

Article

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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.

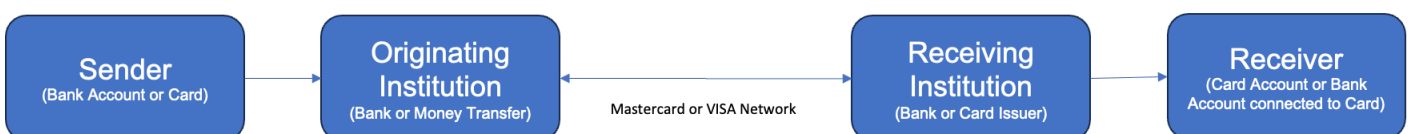
Payouts to cards work completely in the same way, but the money transfer is done to Mastercard or VISA cards. At Mastercard, this solution is called "MoneySend" (sometimes Mastercard Send or Cross-Border Send), while at VISA it is called "VISA Direct". In case of such a transaction Customer of the bank 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.

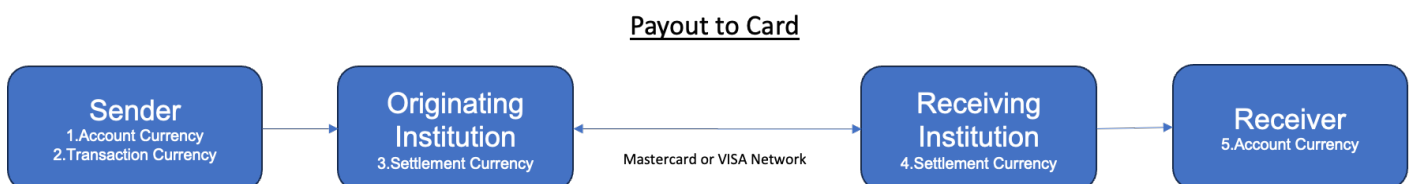
In general, it is a great functionality that works well for banks around the world as competitive to SWIFT and ACH. It gives added value to the user who wants to transfer money quickly, especially internationally. Worth considering for all money transfer organizations and banks. The implementation of 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.

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.

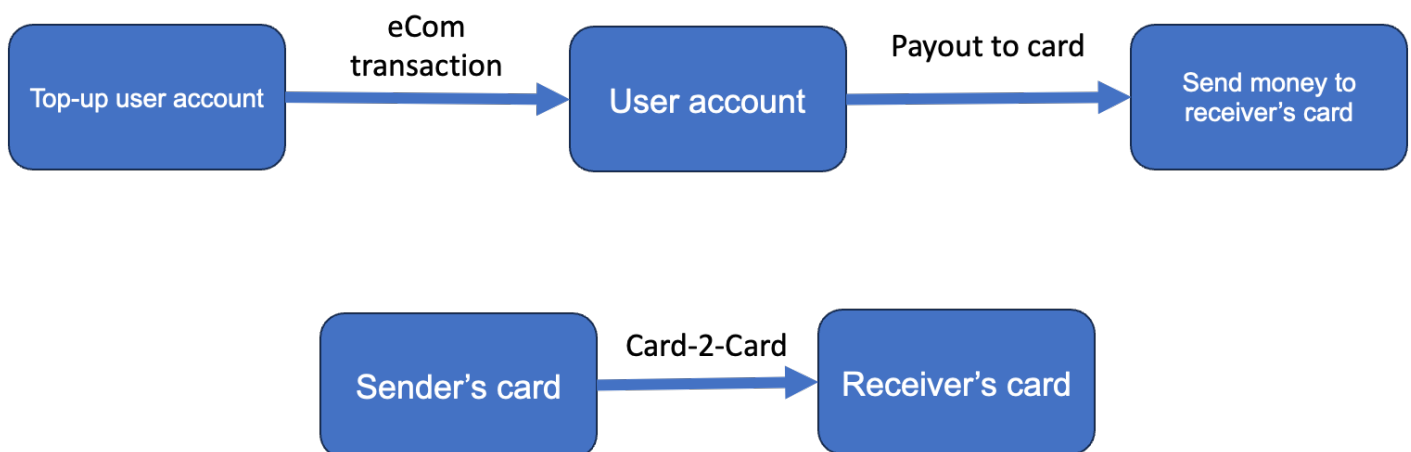
Thanks for reading.

