J.P.Morgan

GUIDE TO PAYMENT FACILITATION OPTIONS

Embedding payments into your platform

FIND OUT WHAT'S BEHIND THE BUZZ

How involved should you be in payments?

When faced with the multitude of challenges during hypergrowth, you might be tempted to take a hands-off approach to payments integration.

As your platform grows, you might reconsider payment options. Increasingly, business are recognizing the value of integrating traditional payment processing into their core and tech stack. This is known as "payment facilitation," and has generated enough buzz that clients ask about it by name.

Sometimes, solutions that promise a frictionless user experience may turn out to lack adequate protection against fraud or prevent complete control of your user data. As a result, your costs of payment acceptance and integration could reduce your enterprise value. Hidden operating expenses and inadequate relationship support may create a drag on growth. Solving these problems requires a partner with a holistic perspective.

J.P. Morgan can help you with the technical, operating, legal and compliance complexities involved. If you want to integrate payments into your overall business strategy, this guide will help you understand the fundamentals of a growth strategy that can take your platform to the next level.

Why do platforms like integrating payments?

Today's complex and hyper-competitive marketplace requires that you exceed customer needs. You can keep customers coming back when you make the user experience faster, simpler and better. Integrating payments can help you own more of the customer relationship, which helps you create more seamless experiences that drive loyalty, retention and revenue.

Your platform probably already works with a merchant services partner to accept payments. What about the big merchants that use your platform? Chances are that integrated payments could help them streamline their own end-user experiences.

You might have started out with a payment gateway. Gateways are easy to set up, but the experience can be clunky when merchants send end users to a third-party payments partner. End users need a secondary relationship and account. And when transactions take place outside of ecosystem, you lose control over the end-user experience.

> *"Payment facilitation really starts after you add the software to a platform to embed payments. If you do it right, you can shape the end-user experience to connect buyer and seller and strengthen your brand."*

Jim Cho
J.P. Morgan Executive Director

How integrated payments can reshape your brand

Integrated payments can reshape your business two ways:

Improving the user experience

First, when you integrate payments with branded services your customers already use, you can add value and retain control of the end-user experience. You also can offer payment services customized to your platform's end-user needs, such as digital wallets, contactless payments or corporate cards.

Making money on each transaction

Monetizing payments requires partnering with an acquiring bank like J.P. Morgan. Typically, only the entities within the payments flow—the acquiring bank or payment processor, payment networks and card-issuing bank—collect fees. Using a payment facilitation model, you insert yourself in the payments flow so that you can buy and resell processing services. Your payment processor can help you determine the right level of monetization, the best-fit operating model and help you build the solution that helps you balance effort and risk based on your goals.

> *"Monetizing payments doesn't start until you've done the work. J.P. Morgan helps you take a big-picture approach looking across revenue, the compliance landscape and your business model."*

Mary Rosen
J.P. Morgan Executive Director

Considerations: Manage risk while optimizing revenue

Monetizing payments has grown in popularity and has attracted attention from investors. If other software companies or fintechs can make money from payments, why can't you?

Focusing on the upside

The upside is clear. Once you insert yourself in the payments flow, you start to collect fees for payment services. You earn a fee every time a merchant or end user makes a payment on your platform.

If, instead, you continue to park your platform outside the payments flow, you pay for those payment services with setup fees, subscription fees and transaction fees—only a portion of which you can pass on to the merchants using your platform and gateway.

How much is too much risk?

Unless you are set up to manage risks, a new revenue stream built on monetizing payments could leak money. Expect to build your technical infrastructure and inhouse expertise. Technology and personnel costs can easily exceed hundreds of thousands of dollars to manage factors like these:

- Compliance and regulatory risk, which continues to multiply if you intend to expand into other countries.
- Security risks, reputation risk and financial penalties if you get it wrong.
- Authorization risk. Fraudulent transactions come out of your pocket, and declined transactions don't count as revenue.
- Supporting services for merchants such as payouts and chargebacks.

