Payouts to Cards & Money Transfers

Here you can find information about money transfers to Mastercard and VISA cards.

Payout to Cards

How does Payout to Cards work? Payout to Cards is a relatively new area of payment business that is not very common, so this article brings more information about it.

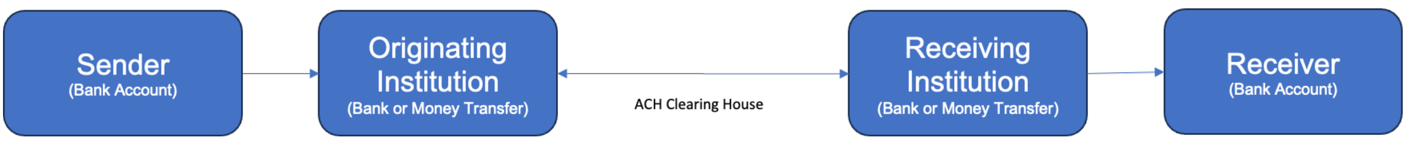
What is Payout to Cards? Actually, the answer is simple. It is nothing more than a normal bank transfer, but made to a card number instead of a bank account number.

Transfers to bank accounts are pretty common and I guess we understand how they work. A bank or another financial institution connects to Automated Clearing House (usually National Clearing Center or National Bank or inter-bank organization), implements the solution on both frontend (internet banking, mobile banking, internal systems) and backend (integration with core-banking system and ACH), and once Customer wants to send money and enters IBAN (bank account) of the receiver, the transfer is performed. In such a case the bank sends technical information to ACH and sends money or performs settlement either with another bank or National Bank, or any other payment organization responsible for this transfer.

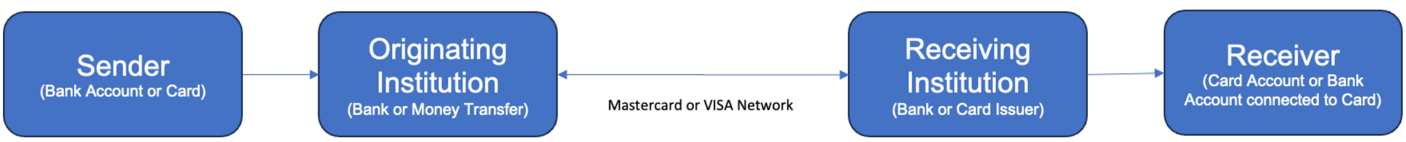
Payouts to cards work completely in the same way, but the money transfer is done to Mastercard or VISA cards. At Mastercard, this solution is called "MoneySend" (sometimes Mastercard Send or Cross-Border Send), while at VISA it is called "VISA Direct". In case of such a transaction Customer of the bank or any other money transfer organization initiates payment via the Internet or mobile application and sends money to the Primary Account Number (card number) of the receiver. The settlement of money happens via the Mastercard and VISA networks - actually through settlement bank accounts registered at Mastercard and VISA to perform a card transaction. Money is taken from the settlement account of Originating Institution (sending institution) to the settlement account of Receiving Institution.

We present this on the chart below.

Standard Banking Transfer



Payout to Card



In fact, there are not many differences between a standard bank transfer and Payout to Cards. Real differences are a natural result of using payment cards to process transactions. The main differences are:

