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How Automated Underwriting Helps PayFacs, PSPs Balance Risk and Speed
Page 8

Smart Underwriting Tech Helps PayFacs Balance Speed, Risk When Onboarding Merchants, Adding New Verticals
Page 16

Automated Underwriting Gives PayFacs, PSPs Competitive Leg Up
Page 22

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TABLE OF CONTENTS

05 Introduction

08 How Automated Underwriting Helps PayFacs, PSPs Balance Risk and Speed

David O'Brien, CEO at Agreement Express

Published April 19th, 2021

14 Smart Underwriting Tech Helps PayFacs Balance Speed, Risk When Onboarding Merchants, Adding New Verticals

David O'Brien, CEO at Agreement Express

Published May 14th, 2021

20 Automated Underwriting Gives PayFacs, PSPs Competitive Leg Up

David O'Brien, CEO at Agreement Express

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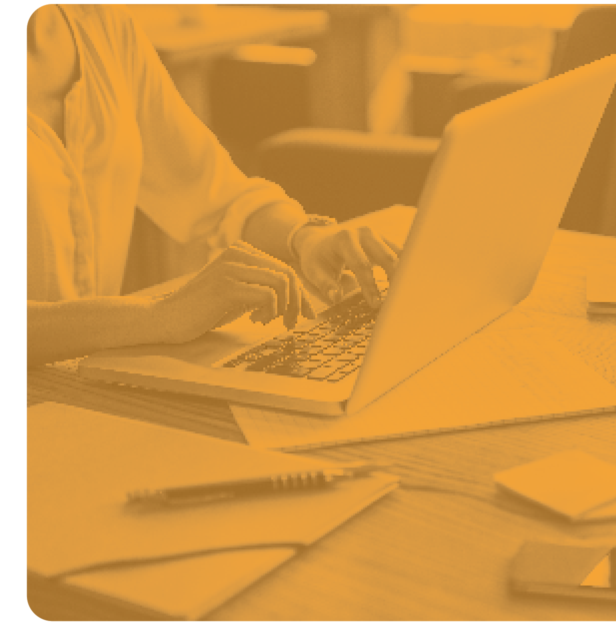
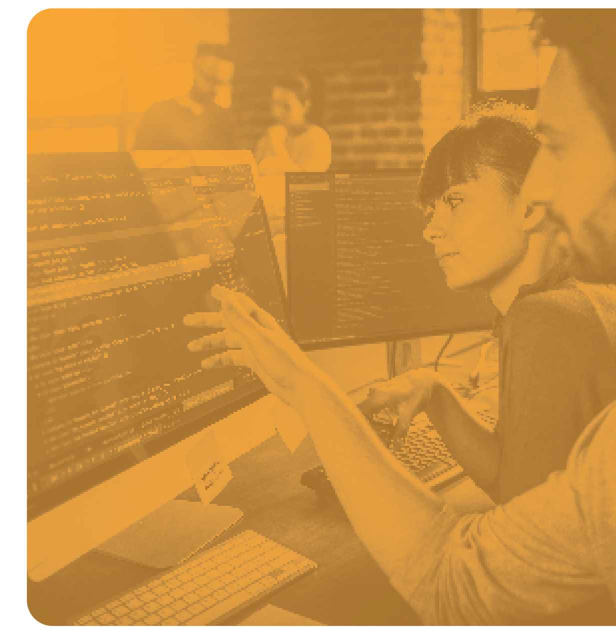




Balancing Underwriting's Twin Needs For Speed And Security, In Automated Fashion

The point of onboarding is crucial — especially for merchants as they link up with payment facilitators (PayFacs) and other providers to begin accepting payments. For those providers, reviewing the merchant, assessing risk and then approving those enterprises all take time. But it's a process that needs to be streamlined, as merchant approval has become a game of scale and ideally, gauging risk should be less art than science.

In the eBook that follows, the case is made — through interviews with executives at Agreement Express — that advanced technologies in the service of underwriting can balance speed and risk.

