Financial Benefits and Costs of Card Issuing Models

In this article we will focus on the three **main business models of cooperation in card issuing programs:** co-brand, affiliate license and principal membership. We will explain the key advantages and disadvantages of each model.

Co-brand

The easiest model of all. Our BIN sponsors create a new card visual for you, we dedicate a BIN range, and you can issue cards. All settlements are done between the partner and the BIN sponsor. There is no contractual direct relation between the partner and the payment scheme (VISA or Mastercard). The partner usually receives 90-100% of interchange fee and vast majority of currency conversion revenues. In this case the partner needs to provide a collateral to the BIN sponsor – usually 4-5 days of the forecasted turnover. This model is the most cost effective one – no big operations on the partner side, no licensing costs, no difficult implementations. You can go live with your program within 1-2 months for around 10-20k EUR.

The main disadvantage is that the BIN sponsor will have to have contract with partners' users as formally they open a payment account and get a payment card from the BIN sponsor.

Affiliate license

An affiliate license is the first step to your own license. The partner wants to have a direct relationship with the payment scheme and the partner must have a payment license in the country (like EMI). The partner wants to see a detailed cost split and cost of payment organizations. Our BIN sponsor will register the partner at Mastercard as an affiliate licensee. Mastercard will do a verification of the partner and will approve the application – additional 3-4 months will be needed for the project. In this model, the Partner will usually get a detailed split of Mastercard fees and 100% of interchange. For settlements and fees the partner will be settling with the BIN sponsor / our payment institution. The partner will have to pay an additional collateral and additional Mastercard fees (around 2-4k EUR per month). A big advantage is that there will be no additional contract with users – just the partner contract with users. A slight advantage and disadvantage is that the partner can usually see all info about the settlements with Mastercard for his/her cards.

The main disadvantages are time (extra 3-4 months) and additional costs.

Principal license

The most sophisticated and most difficult model of cooperation with a payment scheme. The partner must be a payment institution in the country working under the regulatory approval. There will be no BIN sponsor involved in such a project as the partner will have their own license. In this case Verestro will act as a card issuing processor supporting the partner in integrations and operations with Mastercard or VISA. The partner will have to pay collateral to Mastercard and VISA (usually from zero at the beginning to millions of EUR if you issued 100.000 cards), so the liquidity will be needed for operations. The partner will settle transactions directly with the payment scheme through settlement banks where accounts will have to be opened. The partner will get 100% of interchange fee and all currency conversion revenues. The partner will have to take care of plastic card operations, chargebacks, settlements, liquidity etc. You will need 5-10 people minimum to perform those operations. The users will have a contract with the partner only.

The main disadvantage is cost (additional 100-150k EUR to be paid to payment schemes) and time of implementation (5-10 months).

In summary:

- **Co-brand** – use it when you want to go live quickly and pay little; use it when you are not sure if you issue >200.000 cards
- **Affiliate** – use it in specific cases only if you must have a license for whatever reason and you want to avoid that your customers sign a contract with an external institution
- **Principal** – use it when you are big enough, you are sure you can issue >200.000 cards, make sure you have enough money (>1mln EUR) for liquidity and cost of operations

Sometimes, the best model is to start with a co-brand license and migrate to a principal license once you grow. We can help you with this scenario, so you won't have to make those difficult decisions. The migration process could be very smooth in such cases.

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