- **Pricing** - obviously pricing of such a Payout to Cards is different than a standard banking transfer - usually more expensive. This is the outcome of the pricing policy of VISA and Mastercard. Nothing else. On average, Payout to Card costs around 0,5-1% + 0,1-0,8 EUR per transaction.
- **Speed of the transfer delivery** - Receiver of a Payout to Cards transaction usually receives money (globally) within 30 minutes. It is a big game changer compared to SWIFT or SEPA transfers. It really works globally. Imagine that you can send money from Brazil to Germany in 30 minutes! From Singapore to Pakistan in 30 minutes!
- **Using a card number** - Receiver needs to share his/her card number (only 16 digits) with Sender. This is a significant problem because we do not like sharing card numbers with other people. Actually we are taught that it is risky. This can impact a user conversion in many use cases.
- **Issues with a receiving network** - Sometimes it is difficult or impossible to send transactions to particular countries. For example Germany or the USA are countries where such transactions are blocked - banks usually do not accept receiving Payouts to Cards. This may be a problem for some use cases and some transaction corridors.
- **Maximum transaction value** - VISA and Mastercard decided that there are some maximum transaction values. Usually it is around 5-10k EUR or USD per transaction. There are also some monthly limits per user. It does affect the user experience but this value is growing over time.

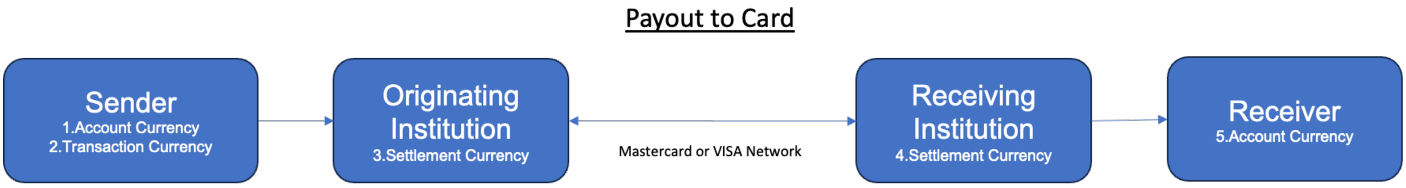
In general, it is a great functionality that works well for banks around the world as competitive to SWIFT and ACH. It gives added value to the user who wants to transfer money quickly, especially internationally. Worth considering for all money transfer organizations and banks. The implementation of Payout to Cards can be greatly simplified by Verestro and our partner payment organization Fenige. Please check us out!

Currency Management in Payouts to Cards

There are many questions about how to manage currencies in payout products. Let me briefly describe several possible scenarios.

Let's start with dependencies that have an impact on choosing various scenarios.

1. **Sender's card account currency** - first you have a user with a payment account in a particular currency, for example USD, EUR, CHF, RON etc.
2. **Transaction currency** - transaction that sending user can choose
3. **Acquirer settlement currency** - there are settlement currencies that an acquiring institution (Originating Institution) cooperating with VISA or Mastercard uses to settle money with them, for example USD, EUR, PLN. Of course, it can differ from the user account currency.
4. **Receiver's card issuer settlement currency** - a bank, which issues a card for the receiver, can have various settlement currencies with Mastercard or VISA.
5. **Receiving card settlement currency** - additionally, there is a settlement currency of the receiver's card, issued by another bank. It can be any currency, for example UAH, CZK.



That's why it is complex. At various levels of transactions there are various currencies and of course in case of currency conversion at any step various additional FX fees apply. That's why the choice of currency management strategy is not an easy one.

Additional decision factors are related to particular use cases I want to present. There are a few possible ways of offering Payouts to the user. Let's have a look at 3 scenarios:

1. **User chooses how much money in their currency they want to transfer** - example: User has an account in USD and wants to send 100 USD to a friend. User does not know if the friend has an account in USD, EUR or PLN. He/she does not care.
   - A. In such a case there is no problem if Sender and Receiver, Acquirer and Issuer have an account in the same currency as available settlement accounts of Acquirer.

Transactions will be processed and settled in the same currency through the chain. This almost always applies for USD, EUR transactions.

- B. If Sender has an account in USD, Acquirer has a settlement currency in USD, Issuer has a settlement currency in EUR, Receiver has a card account in EUR, there will be currency conversion that will happen on Receiver's side. His/her bank (card issuer) will convert the incoming USD to EUR and charge currency conversion fees.
- C. If Sender has an account in CZK, but Acquirer does not have a settlement currency in CZK, but only USD and Receiver has an account in USD, there will be conversion happening on Sender's (acquirer) side. The sending institution will convert 1000 CZK of User to USD, will charge currency conversion fees and Receiver will receive USD after conversion. Receiver's bank will not get any currency conversion fees.

