Infinicept

Infinite Acceptance

Meet a Government Requirement *and* Improve the Customer Experience *at the Same Time?*

Huh?

FinCEN's Beneficial Ownership Rule Takes Effect on May 11, 2018

The safety and security of the payments system is critically important to every player in the acquiring chain, from the card networks to the acquiring financial institutions to the merchants and everyone in between. Keeping the system safe from bad actors is the responsibility of those who are enabling access to it.

An upcoming change to a rule casually known as "beneficial ownership" is adding to financial institutions' responsibilities on this front. It's intended to make sure that these entities — and the businesses conducting onboarding activities on their behalf — know the people and businesses they're dealing with.

But for payment facilitators (PFs), who are laser-focused on merchant experience, new compliance activities can be somewhat daunting. A better, more frictionless boarding process is the PF's lifeblood. So how do you adhere to new rules without making the onboarding process more unwieldy?

Fortunately, the PF model is increasingly supported with technology and expertise to help meet both compliance obligations and merchant expectations.

Major Considerations for Payment Facilitators

- *Create an exceptional customer experience by leveraging a dynamic, flexible application*
- *Automatically conduct KYC checks on all owners prior to the underwriting decision (auto approved or manually reviewed)*

Beneficial Ownership Rule: The details

The Financial Crimes Enforcement Network (FinCEN), part of the U.S. Department of the Treasury, is responsible for interpreting and enforcing the Bank Secrecy Act (BSA) and its anti-money laundering (AML) regulations.

Among other obligations, the BSA requires banks and other financial institutions to verify the identity of their customers. These requirements are referred to as Customer Identification Program (CIP) and Customer Due Diligence (CDD). Together, they're known as "Know Your Customer," or KYC, procedures.

On May 11, 2016, FinCEN published a rule that strengthened KYC requirements. The new rule now requires "covered institutions" to implement due diligence procedures to identify and verify the beneficial owners of all legal entity customers at the time of account opening. (Previously, banks were permitted to conduct these checks based on their own risk assessments.)

Covered institutions are federally regulated financial institutions (e.g., banks, credit unions, mutual funds, broker-dealers). They will be required to establish and maintain written procedures designed to identify and verify beneficial owners of "legal entity" customers.

Legal entity customers include corporations, limited liability companies, general partnerships, and similar entities formed under foreign jurisdiction laws. They do not include sole proprietorships, unincorporated associations, or natural persons opening accounts on their own behalf.

Starting May 11, 2018, the new beneficial ownership rules kick in, and will require these covered institutions to obtain from their legal entity customers the identity of (1) beneficial owners of 25% or more; and (2) a single individual with significant control over the entity.

On April 3, 2018, FinCEN published a set of frequently asked questions. You can read them here.

What Does All of This Mean to Payment Facilitators... and Why Should You Care?

While the rule applies directly to financial institutions, payment facilitators are typically going to be expected to conduct the appropriate KYC activities on their submerchants. Best practices dictate that PFs conduct the underwriting activities needed to protect the payments system from criminal activity and in many cases, contractual relationships with banks will require it.

So, if a payment facilitator is already collecting sub-merchant ownership information, chances are they are doing so because their bank sponsor requires it. As noted, the current, pre-May 2018 obligation to collect beneficial ownership information is "risk-based" and is left to each bank's independent risk assessment.

So, for example, if your bank's risk assessment dictates that individuals that own or control 50% or more of the sub-merchant need to be identified, then you may already be collecting beneficial ownership information on a limited basis. In all likelihood, then, the new, stricter requirements will be passed on to you in some form as well.

Then the question becomes, how do you add these new requirements to your onboarding process without making it more cumbersome for your customers, threatening your market differentiation?

Can Technology Help Save the Day?

The road to meet these new requirements and implement a new process like this can seem daunting to say the least, but the technology supporting the payments system is not what it used to be and can certainly help in this situation.

As previously mentioned, there are many unique scenarios — such as sole proprietorships, non-profits, public corporations and government entities — that are treated differently from an onboarding perspective. The technology of old would treat each of these scenarios the same.

However, the ability to deal differently with different scenarios can be built into the PF platform so you can get the information you need without burdening people who aren't affected.

Having a flexible onboarding application that can ask only the questions you need to ask depending on criteria you've built into it — while simultaneously conducting KYC checks on all of the owners collected — is a major improvement from what most payments providers do today.

In addition to the KYC PFs must do at account opening, they need a flexible way to investigate that merchant applicant as appropriate for the risk. So, depending on the individual situation, they may perform just basic KYC, OFAC, website checks and MATCH checks at merchant sign-up. Then they may perform more checks at first authorization or first transaction, and additional checks at certain volume thresholds.

The technology to accomplish all of this is available, enabling PFs to use smart logic to keep the merchant onboarding process as streamlined as possible.

The key is to combine technology with expertise and best practices.

Meeting the Requirements and Actually Improving the Customer Experience at the Same Time is Possible

The key is to combine technology with expertise and best practices. Expertise in compliance without technology can lead to an overly burdensome system that puts everyone through the same process regardless of their individual requirements. But technology without expertise can get you in a lot of trouble.

If your provider doesn't truly understand the payments business and the innovative ways you can safely achieve compliance while preventing friction, you may find your operation is hobbled or — worse — shut down for noncompliance.

But if your provider does have the deep understanding, you can use that technology to your advantage and actually improve the merchant experience.

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About Infinicept

Infinicept is a technology company focused on providing an innovative, turnkey payments platform for payment facilitators. The system, colloquially called Payment Facilitator in a Box™, is a fully integrated suite of components that make it possible for Payment Facilitators to get up and running in weeks, not years.

The platform includes frictionless merchant acceptance, underwriting, boarding and back office operations for the payment facilitator marketplace that is expected to top $4.4 billion by 2021. The platform is a series of automated modules that can be adapted to any vertical market. Its unique, agnostic framework allows payment facilitators to easily integrate their platform with any sponsor, processor, gateway and CRM without starting from scratch.