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PayFac Managed Payout

PayFac Managed Payout is a managed service whereby Worldpay can fund your sub-merchants directly. Managed Payout directs the distribution of funds using pre-configured instructions, providing a closed-loop transaction life cycle from payment to payout. With one connection for payments and payouts, our solution reduces your dependency on other vendors, minimizing costs associated with PCI and reducing scope.

Managed Payout is a self-contained service. You have the ability to fund a sub-set of your merchants using Managed Payout. You establish pre-configured settings using a Sub-Merchant Fee Profile in the PayFac Portal. You assign those settings to specific merchants using the PayFac Portal or API. Transactions processed by those merchants are treated according to the associated funding parameters. Worldpay calculates the fees the sub-merchant owes you and disperses the funds to you and the sub-merchant accordingly.

This document provides information, processes, and Payment Facilitator responsibilities as they relate to Managed Payout. For more information on Managed Payout and PayFac transaction processing through Worldpay, see the following Worldpay eCommerce Technical Documentation:

- *Worldpay eComm PayFac API Reference Guide*
- *Worldpay eComm PayFac Portal User Guide*
- *Worldpay eComm Scheduled Secure Report Reference Guide*
- *Worldpay eComm iQ Reporting and Analytics User Guide*

For information on the **PayFac Reconciliation Dashboard**, see the *Worldpay eComm iQ Reporting and Analytics User Guide.*

Managed Payout Components

Figure 1 illustrates the components of PayFac Managed Payout and the steps involved in the process for both the Payment Facilitator and Worldpay. The main components are:

1. Setting up and Assigning Fee Profiles

2. Processing Transactions and Disbursing Funds

3. Performing Reconciliation Through Scheduled Secure Reporting

FIGURE 1   Components of Managed Payout
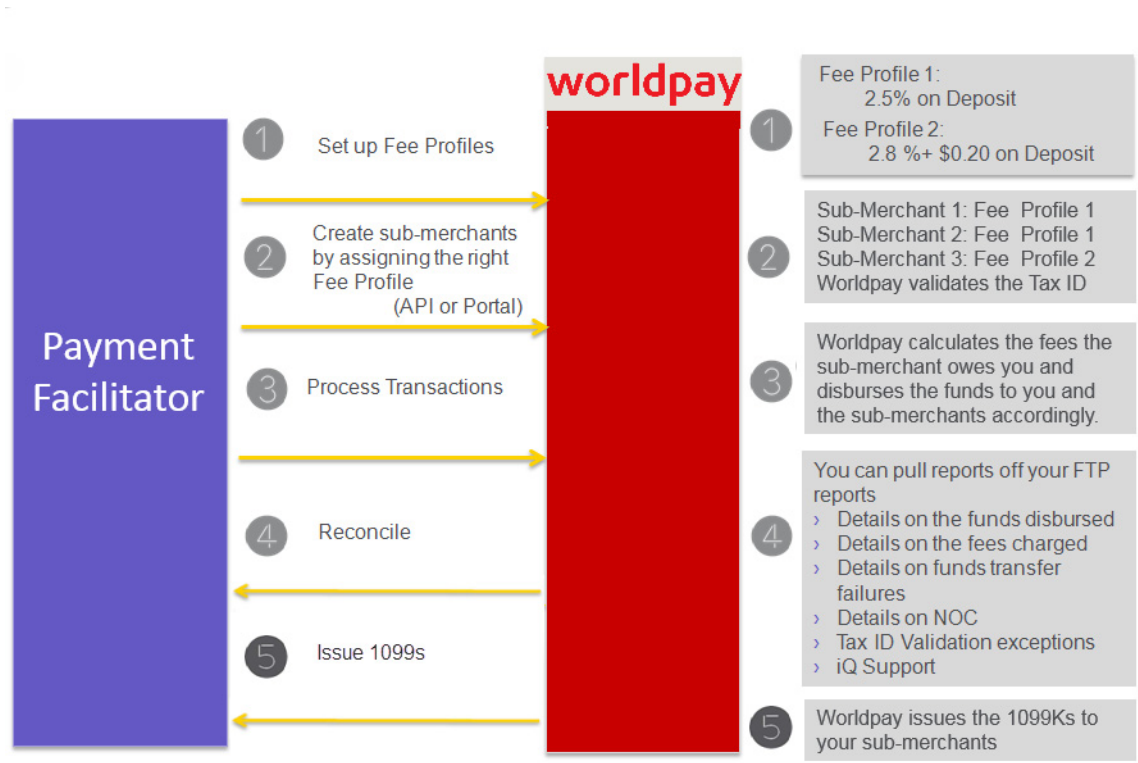
Setting up and Assigning Fee Profiles

A *Sub-Merchant Fee Profile* determines how you charge your sub-merchants for transactions (for example, by method of payment, by transaction type, a flat fee versus a percentage fee, etc.) in order to facilitate Managed Payout. You create custom Fee Profiles using the PayFac Portal, then assign a fee profile to each sub-merchant.

You can configure a fee profile to contain any of the following fees, or combination of fees, for approved and declined transactions for Visa, MasterCard, Discover acquired, American Express acquired, and Direct Debit (eChecks):

For Approved Transactions:

- **Deposits** - flat rate and/or a percent rate for each method of payment.
- **Chargebacks** - flat rate for first chargebacks and refund chargebacks for each credit card payment type.
- **Direct Debit Returns** - flat rate.
- **Refunds** - flat rate for each method of payment.
- **Authorizations** - flat rate for authorizations and authorization reversals for each method of payment.