2. **User chooses currency of Receiver** - Example: User has an account in USD but needs to pay 100 EUR to Receiver because he/she knows that Receiver wants to get 100 EUR.
   - D. It is possible to recognise the settlement currency of Receiver thanks to BIN tables shared through payment schemes. Thanks to it Sender will know that Receiver's card is issued in USD, so only USD will be allowed for this transaction. In such a case currency conversion will always happen on Sender's side. In case User has an account with EUR, their Acquirer (Originating Institution) will convert 100 EUR to USD and will initiate a transaction in USD. In case User account is in a different currency than the settlement account of Acquirer, additional currency conversion fees will apply and will be charged by Acquirer.
3. **User does not have a choice** - in such a case we offer only a payment in currency defined by the payment provider, for example always the same currency as the User account.
   - E. In such a case User can send only one currency. Usually the same as his/her account currency. If User's account currency is the same as the settlement account of Acquirer, the transaction will be processed as in point 1B, which means that currency conversion can happen on Receiver's side if Receiver's card currency is different from the settlement currency.
   - F. In case User can send money in the currency which is not the settlement account of Acquirer in, some additional conversion fees will apply on Acquirer's side (like in scenario 1C).

It may look complicated, but if you look at it from the point of view of currency conversion points (5 places where conversion can happen) it is easier to understand.

Our recommendation is to use Scenario 1 and focus on implementing Scenario 1A (we can enable currencies which will be the most popular for your payment corridors). In some cases our partners use Scenario 2. It is important that calculation of commissions and spread is always dynamic, so Sender knows in advance the cost of these transactions.

I hope this article can help you understand currency conversion details. Thank you for reading.

KYC requirements in Payout and Money Transfer projects

Know Your Customer (KYC) processes usually generate many questions. Key requirements and decision points are summarized in this article.

The KYC regulations are directly related to AML (Anti-Money Laundering), regulatory and payment scheme requirements. In general, any payment or banking institution has to know who their customers are, what the source of their customers' money is and how the customers use the money held by the payment institution. To limit the risk of supporting terrorist or illegal activities, regulators require payment institutions to be aware of and monitor them.

The key question in every project is: "Who is the owner of the money on the account?" There may be the following situations:

1. **CONSUMERS** - If consumers own the money on account, the KYC process has to happen. It usually means that the user (consumer - not a company) needs to provide his/her ID document or passport and selfie, a meeting or video call needs to happen to make sure that the consumer is a real person who signs a contract with the payment institution. There are many additional verification ways that the payment institution may require, but these are the main ones.
2. **BUSINESSES** - If a company owns the money, the KYB (Know Your Business) process has to happen. It usually means that the user (company owner, manager etc.) needs to provide not only his/her ID document and make a selfie or a video call, but the payment institution needs to check beneficiaries (owners of more than 25% of shares in the company).

In both cases, the payment institution is obliged to check whether the consumer, company director or company owner is on various sanctions lists, e.g. OFAC or UN sanctions lists.

The above rules are critical and in fact all other implications are results of them. In projects related to the implementation of Payout to Cards, the first question we need to answer is: "Who is the owner of the money on the account?" If the consumer is the owner of the account (scenario 1) - the consumer must go through the KYC process. If the business is an owner of the money on the account (scenario 2), the KYB process will have to happen and there will be no additional KYC.