David O'Brien, CEO of Agreement Express, has likened the process to driving a sports car rather than "an old clunker." The key to it all, he tells PYMNTS, lies with intelligent automation. Business owners, like all of us, are also consumers who have gotten used to the instant gratification of the digital age and expect the same level of convenience for their companies as they enlist new services and payments functionality to better serve the payment preferences of their end users.

But the PayFacs and independent sales organizations (ISOs) need to be mindful of the urgency that smaller firms feel when they're taking on new services such as contactless or digital payments.

Reducing The Points Of Friction

As O'Brien said of those payment service providers (PSPs): "If you come in and say, 'Hey, I want to be your partner and help process payments' … Or if you're introducing a bunch of friction points, or if it's long and takes 10 days to underwrite you, that's problematic."

It precisely where underwriting automation software can take on much of the heavy lifting (we'll call that the science part of the underwriting part) while alerting (human) underwriters to issues that warrant further examination in rendering an ultimate risk assessment and decision (we'll call that the art part of underwriting).

For the providers, O' Brien said, high-tech underwriting tools can help mitigate fraud and chargeback exposure — chiefly through know your customer (KYC) checks, done automatically, and scans of global sanctions lists. O'Brien is quick to point out that the sea change extends well beyond the confines of consumer-focused commerce. B2B firms are increasingly embracing digital means of paying and getting paid, which opens the door to more opportunities for PSPs, if they have the most robust underwriting tools in place.

No matter the targeted audience, he said, for the PSPs, "You've got the changing client experience.

What I wanted [as a consumer] three years ago versus today is vastly different. People think technology change is linear, and it is not. It's actually exponential."

Read on to get a sense of how underwriting and risk — as well as the automation and software that needs to be considered by PayFacs and ISOs — is moving into the digital age.

How Automated Underwriting Helps PayFacs, PSPs Balance Risk and Speed

The old maxim "slow and steady wins the race" definitely does not apply when it comes to onboarding merchants to their payment processors. If onboarding is about assessing merchant risk — and it certainly is — speed matters. Payment facilitators and other providers strive mightily to reduce underwriting review and streamline merchant approval, which of course benefits their top lines. But with a blur of approvals comes heightened risk.

For the PayFacs and growing ISO and ISV challengers tackling and reviewing merchant applications and making recommendations to the underwriters, the key goal has always been to minimize application time with simpler forms, and with the right checks in place that are appropriate for lower- and higher-risk firms.

David O'Brien, CEO of Agreement Express, which is focused on merchant underwriting and onboarding tools for ISOs and PayFacs, said service providers should strive to drive a sports car and not an old clunker when it comes to merchant approval. And, contrary to what might be conventional wisdom, the need for speed, he said, need not come at a cost to safety.

Technology — chiefly through software and intelligent automation (though there's still room for the human touch) — can transform risk management into a fluid, fleet process, said O'Brien.

New Expectations

Changing expectations are bringing the payments ecosystem to demand instant digital customer onboarding, O'Brien said. For the merchants, of course, no one wants to handle money anymore, certainly not in-store, and no one wants to grab pens at the register and sign receipts. Younger generations also expect to use digital form factors and devices to make their payments.

O'Brien said that PayFacs and ISOs are at the center of this digital shift, but need to grapple with the risks posed by smaller firms and even whole verticals (think online gaming and sports) that are making the great leap to online commerce: "What's interesting about this industry is that your clients are entrepreneurs. They're the backbone of the country. So when you come in as a partner and say 'hey, I want to be your partner and help process payments' … If you're introducing a bunch of friction points, it's long, and it takes 10 days to underwrite you, that's problematic."

As O'Brien noted, people are expecting a frictionless, fast experience, and they'll go to the provider that delivers — causing more traditional providers to lose out.

