Conqr White-paper

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1. Introduction

1.1 Brief on Conqr

Conqr is a FinTech company aimed at bridging the gap between the merchant and their payments provider. We have created a platform that allows merchants to optimize their cash flow by offering an innovative collateralized working capital solution. Our primary mission is to free merchants from their cash flow constraints, thereby empowering them to focus on their core business operations.

1.2 Aim of the White-paper

The aim of this white-paper is to provide a comprehensive overview of the payment processing industry, particularly focusing on the challenges businesses face due to reserve accounts and chargebacks. The paper further explores Conqr's solution to this problem and how it assists merchants by providing access to much-needed working capital. The goal is to educate readers on the intricacies of payment processing, the associated challenges, and the innovative solutions Conqr provides.

2. Payment Processing Industry Overview

2.1 Detailed Industry Overview

The payment processing industry is the backbone of all financial transactions that occur between a merchant and its customers. This complex yet crucial system involves various stakeholders and processes that ensure the secure, efficient, and successful transfer of funds.

How Payment Processing Works

The payment process involves several steps. When a customer makes a payment using a credit or debit card, the merchant's payment gateway captures the transaction data and sends it to the payment processor. The payment processor then forwards this information to the card network (like Visa or MasterCard), which communicates with the customer's bank, also known as the issuing bank. The issuing bank verifies the customer's account and checks if sufficient funds or credit are available.

Once the bank authorizes the transaction, it sends an approval back through the card network to the processor, which then relays the authorization to the merchant's payment gateway. At this point, the transaction is authorized but not yet complete. The merchant still needs to capture the transaction, which is typically done at the end of the business day. Once captured, the funds move from the issuing bank through the card network and payment processor to the merchant's bank, known as the acquiring bank.

Card Network Providers

Card network providers, also known as card associations, are major players in the payment processing landscape. The most well-known providers are Visa, MasterCard, American Express, and Discover. These networks set the rules for card usage and facilitate communication between the issuing and acquiring banks during a transaction.

Relationship Between Issuing Bank and Acquiring Bank

The issuing bank and the acquiring bank have a critical role in facilitating a transaction. The issuing bank, which issues the card to the consumer, verifies and approves transactions for the cardholder. The acquiring bank, on the other hand, accepts transactions on behalf of the merchant and deposits the funds into the merchant's account.

Introduction to Payment Processing

Payment processing as a service has evolved significantly with advancements in technology. It began with manual transactions and paper checks and moved on to credit cards, electronic payments, and now digital and mobile wallets. With each advancement, the industry has had to navigate new complexities and challenges, such as data security, fraud detection, and regulatory compliance.

Role of Major Stakeholders in Payment Processing

The payment process involves multiple stakeholders - the customer, merchant, payment gateway, payment processor, card network provider, and the issuing and acquiring banks. Each plays a distinct role in ensuring that transactions are processed smoothly and securely.

Complexities in Payment Processing

Payment processing is a complex system with multiple parties involved. It must be robust and secure to prevent fraudulent transactions while also being efficient and user-friendly. It involves handling sensitive data, complying with a myriad of regulations, managing risks, and maintaining high availability and performance.

Revenue Models in Payment Processing

Payment processors make money in several ways. They often charge transaction fees, which are typically a percentage of the transaction amount plus a fixed fee. They may also have additional fees for services like chargeback handling and account security.

2.2 Types of Payment Providers

In the payment industry, there are two main types of payment providers - payment aggregators and traditional payment processors. Payment aggregators, such as PayPal or Stripe, allow businesses to accept online payments without having to set up a merchant account with a bank. They pool together transactions from many businesses into one merchant account.

Traditional payment processors, on the other hand, facilitate transactions between the merchant and customer through the merchant's own bank account. They offer a more customized solution but may require more complex setup and higher fees.