In the majority of Payout to Cards projects we are in Scenario 2. It means that the KYB process needs to happen and there will be no additional verification of consumers. The reason for that is that we usually talk with payment institutions, wallets, fintechs that have registered users, the users have their accounts (already after KYC) and our money transfer institution will work directly with this business customer to enable Payouts from accounts of this payment institution to the receiver. The account owner will be a payment institution or a business that we work with. From a legal point of view, our customer (B2B customer) will take money from the user's account, place it on their own account and initiate a payment to the receiver from their own account. In such a situation we will do KYB, we will verify if our partner has a legal right to perform such activities and it will be enough. We will request our partners to send us some customer (Sender) data including the first name, last name, but nothing else.

In some situations there will be a need to initiate direct payments from the consumer account to the receiver - Scenario 1. In this scenario we will require that either the partner does a professional KYC process according to requirements (see above) and sends results of KYC to us, including a selfie, ID documents etc. Or in specific cases we can perform KYC on behalf of the partner.

I hope I clarified the topic. Please make sure that you define quickly if you are in scenario 1 (consumer KYC) or scenario 2 (business KYB) and you can quickly enable Payouts with us.

Thanks for reading.

Various forms of money transfers

There are multiple forms of **money transfers**. In this article we would like to summarize the most important pros and cons of every solution:

1. **SWIFT** (Society for Worldwide Interbank Financial Telecommunication) - inter-banking payment scheme enabling global transfer, International standard
    1. Pros - almost any currency; global network, unlimited amount of transfer
    2. Cons - time of transaction (sometimes a week); cost of transaction (example: 0,3%+10 usd or more); available to banks only

2. **Payouts to Cards** - using Mastercard and VISA network, global transfers, international standard
    1. Pros - almost any currency; global network; speed (even 30 minutes to transfer money between continents
    2. Cons - Cost of transaction (example: 1% + 0,5 usd), limited amount of transfer (10.000 USD)

3. **Crypto** - using cryptography to transfer value, global transfer, international standard but sometimes forbidden by law
    1. Pros - multiple but virtual currencies; global network; speed (even 5 minutes)
    2. Cons - high costs (example: 1-2%), very often forbidden by regulators, risk of losing money, needs crypto exchange involvement

4. **SEPA** (Single Euro Payment Area) - European standard or euro currency standard
    1. Pros - speed (immediately or 1 day), price (below 1 EUR)
    2. Cons - works only from EUR to EUR, works only in the European Union

5. **Payouts to wallets** - various providers offer various payouts mechanisms to multiply local wallet providers or cash-out networks
    1. Pros - localization
    2. Cons - no global standard in speed and price, usually more expensive

6. **Virtual cards** - you can issue a virtual card, send card data to the receiver and the receiver can use the card globally
    1. Pros - global standard, very quick and very cheap, receiver can use card for ATM withdrawal, POS and eCommerce payments

    2. Cons - non-standard way of sending money, receiver reluctance

7. **Local ACH** (Automated Clearing House or local scheme) - there are multiple local or national payment schemes globally that you can use once you integrate with them. Usually requires a bank license to integrate.
    1. Pros - quick and cheap, standard in the country
    2. Cons - no global standard, works only locally

If you are asking yourself which solution you should use for your user it is actually a wrong question. We recommend using all. Give choice to your users, apply various fees on various methods of transfer, let users choose the best way of payments for them. It is actually very important strategy because:

- for users in Poland SEPA transfer or local ACH are the most common ways of payments nowadays
- for users in Ukraine Payouts to cards are the most common mechanism they have been using for years
- for users in USA SWIFT or local payment schemes are the most common mechanism