And yet, with speed comes the threat of chaos. To use another auto analogy: O'Brien quoted racing great Mario Andretti, who said words to the effect that "if everything is under control, you are not going fast enough. Except, when we're talking about underwriting, you want everything under control." There's a fear factor that's firmly entrenched in the underwriting process, said O'Brien, that causes worry about going too fast and not flagging risk, and that represents a key point of friction.

"There's this feeling that 'if we change our processes, we're going to let more bad risk in,'" he said. That fear is misplaced.

… If you're introducing a bunch of friction points, it's long, and it takes 10 days to underwrite you, **that's problematic.**

Software is about the people as well. And so the change management part can be another big friction point.

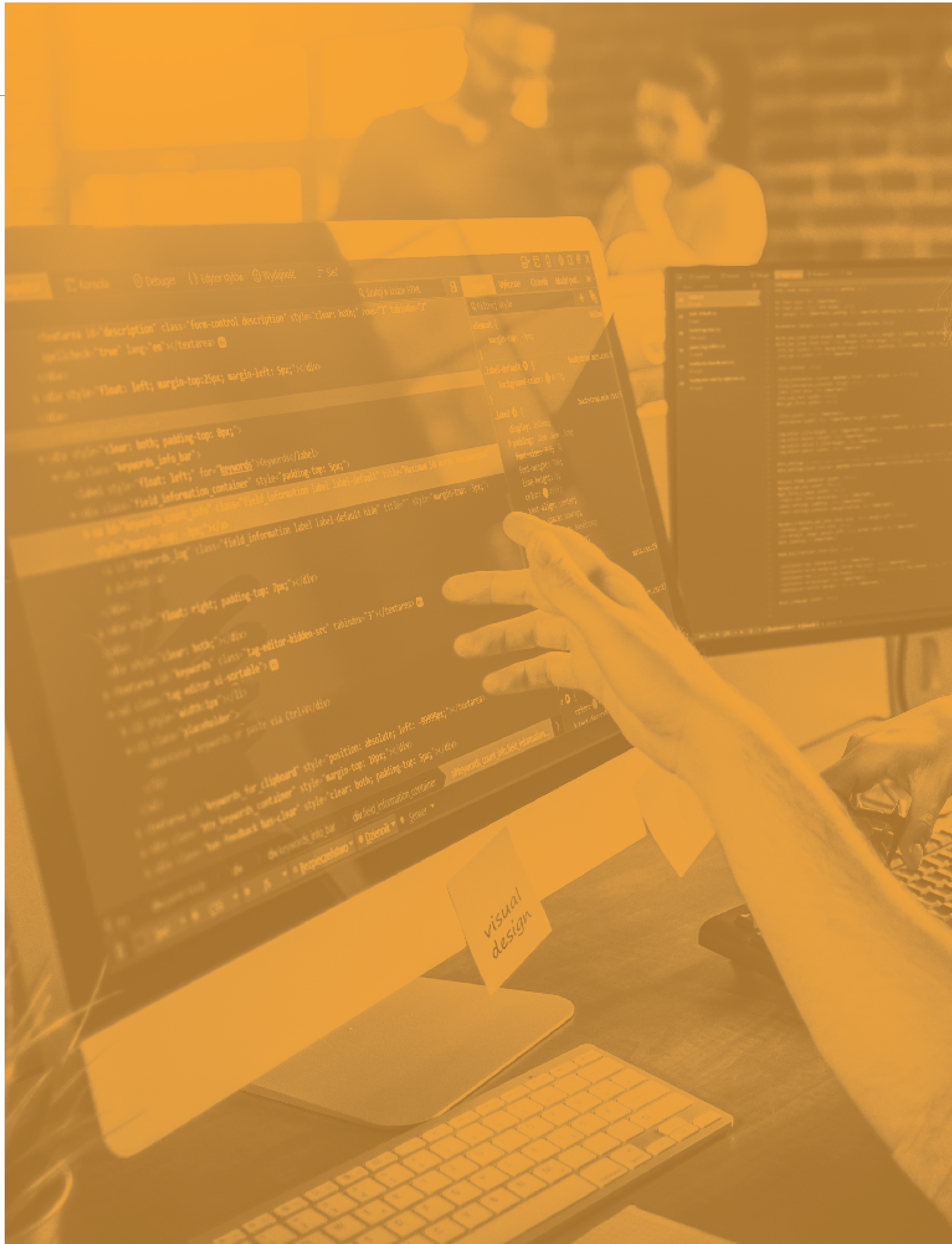
He pointed to underwriting automation software such as his own firm's Merchant ScanXpress, which is an end-to-end solution that handles much of the work, while still alerting underwriters as and when they're needed.