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.

Three forms of card based money transfers



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.

Cross-Border Card Transactions – Questions about FX Rates and Cash Flow

The topic of settlements of cross-border card transactions is often touched by our customers. It is not always clear how various fees are calculated. In this article we would like to explain how it works in detail.

The standard transaction flow

In general, a **cross-border transaction** works in the same way as a **domestic transaction**:

1. The cardholder presents the card to the merchant or terminal (either online by entering card data, or in a contactless way or as a standard plastic card transaction or at an ATM).
2. The acquirer gets card and transaction data from the terminal.
3. Based on the [BIN](#) table, the acquirer sends transaction authorization to **Mastercard or VISA (Payment Schemes)**.
4. The payment scheme transfers authorization to the card issuer.
5. The card issuer approves or declines the authorization and blocks the amount on the cardholder account.
6. In case of approved transactions, the acquirer prepares a clearing file and sends it for settlement.
7. The payment scheme receives a clearing file and processes it.
8. The payment scheme takes money from the issuer settlement account and transfers it to the acquirer settlement account.
9. The payment scheme settles fees between itself, the issuer and the acquirer.
10. The merchant receives money for the transaction.
11. The acquirer charges merchant fees.

The added complexity of currency conversion in cross-border transactions

As mentioned above, this process is the same for domestic and cross-border transactions. However, in cross-border transactions the currency conversion process takes place, bringing an additional layer of complexity. As conversion applies at various moments of transaction, let me describe this in detail below:

1. Merchant and Acquirer

- a. The merchant can agree with the acquirer that they want to **receive money in one or multiple currencies**. Depending on this contract, the acquirer will transfer money to the merchant in those currencies. It is impossible that ALL currencies in the world will be used, so usually merchants want to receive money in a few main currencies
- b. The acquirer has **Settlement Services** with payment schemes in several or many currencies.
- c. Depending on the Settlement Services, if a transaction is performed in currency X, the acquirer receives money in currency X. No currency conversion cost will apply at a payment scheme.
- d. However, if the transaction is performed in currency X, but the acquirer does not have Settlement Service in this currency, the payment scheme will convert currency X to currency Y and send money to the acquirer in currency Y.
- e. The acquirer will receive currency Y on their bank account and will either convert it to the merchant settlement currency or will transfer it directly to the merchant in currency Y.
- f. Various fees charged by the acquirer can apply if the acquirer is performing currency conversion.

2. Payment Scheme

- a. As described above, acquirers have **Settlement Services enabled by Payment Schemes**. Issuers have the same.
- b. The issuer can have Settlement Service in main currencies:
 - i. Local currency
 - ii. EUR settlement
 - iii. USD settlement
 - iv. Eventually in other currencies

- c. Every new Settlement Service is a paid service, so both issuers and acquirers must decide which is the correct setup of settlement services. Depending on this decision, the Payment Scheme will perform more or less currency conversion operations and will earn fees during this process.
- d. The Payment Scheme provides issuers and acquirers with currency conversion tables which can act as a **directional FX rate** for them. However, the **real FX rate** for a particular transaction is performed at the moment of transaction settlement at the Payment Scheme.
- e. This means that if the cardholder performs a transaction, his/her issuer is never sure what will be the settlement amount for this transaction

3. Issuer and Cardholder

- a. Finally, depending on the Settlement Service agreed with the Payment Scheme, the issuer enables cards for their users.
- b. The cardholder has usually (actually always) a payment account connected with this card and the cardholder knows that he/she holds money in a particular currency enabled by his/her bank / issuer.
- c. It means that all transactions on this payment account will be charged in this particular currency.
- d. Depending on the currency of the transaction and the settlement service enabled by the payment scheme, the issuer will perform the currency conversion and charge the cardholder additional fees.

Conclusion

This topic is highly complex and depends on many factors. Issuers and acquirers must make a decision which approach is the best for them, which Settlement Services to enable with **Mastercard or VISA** and what should be the fee charged for this service because it is impossible to avoid all risks connected with currency conversion changes.