> *"Software platforms can easily integrate payments from a technology perspective. That's the easy piece for software companies. Payment facilitation is also about managing the complexity around payments: the compliance and regulatory oversight, onboarding and underwriting merchant customers, the different payout functions and the settlement, the reporting and the reconciliation."*

Jim Cho
J.P. Morgan Executive Director

Navigating the payment landscape

This is where J.P. Morgan can help. We bring insight based on a holistic perspective from across the payment ecosystem, from merchant services to payment networks to issuing banks. A registered payment facilitator model requires you to register with the card brands, regulators and an acquiring bank; it comes with an array of service requirements and certain responsibilities.

How much of these responsibilities you take on depends on a variety of factors—from where you are in your payments journey to how much you are willing to invest in an infrastructure that includes expertise and support systems.

Across these factors, your business will need to determine how much of the PayFac burden it will carry. If you prefer to remain focused on building your core business, you can potentially hand off some of the activities.

Finding the right fit for you

Tailoring a solution requires a detailed understanding of your business goals, how you want to manage risk and how you want to optimize revenue. You need to know your customers, their industries and how to use your data in conjunction with payment data to drive actionable results.

Three key factors can help determine where to focus your resources.

- Relationship to end users
- Willingness to assume compliance responsibilities
- Business goals and requirements

Relationship to end users

Platforms with a direct end-user relationship tend to prefer control over the payment experience.

One website hosting company owned the end-user relationship up until the payment gateway. The company had grown rapidly as people used its website templates and hosting services to write blogs, showcase portfolios and quickly create an online presence. If its business users wanted to sell, they had to send their end users to a third-party site using a payment gateway. The experience was choppy and unbranded.

Companies without a one-to-one relationship with their users tend to be more interested in the monetization aspect of payments.

Another company wanted to convert its electronic bill presentment service into an electronic bill presentment and payment (EBPP) service. The company delivered online invoices to utility customers, each invoice branded with the utility name, to help hundreds of utilities across the U.S. replace paper bills, simplify operations and speed revenue recognition.

Willingness to assume compliance responsibilities

J.P. Morgan experts can help provide the right advice for you to understand some of your responsibilities, including these:

- Compliance and regulatory burden. How will you handle Know Your Customer (KYC) due diligence and Anti-Money Laundering (AML) rules to detect suspicious activity?
- Merchant onboarding. A merchant of record assumes liability for sub-merchant transactions. Before you set up merchants for processing services, you'll need to exercise due diligence.
- Security. Payment card industry (PCI) compliance is a requirement for all merchants. You'll need to meet technical and operational standards designed to protect cardholder data in compliance with PCI standards.

> *"Integrated payments comes with responsibility and risk. You need to be confident you can manage chargebacks, payments and customer service. These are all areas that J.P. Morgan knows well."*

Jim Cho
J.P. Morgan Executive Director

Platforms outsource more of the compliance burden if they want to focus on their core business.

The example website hosting company—a tech startup—had no interest in acquiring the knowledge or expertise to manage the legal and compliance challenges of payment facilitation. Recognizing this, the team outsourced as much as they could.

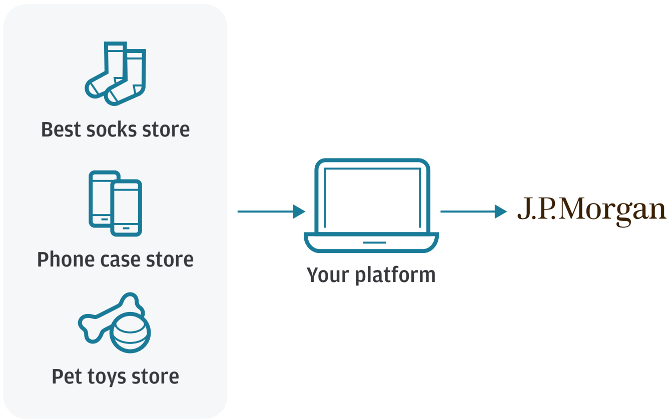
Platforms with payments expertise might outsource less if they want more control and potentially more revenue opportunity.