2.3 Underwriting and Onboarding Process

The underwriting and onboarding process for a merchant varies depending on whether they are working with a payment aggregator or a traditional payment processor. Aggregators usually have a simpler and quicker onboarding process, with less rigorous underwriting procedures. They can do this because they aggregate risk across a large number of merchants.

Traditional payment processors, on the other hand, need to assess each merchant individually. They review the merchant's financial health, the nature of their business, their credit history, and any risk factors associated with their industry. This process can be more time-consuming and complex, but it can also lead to more tailored service and pricing for the merchant.

2.4 Importance of Payment Processing in the Current Business Environment

In today's digital age, payment processing is more crucial than ever. Businesses need to accept a variety of payment methods, from credit and debit cards to mobile wallets and online payments, to meet customer expectations. A reliable, secure, and efficient payment processing system can help businesses increase sales, improve customer satisfaction, and grow their business.

3. Chargebacks in Payment Processing

3.1 Understanding Chargebacks

A chargeback, in the realm of payment processing, is a return of funds to a consumer, initiated by the issuing bank of the instrument used by a consumer to settle a debt. Essentially, it's a reversal of a credit card payment that comes directly from the bank.

Chargebacks were introduced as a form of consumer protection, allowing cardholders to dispute a transaction if they didn't receive the goods or services they paid for, or if someone used their card without their permission. While this protection is a crucial component of the payment system, it also introduces another layer of complexity for merchants.

Chargebacks can occur due to a myriad of reasons. Some of the most common ones include customer disputes, fraud (both by customers and third-party fraudsters), processing errors, and authorization issues.

3.2 Understanding Different Types of Chargeback Fraud

Chargeback fraud, often dubbed as 'friendly fraud,' is an ever-growing problem in the payment processing industry. This occurs when a customer makes a purchase with their own credit card, and then requests a chargeback from the issuing bank after receiving the purchased goods or services. They falsely claim that they didn't receive the item, it was defective, they were charged multiple times, or they didn't authorize the transaction.

Another type of chargeback fraud is 'malicious fraud,' where a criminal uses stolen card information to make purchases. When the true cardholder becomes aware of the unauthorized charges, they request a chargeback from their bank.

3.3 Statistics and Trends in Chargebacks and Payments Fraud

Chargebacks and payment fraud have been on a steady rise over the past few years. According to a report by Juniper Research, online payment fraud losses are predicted to reach $206 billion cumulatively between 2021 and 2025.

The rise in eCommerce, especially due to the COVID-19 pandemic, has escalated the risk of chargebacks and online fraud. More online transactions mean more opportunities for cybercriminals to exploit weak points in the payment ecosystem. Businesses, especially in high-risk sectors like eCommerce and information products, have had to increase their vigilance and efforts to combat fraud.

3.4 Impact of Chargebacks on Businesses and the Industry

Chargebacks have a significant impact on businesses. They lead to lost revenue, increased processing fees, and the possibility of losing the ability to accept credit card payments if a business's chargeback ratio is too high. In addition to the direct costs, there are indirect costs such as operational costs of dealing with chargebacks, loss of merchandise, and reputational damage.

At an industry level, the increase in chargebacks has led to tighter rules and regulations, higher standards for data security, and increased scrutiny of merchants. This means businesses need to invest more in fraud prevention, secure payment technologies, and chargeback management tools.

3.5 Best Practices for Chargeback Management and Prevention

Effective chargeback management and prevention require a comprehensive approach. It includes using fraud detection tools, adhering to best practices for payment processing, providing excellent customer service, and maintaining meticulous records.

For online transactions, implementing secure payment technologies like 3D Secure can significantly reduce fraud-related chargebacks. Also, regular reconciliation of transactions can help identify and correct processing errors, one of the common causes of chargebacks.

In conclusion, chargebacks are a complex issue in the payment processing industry that require ongoing attention and proactive management. Businesses need to stay updated on the latest trends and technologies to protect themselves and provide a secure and seamless payment experience for their customers.

