An Independent Sales Organization (ISO) contracts with a member bank to provide merchant or cardholder solicitation. ISO representatives sell payment processing solutions to merchants so they can accept card payments, as well as card readers and payment processing rate contracts for a given acquirer or ISO. This model has limited risk, but also produces a lot less revenue for the platform, and often causes a disjointed user experience for the end consumer.

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## Outsource to an Existing PayFac

A PayFac or Payment Facilitator is a service provider for merchants who want to accept payments online or physically. This is an integrated solution where control is restricted by the underlying PayFac. You get more control over the user experience and more insight into submerchant reporting and chargeback disputes—you also often own the chargeback liability.

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## Become a PayFac with an Enablement or Middleware Partner

This model provides a seamless experience because you own the merchant contract and experience, but a lot of the heavy lifting is done for you. This is possible when you are leveraging a technology partner like Finix to serve as the middleware between the platform and the processor.

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## Become a PayFac with Custom In-House Solutions

This model requires you to build the entire payment stack from scratch, connecting directly to the processor. While you have full control over the user experience, the time and money required to build from scratch is prohibitive and usually not worthwhile.

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# Modular Payment Infratructure

Payments infrastructure is not a one-size-fits-all situation. We've laid out the 4 main models for integrating payments into your platform, but it's also possible to piece together a custom solution using modules. It's the approach that we like to take at Finix, so that customers can start with the modules that are most important to them initially and add more as they continue to grow. This kind of system allows platforms to progressively own more of their payments infrastructure, and take home more of the revenue.

**Modules cover various parts of the payment facilitation and gateway processing elements. At Finix the modules are split into the following categories:**

- **Tokenization**
- **Gateway**
- **Underwriting & Onboarding**
- **Settlements**
- **Settlement funding**
- **Chargebacks & Disputes**
- **Push to Card**
- **Reporting**

Some Finix customers use every single module. Others come to us with a legacy payments solution and incorporate modules as they need them. There is no one-size-fits-all payments solution and we're happy to provide one module, all eight, or anything in between.

# Choosing a Payments Partner

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If you are a software platform serving a single industry vertical, knowing your customers' business inside and out is one of the most important elements to your success. It's the same for payments processing companies. While we "only" focus on payments, it's a space that depends heavily on deep knowledge and highly reliable technology.

Most software companies need to come to terms with what it takes to become experts in payments. For many companies, it is near impossible, and when possible, it is a costly and time-consuming venture. That's why even the largest vertical software platforms turn to a payments processing partner; not just for their technology, but for their expertise and guidance.

When looking for a payments processing partner you want a team that can guide you through everything from the initial integration, to onboarding and underwriting merchants, to managing payouts and disputes.

**You will also want to look for a few other elements when research payments processing companies, including:**

- The level of support they will provide to your company, such as response times for technical support
- Operational support for your payments team
- A customer success manager that knows your business and is focused on your growth plans

The nature of payments processing means that all the players within your payments layer cake (this is a concept Finix created that you can learn about here) will get a piece of the fees off of every transaction; meaning that your success is also the success of the payments processing partner that you work with.

You want a partner that understands this relationship and makes moves to encourage the growth of your company. Look for a company that wants to grow with you.

# API Technology and Ease of Implementation

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API-first payments technology allows platforms to provide a seamless payments experience to consumers. APIs allow consumers on your platform to make a payment and have all of the actions that take place from creation of a buyer, through tokenization of a card, and messaging to the card network all take place via API so that you can benefit from the technology of a payments partner without making consumers leave your platform.

These APIs should be built for maximum stability, because your ability to receive payments depends on them. This is where you should get developers involved in the evaluation process, because they are ultimately responsible for implementing and maintaining APIs within your platform.

All APIs require the involvement of developers to work into your platform, but the less API calls needed to perform tasks the easier and faster it is to implement them. Some payments companies inundate you with a large volume of API calls to implement, making it harder to keep up with development efforts around payments. **The more work the payments processing company does to streamline their APIs the less work you will have to do to implement and maintain them.**

When choosing a payments processing company that uses APIs you should check their terms for the frequency at which they "break" their APIs. Breaking of APIs means they are making changes to their code that will require your developers to in turn make changes to your platform. This can result in a lot of work as you are at the mercy of the payments processing company that maintains the API library.

Another feature you may want to look out for is API onboarding. That means your merchants can be onboarded through a white-labeled system, instead of having to jump over to the payment processors site. This results in a more streamlined experience for your merchants.

