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Why are payments facilitators worth watching?

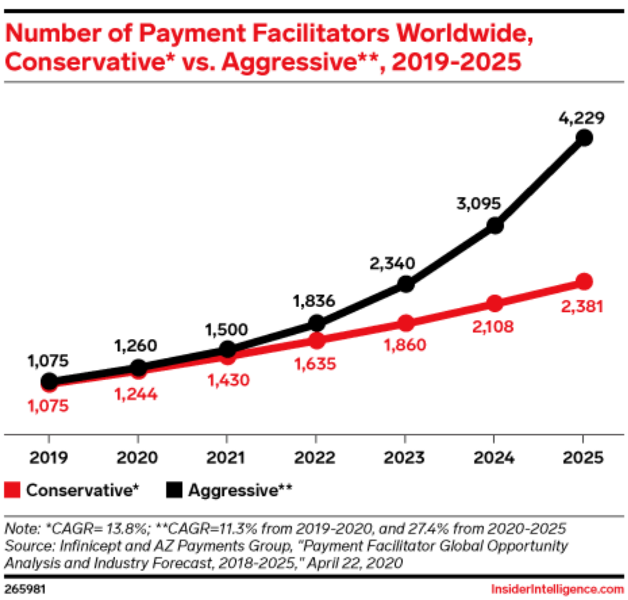
Article

First popularized by firms like PayPal and Square, the payments facilitator (payfac) model is reshaping the payments ecosystem, allowing nonpayments companies that adopt it to participate more fully in the payments revenue stream.

The payfac model is a framework that allows merchant-facing companies to embed card payments into their software—which in turn enables their customers to process payments.

Companies that implement this payment model are called payfacs. The model was created to help SMBs accept online payments more easily, specifically by providing those merchants with a simpler payment onboarding process than what has traditionally been available from ISOs and merchant service providers (MSPs).

Since Mastercard launched the first payfac program in 2010, the card network has registered more than 1,000 payfacs as of last September, while Visa has registered 600. The trend shows no signs of slowing down, enabling a variety of entities to not only enrich and deepen merchant experiences, but grow payments revenues as well.



The payfac opportunity

The payfac model enables nonpayments companies to directly participate in the payments revenue stream—a particularly hot commodity following the pandemic-driven economic downturn.

The model is also hugely influential in capturing the SMB digital payments opportunity. Compared with the traditional merchant acquiring process, which is better suited for larger merchants, payfacs simplify and shorten the merchant onboarding process and offer a straightforward, reasonable cost structure for their submerchants. By solving a multitude of SMB pain points, payfacs have been instrumental in bringing millions of smaller merchants into the digital payments ecosystem, along with the multiple billions of dollars in payment flows those merchants generate.

That opportunity is now bigger than ever: A flood of SMBs turned to payfacs as the pandemic forced retailers—especially smaller ones—to quickly ramp up ecommerce operations. The pandemic triggered a massive shift to ecommerce amid physical store closures and lingering consumer wariness about shopping indoors. Retailers had to migrate online to stay afloat: In April 2021, 43% of SMBs in the US said they consider digital payments more important to their business now than before the pandemic, according to polling by the Electronic Transactions Association and The Strawhecker Group. For SMBs digitizing their operations, payfacs became a good option due to their fast onboarding, enabling merchants to quickly begin accepting digital payments. Payfacs can also provide technology to help merchants create a frictionless ecommerce shopping experience and compete against ecommerce giants like Amazon.

The appeal of payfacs

The payfac model continues to gain momentum, thanks to the benefits it brings to key participants across the payments ecosystem. By ushering millions of new merchants into the ecosystem, the payfac model unlocks new revenue opportunities for all players in the payments chain. In this section, we cover how the payfac model benefits the payfacs themselves, and why working with a payfac appeals to submerchants and other payments players.

To learn more about the payfac model, Insider Intelligence subscribers can read our recent report:

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Payment Facilitators