This channel-specific scorecard automatically reviews all merchant applications, making recommendations to approve or deny based on criteria that warrants further review, tied to credit scores, bankruptcies, or other metrics the underwriters set. Through plug-and-play configuration, it allows firms to adapt and grow as the businesses expand into new markets instantaneously. The end result is that underwriters exponentially increase their capacity for apps-per-underwriter, see higher revenue volumes and benefit from unprecedented speed-to-market.

But even the most high-tech approach needs a strong culture of change management at the underwriter, O'Brien told Webster. It's never a case of simply flipping a switch, though he noted that the software must always support configuration changes at the click of a button and have capabilities to adapt and grow with your business.

"Software is about the people as well. And so the change management part can be another big friction point," he said. Industries automate because they have to (Schlitz beer, for example, didn't shift overnight to automating, but they almost went out of business when they didn't meet the challenge head-on).

But done well, he said, there can be a network effect that can give rise to "libraries" of underwriting rules, creating different risk profiles for different verticals in a plug-and-play setting. "This is one of those cases where going faster can make things safer," he said.



Smart Underwriting Tech Helps PayFacs Balance Speed, Risk When Onboarding Merchants, Adding New Verticals

Underwriting, aided by technology — and at least some level of automation — can get faster and more intuitive, helping payment service providers (PSPs) approve merchants with speed and security.

The shift has been in the works for a while, as Stripe and Square detonated what David O'Brien, CEO at Agreement Express, described as a "nuclear bomb" on the service provider industry. That's led to a difference in expectations about how platforms, as they tap into those aforementioned firms' solutions, have been able to help merchants embed payments into their customer-facing interactions.

The very nature of who can be a merchant — and where they can ply their trade — is changing in the digital age, O'Brien told Karen Webster. Mobile devices, mobile card readers and all manner of payment acceptance conduits are changing commerce. The fruit vendor on a sidewalk in Mexico can be a merchant capable of taking contactless payments, he noted.

That changes the game for PSPs that want to enable end-to-end payments, and must at the same time recalibrate how they measure and score risk while allowing merchants to onboard and begin accepting payments.

In the bid to enable end-to-end payments, O'Brien said, "when you look at the difference between all the various models and what's out there" when it comes to merchant onboarding and payments facilitation, providers need to staff strategy war rooms, mulling in which direction they ultimately want to go.

There, nuances mean ... well, everything. Generally speaking, PayFacs need less data than other providers. "So on the front end, as far as underwriting, they can make it go much faster," O'Brien told Webster.

And speed is what everybody wants — but it doesn't trump everything else. O'Brien noted that PayFac solutions tend to be "out of the box," and can result in higher costs for merchants (and, by extension, their end customers), and may have

transaction volume limits. The result may be a bit counterintuitive amid the great digital shift — namely, individuals may be prodded to pay in cash.

How expensive can it get? As O'Brien told Webster: "I know of one software vendor that makes more money on payments than on their software business."

On the traditional side of the equation, there's more underwriting, but speed is (relatively) lacking. Choose the wrong underwriting setup, and the damage can snowball quickly for several reasons.

First, a PayFac might only be paying a few hundred dollars a month for cookie-cutter underwriting services, but a huge chunk of would-be merchants are rejected. The lost potential in onboarded merchants due to ineffective services will end up costing the payment facilitators much more than the service fee.