4. The Reserve Account in Payment Processing

4.1 Definition and Explanation

In the payments industry, a reserve account is a portion of the merchant's funds that are kept by the payment processor as a form of financial security. This account acts as a kind of insurance for the payment processor against potential losses such as chargebacks, refunds, or fraud.

When a customer pays a merchant, the money doesn't go directly to the merchant. Instead, it goes through several intermediaries, including the payment processor. Before the processor passes the money to the merchant, they may hold back a certain percentage in a reserve account.

4.2 Purpose of Reserves

Reserve accounts serve to protect payment processors and banks from potential losses. This need arises due to the inherent risk involved in providing payment processing services.

One of the major risks is chargebacks. If a customer disputes a charge and the dispute is resolved in their favor, the payment processor is obligated to cover the amount of the transaction. If the merchant can't or doesn't cover the chargeback amount, the payment processor will take the money from the merchant's reserve account.

Reserves also protect against the risk of merchant insolvency. If a merchant goes out of business or becomes insolvent, they might leave unpaid debts behind, such as outstanding chargebacks or fees. In such cases, the payment processor can recover these costs from the reserve account.

4.3 Impact on Merchants

While reserve accounts are designed to protect payment processors and banks, they can have a significant impact on merchants. The money in a reserve account is the merchant's revenue, and withholding these funds can cause serious cash flow problems, especially for small businesses.

Firstly, having funds withheld means that merchants have less money available to reinvest in their business. This could limit their ability to purchase inventory, pay employees, or cover other operating expenses. In some cases, it might even affect their ability to fulfill orders, potentially leading to more chargebacks and a vicious cycle of increasing reserves.

Secondly, reserves are typically not a fixed amount but a percentage of sales, with the average reserve account being funded with 10%-25% of the merchant’s transaction volume. This unpredictability makes it challenging for merchants to manage their finances and plan for the future.

Lastly, reserve accounts can stay in place for a long time. Depending on the payment processor's policies and the merchant's risk profile, it could several weeks or months for the merchant to get their money back. According to our research, merchants are seeing an average holdback period ranging from 30 days up to 180 days. This could lead to a significant amount of money being tied up and inaccessible for a long duration.

4.4 The "High-Risk" Misconception in the Payment Industry

In the payment industry, certain businesses and industries are often labeled as "high-risk." This label primarily arises from their business model, market, customer base, and the historical data associated with chargebacks and fraud. While traditional high-risk categories often include taboo sectors such as adult industry, cannabis, and gambling, our focus here lies on a different subset - internet-based businesses such as eCommerce, high-ticket consulting, and subscription services.

These internet-based business models, despite being innovative and profitable, often face categorization as "high-risk" due to factors like:

- **High transaction volumes:** eCommerce and software businesses typically handle a high volume of transactions, increasing the potential for disputes and chargebacks.
- **Recurring billing:** Subscription-based services, where customers are automatically charged on a regular basis, often have higher chargeback rates as customers might dispute charges they forgot about or no longer want.
- **High-value transactions:** High-ticket consulting businesses, due to the significant cost of their services, can be prone to a higher rate of chargebacks, especially if customers feel the service didn't meet their expectations.

However, the label of "high-risk" can often be misleading and can impose unwarranted hardship on these businesses. The "risk" associated with these businesses is not necessarily a product of the businesses themselves being risky, but often due to the payment industry's historical inability to adequately understand and adapt to the unique nuances and needs of these business models.

At Conqr, we believe that the label of "high-risk" needs to be reconsidered. By understanding the unique challenges and requirements of these businesses, we can devise solutions that help them manage their cash flow more effectively and overcome the constraints imposed by the traditional payments industry.

4.4 Detailed Explanation of Reserve Accounts

For traditional merchant accounts, reserves are usually set up when a merchant first signs up with a payment processor, as part of their merchant agreement. The processor will assess the merchant's risk level based on various factors, such as their business type, average transaction size, and chargeback history. Based on this assessment, they will decide on the reserve amount, which is usually a percentage of the merchant's sales.