The utility bill presentment company discussed earlier entered the world of payment facilitation with a baseline understanding of the challenges ahead. The company targets verticals with high volumes and low end-user turnover. As a result, the team was willing to hire new talent to deal with legal and compliance requirements and build the infrastructure to remain compliant.

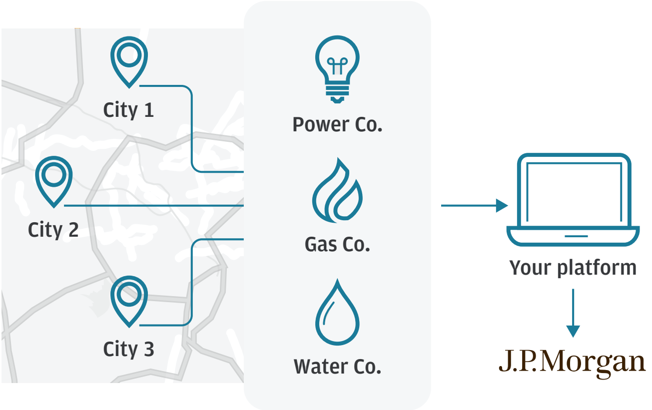
Business goals and requirements

What are you trying to accomplish in the next two years and within the next five?

If you serve end users, you can continue to prioritize the end-user experience while you integrate payments. Turn to J.P. Morgan for payments industry expertise.



If you deliver services to an industry and understand its customer data, integrating payments doesn't have to split your focus. You can serve customers efficiently with enterprise-to-enterprise solutions from J.P. Morgan.



Companies that want more control over their brand are typically focused on a branded payment experience.

By integrating payments, the website hosting company was able to offer valuable payment and checkout options to its website users to help them sell online. Suddenly writers and artists could sell art, books and event tickets easily from their own websites, using the hosting company's embedded services. As a result, the company had deepened its relationships and added a new revenue stream.

Companies that want to differentiate their industry solutions add value with payments technology.

For the utility bill presentment company, it was a natural evolution to integrate payment capabilities. The company added call center and chat payments, mobile payments and digital disbursements. The company even developed a proprietary text-to-pay technology. Based on its ability to pivot toward new services, payments became a core revenue stream.

Building the right solution for you

With J.P. Morgan at your side, you can register as a conventional PayFac with the card payment networks. Taking this step requires working with a bank. If you decide not to take on all the obligations of being a PayFac, you can opt for another solution that may deliver many of the benefits of conventional payment facilitation without requiring you to be a PayFac.

The next step, based on your business challenges and goals, is to determine where you want to sit in the payments flow. J.P. Morgan advisors work with platforms and merchants to help them understand options and guide them to the right solution. We start by asking two questions:

Who will be the merchant of record?

Someone—possibly you—will be the merchant of record. The merchant of record assumes liability for those transactions, including sales tax compliance, cardholder data security and honoring refunds and chargebacks. All these activities can help deliver a positive cardholder experience if undertaken competently with the customer in mind.

Who will be responsible for merchant underwriting?

Diligent analysis and careful evaluation of merchant account applications is an essential part of payment processing. The merchant underwriter assumes the financial risk if things go wrong. Most merchant banks offer this service, and you may or may not be willing to accept this level of exposure on your own.