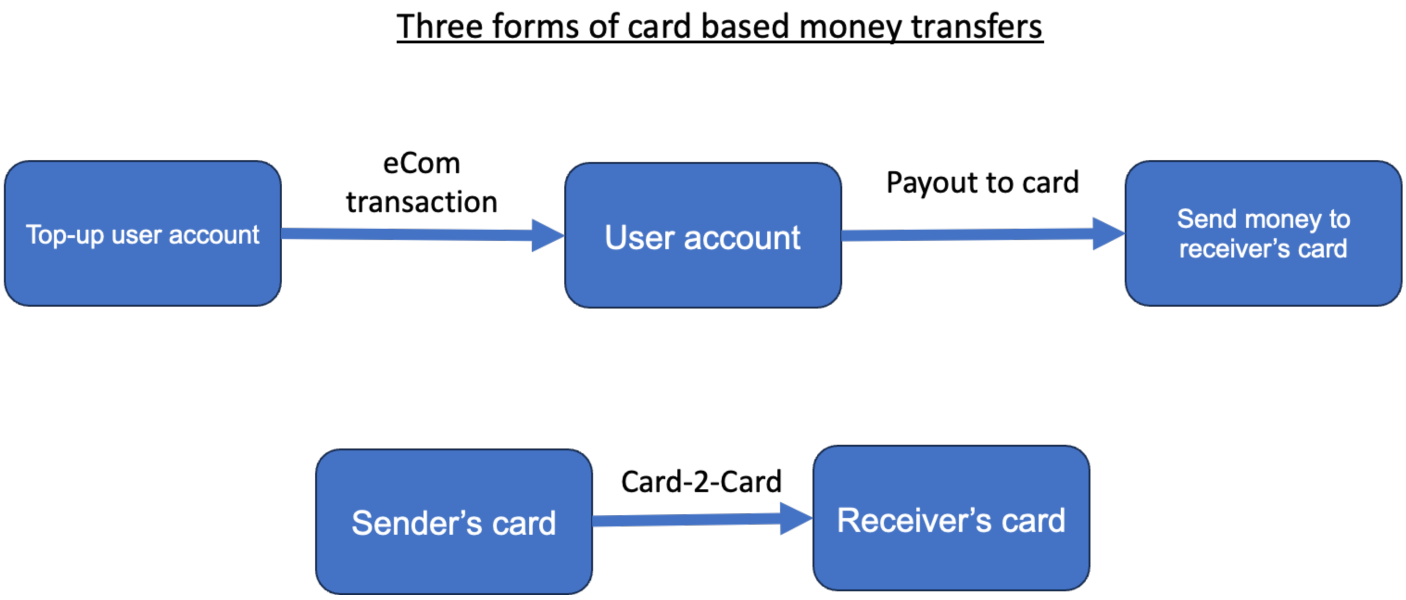
If you are building an international service, you really need multiple ways of sending money for your users.

Thanks for reading.

Payouts, eCom Transactions or Card-to-Card Payments?

While thinking about card-based money transfer solutions, our partners usually ask for three products - **payouts to cards**, **eCom transactions** or **card-to-card payments**. In this article we will describe differences between those 3 ways of money transfers.

Let me start with a chart.



There are three use cases that you may be interested in. The choice of product depends on a use case decision.

Use Case 1. **Top-up user account** - in this case our starting point is the user's account kept somewhere in your systems. Your users need to reload this account with money. You can use various forms of transfers to your account, but *if you want to reload an account from Mastercard or VISA card*, we should enable eCom transactions to you. You will be registered as a merchant with our partnering acquirers and we will enable payments using cards, Apple Pay, Google Pay or other means of payment.

Use Case 2. **Payout to card** - in this case we assume that your user has an account and money on this account. We need to enable payments from this account to any card in the world. **This money**

transfer will be very quick - less than 30 minutes. In this case you should be using our product called "Payouts to cards". This will enable your user to transfer money to any Mastercard or VISA card.

Use Case 3. **Card-2-Card** - in this case our assumption is that you do not have a user's account. You do not store the money of your users. You just want to **enable a money transfer service from one card to another card**. From Mastercard to VISA, VISA to Mastercard or Mastercard to Mastercard or VISA to VISA card. In such a case we recommend that you use our card-2-card product.

It is important not to mix those use cases and choose the correct product. All three products have different fees, AML requirements so please think of your use case and let's decide what to use.

Thanks for reading.