There are three main types of reserves:

- **Rolling reserves:** The processor holds a certain percentage of each transaction for a specified period, usually between 90 and 180 days. After this period, the funds are released to the merchant.
- **Upfront reserves:** The processor holds a fixed amount of money when the merchant account is first set up. This money is usually taken from the merchant's initial transactions.
- **Capped reserves:** The processor holds a fixed amount of money, but instead of taking it upfront, they take a percentage of each transaction until they reach the cap.

The specific terms of the reserve account, including the percentage rate and the release schedule, are usually outlined in the merchant agreement. It's important for merchants to read and understand these terms before signing the agreement.

However, when it comes to payment aggregators like PayPal or Stripe, the situation can become even more complex. Payment aggregators bundle many small merchants under one umbrella, simplifying the setup process but often resulting in less personalized risk management.

Unlike traditional merchant accounts, where terms of the reserve are typically defined up front, aggregators operate under a different set of rules. They maintain the right to establish, modify, or enforce reserve accounts at any point, for any reason, often without prior notice. This is part of their broader risk mitigation strategy, due to the lack of individual underwriting for the merchants using their platform.

Consider this scenario: An eCommerce store using PayPal has a successful holiday season, significantly increasing their sales volume. PayPal's risk algorithms detect this rapid growth and, as a response to mitigate potential risk, they suddenly impose a reserve on the merchant's account. A portion of the merchant's funds are now held in this reserve account, not accessible for weeks or even months.

For businesses, particularly small or medium-sized ones, this unplanned holdback can result in severe cash flow issues. They may find themselves unable to restock inventory, pay suppliers, or cover other essential operational expenses. Despite the merchant's financial health and history of minimal chargebacks, the aggregator's risk algorithm may place the business in a difficult position.

4.5 Understanding the Reserve Release Schedule

The release schedule for a reserve account is determined by the payment processor and outlined in the merchant agreement. It specifies when the withheld funds will be released to the merchant.

A typical release schedule for a rolling reserve might look like this: the payment processor withholds 10% of each transaction. After 180 days, the funds from day one are released to the merchant. On day 181, the funds from day two are released, and so on.

The release schedule can have a significant impact on the merchant's cash flow. A longer release period means that the merchant's funds are tied up for a longer time. Therefore, it's crucial for merchants to understand the release schedule and factor it into their financial planning.

4.6 Mitigating the Impact of Reserves

Merchants can take several steps to mitigate the impact of reserves on their business.

First, they can work to reduce their risk profile. This might involve implementing fraud prevention measures, improving customer service to reduce chargebacks, or improving their credit score.

Second, they can negotiate the terms of their reserve account with their payment processor. While processors have standard policies, they might be willing to adjust the reserve rate or release schedule for merchants with a good track record.

Third, merchants can consider working with multiple payment processors. This can help them diversify their risk and potentially reduce the amount of money tied up in reserve accounts.

Finally, alternative financing solutions, like the one offered by Conqr, can provide immediate access to withheld funds, helping merchants manage their cash flow and continue growing their business.

5. Conqr’s Solution: Collateralized Working Capital

5.1 Understanding the Problem

Despite the necessity of reserve accounts in payment processing, their existence can impose a considerable financial burden on merchants, especially small and medium-sized businesses. The unpredictability and lengthy hold periods of these reserves create substantial cash flow challenges. These funds, despite being the merchant's revenue, are inaccessible and cannot be utilized for their immediate operational needs.

5.2 Conqr's Solution: A Unique Approach

Conqr has crafted a working capital solution that is uniquely positioned to empower merchants with the capital locked within their merchant reserve account. By using these receivables as collateral, merchants can have access to fair, frictionless access to their revenue.