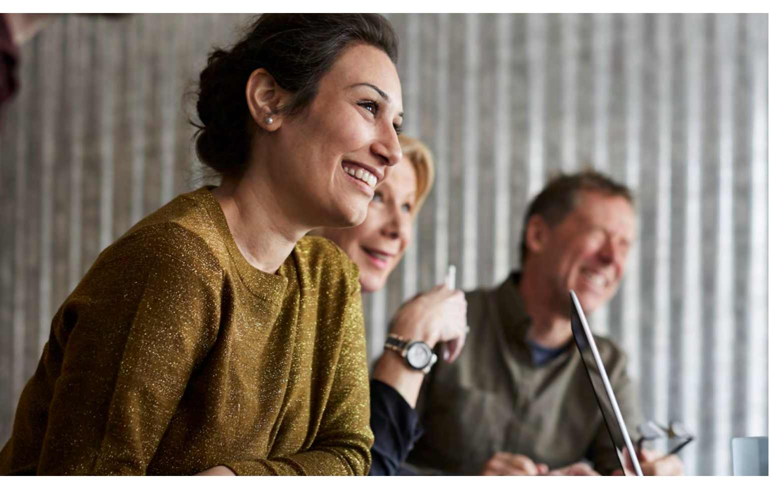
How platforms monetize

When you're in the payments flow, you can resell payments services from a payments processor or merchant acquirer.

You can secure wholesale rates and make money from merchants that sell on your platform. You can choose to charge standard fees for processing transactions, including gateway-licensing, assessment fees, interchange fees and processing fees.

Alternatively, you have flexibility to decide how to pass on fees:

- Set flat-rate pricing to help your merchant customers forecast.
- Use payments strategically as a negotiation tool.
- Maximize revenue with an optimization or tiering strategy.



> *"We can help you define and create the right payments facilitation solution for today—and help you evolve or enhance your payments experience when you are ready."*

Mary Rosen
J.P. Morgan Executive Director

Taking the next step

Integrating payments within your platform opens up a world of opportunity—whether your focus is to build your brand or create new revenue streams. Yet the risk can be substantial and the payments value chain inherently complex.

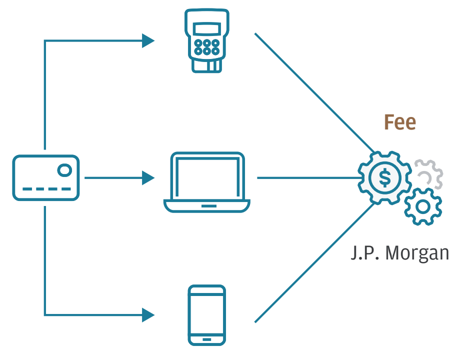
J.P. Morgan can help you find the best-fit approach to monetizing payments as part of your overall business strategy.

- We can support a platform with a variety of solutions spanning the payments facilitation spectrum. Advisors will recommend a program specific to your needs, instead of selling something off the shelf that might not fit.
- We offer a robust, end-to-end infrastructure. As a direct acquiring bank that's also a payment processor and card issuer, we have experience with every aspect of card transactions and the technology to match.
- Our approach is both consultative and objective. Our goal is to help you understand options that address your business challenges today and allow room for your ambitions down the road.

J.P. Morgan offers a wholly owned payment infrastructure.

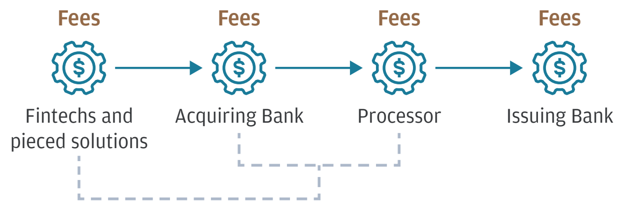
J.P. Morgan solution

- Acquirer
- Processor
- Card issuer
- Cash mgmt.



Simplified PayFac pricing isn't always simple.

Fintechs or third-party processors rely on back-end partnerships, which means more fees, risks and complexity.



#1 | Talk to us if you think you should be in payments.

#2 | Tell us about your business goals for today and the near future.

#3 | Let us recommend the right solution.

Get started. Talk to your J.P. Morgan representative.

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