# Choosing a Payments Partner

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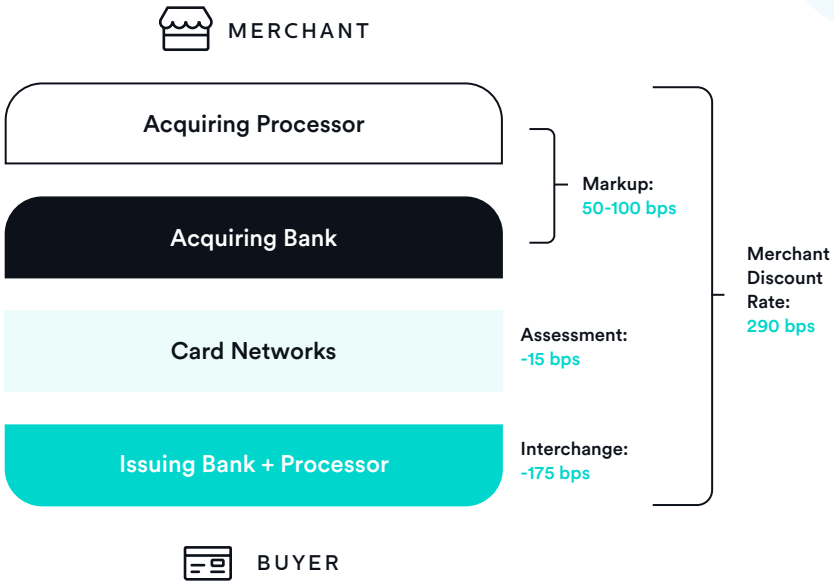
Many people mistakenly refer to the fees involved in payments processing just as “interchange”, but that isn’t the whole story. The total cost of processing a card payment consists of three components that are wrapped into the Merchant Discount Rate (MDR).

**These three components are:**

01 Markup paid to the acquiring bank, acquiring processor, and/or payment facilitator

02 Assessments paid to the card networks (i.e., Visa, Mastercard, American Express, Discover)

03 Interchange paid to the issuing bank and issuing processor but set by the card networks




## The MAI Model: Understanding the different types card processing fees

To help remember the three different types of fees that make up the Merchant Discount Rate (MDR), we propose a simple mnemonic device: MAI, which stands for Markup, Assessments, and Interchange. Interchange and Assessments are considered the “Base Cost” to process transactions. This base cost is usually the largest portion of credit card processing fees, averaging about 70-80% of the expense, with Markup taking about 20-30% of the expense. Let’s explore each type of fee in more detail.

## Markup (aka processor fees)

Markup is split amongst all of the entities on the acquiring side of a transaction. This could be a payment service provider (such as a gateway or payment facilitator), an acquiring processor, and/or an acquiring bank. Markup fees vary by entity and are often negotiable while Assessments and Interchange are not.

**Markup fees can be either:**

- **Percentage of the transaction (ex: .10%)**
- **Fixed fee per transaction (ex: $.10)**
- **Both (ex: .10% and $.10)**

## Assessment Fees (aka dues and assessments)

Assessment fees, also known as dues and assessments or simply assessments, are a collection of fees paid to the card network. Unlike Markup, Assessments are not negotiable but can change (up or down) and are reviewed by the networks twice a year. Assessments are also set by the card networks and are therefore the same for all processors.

There are per-transaction, monthly, and quarterly assessment fees charged by the networks. An example of monthly assessment fees are Visa's FANF (Fixed Access Network Fee) and Mastercard's NABU (Mastercard Network Access Brand Usage) fees.

While not standard across all card networks, Assessments typically consist of a percentage fee, a flat fee, and a card network fee (e.g., a cross-border transaction fee) and are often paid on a per transaction basis for the ability to process transactions on a network's rails.

**For example, Assessment fees for a Visa Rewards card could look like this:**

.13% + .01% + $4.00

| required % of transaction volume | required transaction fee | optional location fee |
|---|---|---|

## Interchange (aka issuing bank fees)

Issuing bank fees (Interchange) are paid to the issuing side of the Payments Layer Cake. These fees are ultimately paid by the merchant to the issuing bank (e.g. Capital One, Chase, Bank of America, etc.) and then shared with the issuing processor and card program manager. Interchange is set by each card network and is non-negotiable. The fee usually consists of a per transaction processing percentage (assessed on the gross merchant value) and per transaction fee. Twice a year, these rates are reviewed and can be changed by the card networks.

**For example, the interchange fee for a Discover Rewards card could be:**

1.710% + $.10

processing percentage

per transaction fee

These fees are charged pertransaction.

**Certain variables can affect the Interchange fee; this list is not exhaustive:**

- Card type (e.g. debit card or credit card)
- Card network (Mastercard, Visa, Discover, and etc.)
- Transaction type (e.g. card not present vs. card present)
- Merchant category code (MCC). Businesses with certain MCC's may qualify for lower interchange rates that can lead to lower credit card processing charges
- Level 2/3 data. Businesses can pass along additional line-item data for certain business and government transactions to qualify for lower interchange rates.

Understanding the MAI model (markup, assessment and interchange) is the first step in demystifying payments for your business. SaaS platforms are taking ownership of their payments through Finix and rethinking their fee structures to drive revenue from their payments.

## Rate Types

Now that you know what the basic fee structure looks like, you should also know that different companies offer a variety of rate types.

**The main options are separated into three categories:**

- **Flat Rate**
- **Tiered Pricing**
- **Interchange+**

Ideally, you want a payments processing company that offers an Interchange+ fee structure. This is the most economical and flexible option that allows you to set custom fee structures all the way down to the merchant level. By setting custom fee structures you can increase revenue from payments by directing more basis points towards your platform. You can also make your service more appealing to merchants by directing more revenue towards them.