Second is fraud protection: payment service providers that use less sophisticated underwriting tools leave themselves exposed to significant fraud and chargeback exposure. Using a robust underwriting platform can mitigate this risk by thoroughly checking business owners against global sanctions lists and performing detailed KYC checks on the business, including the Better Business Bureau rating. Monitoring chargeback ratios and payments volume will ensure that the PayFac reduces its long-term exposure to fines and penalties.

Over time, and to move toward the optimal balance, the great digital shift demands that all providers offer a great onboarding experience to merchants, enabling them to take on payments and start offering a range of choices to their end customers while speeding things up. Monetizing payments and judiciously taking on risk can transform service providers into valued partners marked by strong momentum, said O'Brien.

But getting there involves far more than simply embracing advanced technologies. Strategy is key — and strategy entails PSPs looking in the proverbial mirror to examine just where they want to go. As O'Brien told Webster, these days, automation is table stakes — it all boils down to what's being automated, freeing up critical resources to add value for merchants and taking non-crucial human interaction out of the equation.

"It's not just 'let's automate our tasks and integrations and then we're fine,'" said O'Brien. *Really* winning — and gaining merchants' trust and business — is about flexibility and control. The PayFac or ISO that does not have a grasp on data-driven decision-making will run into problems down the road, he said. Data is what enables end-to-end payments, where the comprehensive collection of data can help providers determine in a "flag up/flag down" decision whether a merchant should be onboarded and allowed to process payments immediately. It all depends on the PSP's risk appetite.

"We've got a customer who literally wants to auto-approve 90 percent of what they'd typically approve anyway, and have those merchants processing payments the same day — and with anything less than that, things will fall behind very quickly," he predicted.

Expanding Abilities With Automated Underwriting Technology

The times have been rapidly changing, noted O'Brien: "Even at Agreement Express, if you were to come to us a year ago with a certain SaaS vertical you were going after — such as real estate — and you decided to go after a *different* vertical, like childcare, it would (historically) take months to set up that vertical, because you'd be trying to figure out a whole new approach and what information you need." Against that backdrop, development teams would get cracking, codes would be written … and that process would be lengthy and expensive.

And today, said O'Brien, "it takes just a few hours. That's the beauty of technology and configurability." That flexibility lets Agreement Express' clients enter with the flip of a few "switches" and templates. But strong change management is needed to make sure the technology works the way it should — and that starts at the top, in the C-suite.

The benefits accrue quickly for the PayFacs/ISOs that help merchants quickly get off the ground, going direct to consumer with increasing frequency, even if they've never had an eCommerce presence. The stage is also set for B2B firms to embrace digital means of paying and getting paid, which opens the door to more opportunities for PSPs (who have to make sure they're underwriting quality merchants, noted O'Brien).

Of the balance between speed and safety, of getting PayFacs and ISOs firmly into the digital age, he said, the goal is to "give them the keys — which gives them the ability to dance."

Automated Underwriting Gives PayFacs, PSPs Competitive Leg Up

Anyone who remembers the cover art from the film “The Perfect Storm” recalls a vast wave looming over a small fishing boat. That’s the image that Agreement Express’ CEO David O’Brien conjured in a recent conversation with PYMNTS on how payment firms must ride out the squalls of competition.

“I very much look at things that way in the payments industry today,” O’Brien said. “You’ve got the changing client experience. What I wanted [as a consumer] three years ago versus today is vastly different. The industry needs to keep up with that. And look at the changes the pandemic has delivered. You never would have

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If you look at the disruptors and their growth, **if there’s one thing they’ve done right, it’s the focus on consumer experience.**

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thought there’d be grandmothers on Zoom. People think technology change is linear, and it is not. It’s actually exponential.”

That exponential change is challenging to many who are trying to grow their portfolios and increase their processing volume, while also attempting to manage risk levels. Trying to juggle an increasing portfolio in uncertain market conditions endangers ROI, while competitors with strong partners are not only able to ride the worst waves, but can also harness that momentum to gain a competitive advantage.