5.3 Benefits for Merchants

Conqr's solution offers multiple benefits to merchants struggling with cash flow due to reserve holds:

- **Immediate access to capital:** Merchants receive an advance on the withheld funds, enabling them to immediately address operational expenses like inventory purchase, payroll, rent, and more.
- **Transparent fee structure:** We strive to provide fair and transparent financing terms.
- **No additional collateral required:** The reserve funds serve as the collateral for the advance, meaning merchants do not need to provide any additional collateral.
- **Supports business growth:** By resolving cash flow challenges, Conqr's solution allows merchants to continue investing in their business growth without disruption.

5.4 Process and Requirements

The process of receiving a collateralized working capital advance from Conqr is straightforward:

1. Application: Merchants apply for an advance from our website, where they connect their primary business bank account and sales platforms, and provide additional information about themselves and their business.
2. Review and Approval: Conqr reviews the application, leveraging our proprietary underwriting algorithm to evaluate the merchant's credibility using cash-flow metrics. If approved, an offer with be provided to the merchant.
3. Funding: The approved funds are available to the merchant, providing quick access to working capital.
4. Repayment: Our repayment terms are designed to work with your cash flow requirements.

To qualify for this solution, merchants must have a business account with a supported payments provider.

5.5 Safety and Compliance

At Conqr, we prioritize the safety and security of our clients. Our solution is fully compliant with all applicable regulations and standards. We maintain rigorous data security practices to ensure that our clients' information is safe and secure. We believe in transparency and are committed to providing our clients with clear, understandable information about our services and fees.

In conclusion, Conqr's collateralized working capital solution offers a lifeline for merchants grappling with the financial constraints of reserve accounts. By providing immediate access to withheld funds, we aim to free merchants from their cash flow constraints, enabling them to focus on what they do best – growing their business.

6. Public Experiences with Reserve Accounts and their Impact

6.1 Public Experiences

The impact of reserve accounts on merchants has been publicly shared by various businesses across different industries. These testimonies showcase how the practice of holding reserves can place a strain on companies and their operating margins.

One such example is Curie, a direct-to-consumer eCommerce brand backed by Shark Tank, suffering from PayPal holdbacks on the sales of their body care products. Sarah Moret, the founder of Curie, has tweeted multiple times that PayPal “holds $30k-$50k of our cash at all times.” Ultimately, after experiencing a significant decrease in conversion rates after removing PayPal as a payment method, she settles for having her funds locked and states that “at this point, it is just baked in my cash forecast.”

In another case, Flipper Zero, a hardware company that specializes in offering a portable multi-tool for pentesters, had a similar experience where the successful launch of their eCommerce storefront led to a significant amount of capital locked in a reserve. According to a post by the official company account, PayPal had been “holding $1.3M for more than two months” despite the company’s numerous attempts to provide additional compliance documents to further establish their credibility. The company further states that this capital is needed to “pay for new production batches” and “is critical to run our business.”

6.2 The Bigger Picture: Industry-wide Impact

These examples represent a broader trend in the industry. According to a 2022 survey by the Ethoca & PYMNTS, nearly 50% of online merchants reported that they have seen an increase in chargeback rates since before March 2020. As chargeback rates increase, so does the liability carried by the payments provider, which contributes to an increased need for additional reserves. This data underscores the prevalence and severity of the issue across the merchant community.

6.3 Merchants' Responses and Solutions

In the face of these challenges, merchants have had to be creative and resourceful. Some have tried to negotiate lower reserve rates or faster release schedules with their payment processors. Others have sought out alternative financing options or adopted multiple payment processors to diversify their risk.

This is where Conqr's solution comes into play, providing an innovative way to address this issue directly. By offering advances on reserve funds, we provide merchants with immediate access to their money, effectively circumventing the cash flow problems caused by reserve accounts. This enables merchants to continue operating and growing their businesses without being held back by their payment processors' risk management policies.