# Other features you may want to look for in your payments processing company are:

- Granular role and permission settings
- Customizable transfer and verification notifications
- Access to analytics surrounding transactions so we can help you find a better fee structure

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# Compliance

Compliance can be one of the most intimidating parts of accepting payments on your platform, but with the right payments processing company you should have very little to worry about.

## You'll want to find a provider that manages

Compliance is very important, but it doesn't have to be time-consuming. Picking a provider that has your compliance covered will make it easier for you to focus your time and energy on your core product.

- SOC 2
- GDPR
- PCI DSS Level 1
- CCPA
- KYC Verification
- 3D Secure

# Acquiring Processor Integration & MCC Category Compatibility

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All payments have to be processed through an acquiring processor. That means that the payments processing company you work with needs to be integrated and certified with at least one. They are the central piece that connects that acquiring side of processing to the issuing banks.

The technology behind processors hasn't changed a lot in recent years and their offering is more of a commodity than anything these days. It's the payment facilitators stacked on top of them that provide the frontend experience.

The one element you will want to consider in regards to a processor when choosing a payments processing company, is the risk their processor is  willing to take on.

**Merchants are split into three risk categories:**

- **High Risk**
- **Medium Risk**
- **Low Risk**

Your merchants' level of risk is determined by a variety of factors. **For example, a high risk merchant may:**

- **Have a high average ticket price**
- **Experience a lot of chargebacks**
- **Be in an industry that is known to be risky**
- **Have a majority of Card-Not-Present**
- **(CNP) transactions**
- **Be a new business altogether**

Sometimes a merchant is labeled high risk because of all of these things, or there may be just one or two. Whatever the case may be, you need to ensure that the payments processing company you want to work with is integrated with a processor that can handle the level of risk your merchants typically carry.

Merchant Category Codes (MCC) are a way for processors to shortcut the risk assessment process. These codes divide merchants into set categories based on what they sell and in what manner. Before approaching a payments processing company it's wise to understand what MCC category your merchants fall into.

# Easy Merchant Onboarding & Underwriting

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Merchant onboarding is an often overlooked, but essential, part of working with a payments processing company. It's important to know how the company will onboard your merchants, as it will reflect badly on your business if the experience is rough.

All businesses that want to process payments need to go through an underwriting and onboarding process, so there is no avoiding that, but knowing how smooth the process will be should play into your choice of payments partner.

The onboarding process should be conducted through one platform, with 3rd party risk assessments being done from that one entry point. **Don't send your merchants all over the place to 3rd party providers to get them underwritten and onboarded.**

## Doing this causes a disjointed and frustrating process for merchants.

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# Back Office Management

Payments isn't a set it and forget it kind of thing. Especially once your growth really starts to take off and you're onboarding merchants on a daily basis. It's not just the onboarding you'll need to deal with though, you'll also need to manage reconciliation, disputes, and other merchant management processes.

Not all companies give you the same access to your merchants' information, or allow you to deal with disputes, payout schedules, custom fee structures and transaction monitoring. You want to work with a provider that gives you as much visibility as possible.

You'll also want to consider what level of internal resources are necessary to manage your payments infrastructure. When you work with an ISO, less involvement from your internal team is required, but you also won't have as much control over the payments experience, and you won't take as much of the revenue.

As your company grows, it's advantageous to work with a provider that will allow you to own the payments experience without needing to expand your internal payments operations team a lot. Look for a payments processing company that will allow you to get setup and manage with a skeleton internal team.

## Some of the back-office management features you should consider are:

- Automatically generating the correct sub-merchant agreement
- Signing agreements
- Storing sub-merchant agreements
- Versioning of submerchant agreements / ability to download from dashboard
- Billing to sub-merchants (Subscription billing)
- Roles and permissions
- See transactions
- Managing disputes and chargebacks
- Download reports

# 12

# Growth

When you stop thinking about payments processing as a cost center and realize that you can turn it into a profit center instead, the potential for the growth of your business becomes exponential.

You're not just charging monthly software fees, you're taking revenue off of every transaction processed through your platform, so the more your merchants grow, the more your platform grows. Payments related revenue often eclipses the revenue derived from the software fees your company charges.

**You want to work with a payments partner that doesn't punish you for this growth, and instead works alongside you to optimize your payments infrastructure as you grow.**

Finix is a payments infrastructure company that works with vertical software platforms that want to own their payments. Our suite of payments APIs integrate directly into the platforms we work with to provide a seamless, white labeled experience for both merchants and consumers. We also act as the payment facilitator and gateway for our customers and can help them become their own payment facilitators if/when they are ready for the next level of payments ownership.

# Appendix

**Additional Resources:**

The Finix Payments Glossary

The Finix Blog

Your Guide to Integrated Payments

Your Guide to Payment Facilitation

Your Guide to Payments Compliance

Your Guide to Payment Processing Fees

Your Guide to Managing Merchants

Your Guide to Payments for SaaS Platform

**Sources:**

The 2019 Federal Reserve Payments Study:

https://www.federalreserve.gov/paymentsystems/december-2021-findings-from-the-federal-reserve-payments-study.html