When asked about the secret to remaining competitive in a payments services marketplace rife with rivals, O’Brien said: “History has spoken. Companies that have done really well have focused on the front-end, and they’ve been able to create a seamless onboarding experience. This enables merchants to start processing payments quicker than ever before.”

He noted that the firm has seen a trend where companies that have solved the puzzle of scaling merchant acquisition and underwriting tend to either get acquired or become a successful acquirer, tapping into higher valuations for acquisitions.

“If you look at the disruptors and their growth, if there’s one thing they’ve done right, it’s the focus on consumer experience. That’s going to be the laser focus [for the strongest competitors] as we roll forward,” he predicted.

Clearing Bottlenecks Like An Amazon, But Faster

Addressing the growth plateau still commonly faced by PayFacs and PSPs, O’Brien said, “A lot of that has to do with what has changed in the world [with] consumers. You look at Amazon and [it’s] fast and easy, to the point of [being] absolutely ridiculous.”

However, in the age of one-click commerce, even the proven traditional Amazon buying experience might not be enough anymore, he said — and that should have PayFacs on alert. “You look at how easy and great it was, and even that wasn’t good enough. So they introduced the one-click buy feature. There’s a reason for that: We want it faster, tighter and better. The same thing goes on in the payments industry — it's what merchants are expecting."

Companies like Stripe are so successful because they ask for the absolute minimum upfront and get a merchant set up within minutes. There are now many payment providers that deliver a lot of value to their merchants, but they're struggling because they can't get this one piece right. Any so-called solution that takes days instead of hours for a merchant to be onboarded draws an instant negative inference – and that's a hard truth in the remote onboarding space, which is getting crowded and competitive as payments go horizontal.

According to O'Brien, entrepreneurs and business owners want a "fast, seamless experience. It can't be bottlenecked by a bunch of bad workflows, human intervention or things like that. It absolutely must be seamless."

Study The Competition — With Urgency

When going up against the giants of payments disruption — Square, for example — it pays to study why they created a simple digital payments solution that effectively galvanized SMBs into a base to compete with the Amazons and Walmarts of the world on a more level tech playing field.

"If you're not studying what folks like Square are doing … you absolutely have to. You've got to embed it into your [own] strategy … by looking at [their] success and what they've accomplished," O'Brien said, summing up Square's triumph as follows: "The biggest difference [is that] they [believe] the payment should just be a communication. Again, [it should be] completely seamless and easy, so that when you go to a merchant to sign up, you're not talking about days, you're literally talking about hours."

As PSPs and PayFacs seek out merchant clients in new markets, they're under new margin pressures and competitive threats, which means investments in key operational areas can lead to dividends down the line. That's where automated underwriting can have a dramatic impact.

Noting the accelerated pace of technological change in the waning days of the pandemic, O'Brien said, "You've got ROI needed. You've got pressure on payment fees. So, a lot less money for [PayFacs] to invest into change. Therefore, you need to have improved underwriting. You need to have the tools to be better … and you've got to do it faster."

"Overlaying all of this is urgency, the market is moving quickly," O'Brien told PYMNTS. "You have a sense of urgency today, or a sense of regret tomorrow. It's a very fascinating time to be in this industry."

> **… [Payments should be] completely seamless and easy,** so that when you go to a merchant to sign up, you're not talking about days, you're literally talking about hours.

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Agreement Express is the leading client onboarding automation provider for financial services. The platform allows wealth management and payments companies to deliver a consistent customer application, approval, and onboarding experience across their product offerings & channels. The platform is the first of its kind to help top performing firms gather, use, and re-use client data to improve and evolve rich customer experiences.

Agreement Express enables Fortune 500 financial institutions around the world to provide best-in-class digital experiences to their customers, and integrate to the back-office for streamlined compliance and risk workflows.

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