7. The Future of Conqr

7.1 Our Vision

At Conqr, our mission is to "free merchants from their cash flow constraints". While we have made significant strides with our collateralized working capital solution, we believe there are still many opportunities to further support merchants in the complex landscape of payment processing. We envision a future where every merchant, regardless of their size or industry, has the financial tools and resources they need to thrive.

7.2 Upcoming Products

Building on our existing product, we are planning to launch additional products to further support our customers. These solutions will complement our existing service, providing a comprehensive suite of tools that address the most pressing challenges faced by merchants.

While the specific details are still under wraps, we can reveal that these products align closely with our mission to help free merchants from their cash flow constraints. These solutions will offer the same transparency, simplicity, and customer-centric approach that our clients have come to expect from our reserve financing solution.

7.3 Contributing to Industry Evolution

As we continue to develop and introduce these innovative financial solutions, we believe that we will play a critical role in the evolution of the payments industry. By tackling long-standing challenges and creating more flexible, merchant-friendly solutions, we aim to drive a shift in how the industry operates.

7.4 Continuous Improvement and Innovation

While we are proud of what we have achieved so far, we are not resting on our laurels. We believe in continuous improvement and innovation, and we are committed to consistently enhancing our services based on customer feedback and industry trends.

Our ultimate goal is to build a suite of services that not only meets the needs of today's merchants but anticipates the challenges they will face in the future. We are excited about what lies ahead and we look forward to continuing our journey alongside our valued clients.

7.5 Join us in our Mission

We invite you to join us in our mission to revolutionize the payments industry and free merchants from their cash flow constraints. Whether you are a merchant looking for a better way to manage your reserves, a partner interested in collaborating with us, or a customer eager to explore our upcoming products, we would love to hear from you. Together, we can transform the future of payments and create a financial landscape that truly serves the needs of merchants.

8. Conclusion

Throughout this white-paper, we have explored the complexities and challenges of the payment processing industry, with a particular focus on the significant impact of reserve accounts on merchant cash flow. These accounts, while critical for mitigating risk in the payments ecosystem, can pose significant financial constraints for businesses, affecting their operational capabilities and growth potential.

Conqr's collateralized working capital solution presents a unique and effective response to this challenge. By advancing funds that are otherwise locked in reserve accounts, we provide merchants with immediate access to the working capital they need. Our transparent and fair fee structure, coupled with a simple and straightforward process, makes this solution a practical choice for merchants of all sizes.

As we look to the future, Conqr is excited about the potential to further support merchants through our upcoming suite of financial and banking products. Our ongoing commitment to innovation, customer-centricity, and industry transformation underscores our mission to free merchants from cash flow constraints.

9. References

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10. Glossary

- **Acquiring Bank:** A bank or financial institution that processes credit or debit card payments on behalf of a merchant.

- **Authorization:** The process of verifying that a credit card has sufficient funds available to cover the amount of a transaction.

- **Card Network:** Companies such as Visa and Mastercard that facilitate transactions between merchants and card issuers.

- **Chargeback:** A reversal of a credit card payment, initiated by the cardholder's issuing bank.

- **Issuing Bank:** The bank, credit union, or other financial institution that issued a credit or debit card to a consumer.

- **Payment Processor:** A company that manages transactions between the payer and the recipient of funds. It communicates the payment information from the customer to the merchant’s bank and returns either a confirmation or denial of the transaction.

- **Reserve Account:** An account where a percentage of the merchant's revenue is held by the payment processor as a safeguard against potential future chargebacks, unpaid bills, or other types of business risks.

12. About Conqr

Conqr is a FinTech company dedicated to providing innovative financial solutions for merchants. Our mission is to free merchants from their cash flow constraints by offering a unique collateralized working capital solution that advances funds withheld in reserve accounts. With a focus on transparency, simplicity, and customer-centricity, we strive to support businesses in navigating the complex landscape of payment processing.

For additional information, please visit us at www.conqr.io