If You Can't Onboard Merchants in Minutes

YOUR COMPETITORS CAN

"In Europe alone, we have over 55,000 merchants already, who see between a 20-30% increase by using and partnering with Klarna."

– MIKAEL HUSSAIN,
VICE PRESIDENT OF CREDIT, KLARNA

The complexity of the merchant onboarding process for acquirer banks is quite staggering. The acquirer must ensure the merchant is compliant with KYC and other governmental regulations; determine credit worthiness and finally complete the activation process. At each point in the process, acquirers must aggregate, analyze and manage extensive amounts of data before allowing a merchant to start transacting payments.

For many acquirers, this can be a three to five day activity. Perhaps this wouldn't be a problem if merchants had the patience to wait days to be approved and activated. But that is no longer the case.

Merchants now expect immediate response, demanding the ability to sign up and be approved for cards acceptance in a few minutes just like end customers who can apply for a credit card and get instant approval.

As merchant card services become more of a commodity, speedy, client-focused onboarding has become a strategic differentiator. Software disruptors like Square and PayPal who have entered the acquirer space know this, and are using automation to reduce the merchant onboarding process to minutes. However, acquirers must be careful not to skimp on underwriting, trading data integrity and accuracy for speed. Failing to comply with KYC and other regulations can result in severe fines, while improperly determining a merchant's credit worthiness increases the risk of losses. Merchant onboarding needs to balance all of these issues–rapid response, regulatory compliance and accurate risk management.

Onboarding Merchants

Customer Data Verification (KYC)

- Collection of necessary documents, supporting information
- Verification of static data such as address, location, account information
- Commercial history (length of time in business)
- Merchant Industry (MIC)
- Basic KYC checks (OFAC, PEP checks)
- Ownership structure / ultimate beneficial ownership
- Blacklist checks
- In eCommerce: web crawler to detect negative traffic

Counterparty Credit Check

- Credit score (e.g. Fico, internal models)
- Merchant Industry Code (determines risk of non-delivery exposure) such as travel, leisure and non-physical goods
- Assessment of transactions volume, geographic footprint, FX risk
- Risk based pricing
- Commercial background of managers and corporations (how long in business, in industry)

Activation

- Upload of supporting documents
- Capture of all data
- Check if all data is complete, accurate
- Does KYC and Counterparty credit check both point to approval?
- Activation of customer, ready to accept and transact payments in cards

While automation can be instrumental to achieving a more efficient, customer-focused onboarding experience, it is important to make sure the technology is suited to fast, accurate and reliable onboarding. **There are three important capabilities to keep in mind when looking for automation to transform the merchant onboarding process:**

1. Integration of internal systems, data services, databases, and disparate systems shouldn't take weeks or months. Consider a platform that comes equipped with pre-integrated adapters to **integrate** quickly and make efficient use of internal and external data and related systems.

2. Use out of the box tools to help you rapidly **operationalize risk models** like Excel, R, SAS, and PMML.

3. Cloud-enabled onboarding. Both private and public clouds are safer than ever before. When you leverage cloud technology, you can start streamlining onboarding processes and adjust critical analysis for immediate improvement to efficiency and productivity.

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Simplified Data Integration

Consider all the data sources needed to complete the verification requirements for just one merchant:

Process Step	Integration Requirements
Customer data, commercial data, bank account information	Input in mainframe system (e.g. SAP BP), also connected to ERM system such as Salesforce.com
Address verification	Web services that offer addresses and ZIP code verification via instant web check
Internet check (Negative entries about business, owners, managers)	System such as Webshield and other web crawlers that assess the merchant
Supporting documents	Document Management System as part of mainframe or standalone
Scheme blacklist check and Merchant Industry Code assignment	Schemes blacklist (Match or VMAS)
KYC – Politically exposed persons	Government databases (BSA/OFAC in USA, AML Anti-Terrorism Directive) via 3rd party provider
KYC – AML and Terrorist blacklist check	Government databases (BSA/OFAC in USA, AML Anti-Terrorism Directive EU) via 3rd party provider
KYC – Ultimate beneficial ownership information	3rd party providers via web or batch that provide such data (D&B, Bisnode, BvD) and information from merchant boarding form

This is by no means an exhaustive list of data that must be collected and processed. Once the customer verification process is done, the acquirer must tap FICO systems, internal or external risk models, fraud and treasury systems, MasterCard and Visa payments infrastructure, the acquirer's payments processing platform and more to determine credit worthiness, activate the merchant and monitor the account.

For many acquirers, capturing all this data presents a significant stumbling block, requiring too much manual effort and time, particularly when dealing with legacy systems that are not linked together. Well-thought out integration capabilities can automate the process, rapidly aggregating all of the data for multiple, heterogeneous sources. This requires capabilities that combine real-time (and batch) connection to multiple data sources with simple ways to configure these links. The best solutions offer pre-built adaptors built on industry standards.

Equally important are visual integration interfaces that eliminate programming, enabling both IT and business analysts to quickly configure the data elements needed from each system.

The solution should include adaptors not only for systems and databases, but document and content management systems as well so that documents are automatically attached to and travel with a merchant application.

Operationalized Risk Models

Acquirers make sizeable investments in developing risk models or purchasing them from companies like Dun and Bradstreet, Bisnode and Creditsafe. However, without a way to integrate these models into the onboarding process, the risk decision-making point becomes another bottleneck, slowing down onboarding and increasing risk with manual, error-prone credit checks.

Risk analytics and decision making can become fast and simple with a solution that provides an easy way to operationalize industry-standard risk models, such as SAS, Excel and R models, within an onboarding process. Look for a visual configuration interface that makes it easy to map the input data the model needs to execute the analysis, and the output data that will be returned to the onboarding process once the model has executed.

Using operationalized risk models gives acquirers the opportunity to fully automate credit checks and risk decisions. This is a very efficient way to manage risk where the process is well understood, standardized and repeatable, such as for small to medium-sized merchants. In these cases, straight-through processing is possible for nearly instant decision making and approval of merchant applications. Using business-defined rules, an automated and digitized process can instantly and without manual labor determine the specific terms and conditions for each merchant as well as identify exceptions that require further investigations.

Cloud-Powered Onboarding

Turning merchant onboarding into a business differentiator often requires going where the clients are. Today, they are everywhere, using the Web, mobile phones, tablets and other devices to do business. Serving merchants means acquirers must take advantage of the cloud to offer the level of onboarding service they expect.

Using the cloud can create anxiety for acquirers who are rightly concerned about the security and privacy of merchant data. But sophisticated modern cloud offerings are built to allay these concerns by leveraging proven cloud environments such as Amazon Web Services. They also create private virtual cloud deployments with robust industry-standard encryption to keep data, resources and billing secure. In addition, the cloud offers greater business flexibility and cost advantages, as development and deployment environments can be established quickly without heavy infrastructure investment, and implementations can be scaled up or down for precise load management.

With payment services becoming more and more of a commodity, merchant onboarding can be a valuable selling point, offering acquirers a unique opportunity to showcase their value to clients. Using automation and digitization technologies that focus on reducing the complexity of the process, enable rapid, highly accurate risk decisions and support both the e-commerce and physical store merchants, acquirers can successfully balance demand for fast-even instant-onboarding with the need to ensure compliance, reduce business risk and control costs.

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