For Declined Transactions

- **Deposits** - flat rate and/or a percent rate for each method of payment.
- **Refunds** - flat rate for each method of payment.
- **Authorizations** - flat rate for authorizations and authorization reversals for each method of payment.

Managed Payout Use Cases

Table 1, Table 2, and Table 3 show examples of use cases for Managed Payout profiles.

- **Use Case 1** charges 2.8% plus $.30 for all deposits and $20 for first chargebacks.

> **NOTE:** When you combine both a percentage and flat rate, the system deducts the flat fee first and then computes the percentage on the remaining amount.

- **Use Case 2** is based around a $2.50 convenience fee.
- **Use Case 3** is a zero-dollar fee profile, used when your organization chooses to issue a month-end invoice for fees to certain sub-merchants outside our system.

TABLE 1   Common Use Case 1 Fee Structure - Percentage plus flat fees

Item	Fee
Deposits (Visa, MasterCard, Discover)	2.8% + $.30
1st Chargebacks (Visa, MasterCard, Discover)	$20
Refunds	No Fee
Other Cycles of Chargebacks	No Fee
Declined Transactions	No Fee

TABLE 2   Use Case 2 Fee Structure - 'Convenience' Fee

Item	Fee
Deposits (Visa, MasterCard, Discover)	$2.50 convenience Fee
Chargebacks (Visa, MasterCard, Discover)	No Fee
Refunds (Visa, MasterCard, Discover)	No fee

TABLE 3   Use Case 3 Fee Structure - Zero Dollar Fee

Item	Fee
Deposits (Visa, MasterCard, Discover)	$0
1st Chargebacks (Visa, MasterCard, Discover)	$0
Refunds	$0
Other Cycles of Chargebacks	$0
Declined Transactions	$0

The **Add Fee Profile** screen in the PayFac Portal (Figure 2), allows you to enter all the fee structures shown in these tables as well as numerous other options, as necessary.

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FIGURE 2   PayFac Portal - Add Fee Profile Screen

After creating as many Fee Profiles as are necessary for your business model, you view them on the **Fee Profiles** page of the PayFac Portal (Figure 3). The Fee Profile page lists the Fee Profiles that were previously created, along with the number of sub-merchants associated with each profile.

FIGURE 3 PayFac Fee Profiles Page

> **NOTE:** New Fee Profiles are available for assignment to sub-merchants starting next day (tomorrow). See Fee Profile Rules for more information.

After creating a new fee profile, it is available for selection from the Fee Profile **Sub-Merchant Funding Enabled** field drop-down list in the **Add a Sub-Merchant** and **Edit a Sub-Merchant** screens of the PayFac Portal.

Fee Profile Rules

Note the following processing rules when configuring Fee Profiles for sub-merchants:

When you create a new Fee Profile:

- You cannot select the newly-created fee profile with a create sub-merchant request until the next day.
- You can select the newly-created fee profile when editing a sub-merchant; however, it is not active until the next day. Current day processing continues to use the existing fee profile tied to the sub-merchant.

When you edit a Fee Profile:

- You can select the edited fee profile when creating a sub-merchant request; however, current day processing uses the pre-edit fee profile.
- You can select the edited fee profile when editing a sub-merchant; however, current day processing uses the pre-edit fee profile.

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Disbursing Funds

The Worldpay eCommerce platform calculates the funds disbursements to the Payment Facilitator and the sub-merchants as follows:

    a. Sub-Merchant Funds Disbursement Calculation:

    Deposits – Refunds – Chargebacks – PayFac Fees = **Net Settlement** *

    b. Payment Facilitator Funds Disbursement Calculation:

    PayFac Fees – Worldpay Fees – Passthrough Fees +/– Sub-merchant payout failures = **Net Settlement**

For American Express-conveyed Payment Facilitators, the funds disbursement is calculated as follows:

    a. Sub-Merchant Funds Disbursement Calculation (identical to calculation **a.** above, but does not include American Express):

    Deposits (for Visa, MC, Discover, and Direct Debit) – Refunds (for Visa, MC, Discover, and Direct Debit) – Chargebacks (for Visa, MC, Discover, and Direct Debit) – PayFac Fees = **Net Settlement** *

    b. Payment Facilitator Funds Disbursement Calculation:

    (Deposits for Amex conveyed – Refunds for Amex conveyed) + (PayFac Fees charged to sub-merchant for Visa, MC, Discover, and Direct Debit) – Worldpay Fees – Pass-through Fees +/– Sub-merchant payout failures = **Net Settlement**

* Refunds and chargebacks in this formula are the actual amount of the refunds and chargebacks. The fees that you may charge the sub-merchant for chargebacks and refunds is included in the PayFac Fees portion of the settlement formula.

NOTE: Funding failures are not handled within the Managed Payout system. If you receive a reject for any Managed Payout disbursement, those funds go to your PayFac bank account and you must settle it to the sub-merchant outside of our system.

Failed Debits

In the case of a failed sub-merchant debit for managed payout, upon receipt of the ACH failure, Worldpay debits the PayFac account (likely the next day). If there are further debits associated with the same sub-merchant, Worldpay continues to attempt to debit the sub-merchant account, and then finally debiting the PayFac in the case of a failure.

Figure 4 shows an example disbursement of funds for a single day of transactions, resulting in $1,000 in sub-merchant sales. In this example, the Payment Facilitator charges its sub-merchants a 5% fee on deposits.

FIGURE 4   Fund Disbursement Example
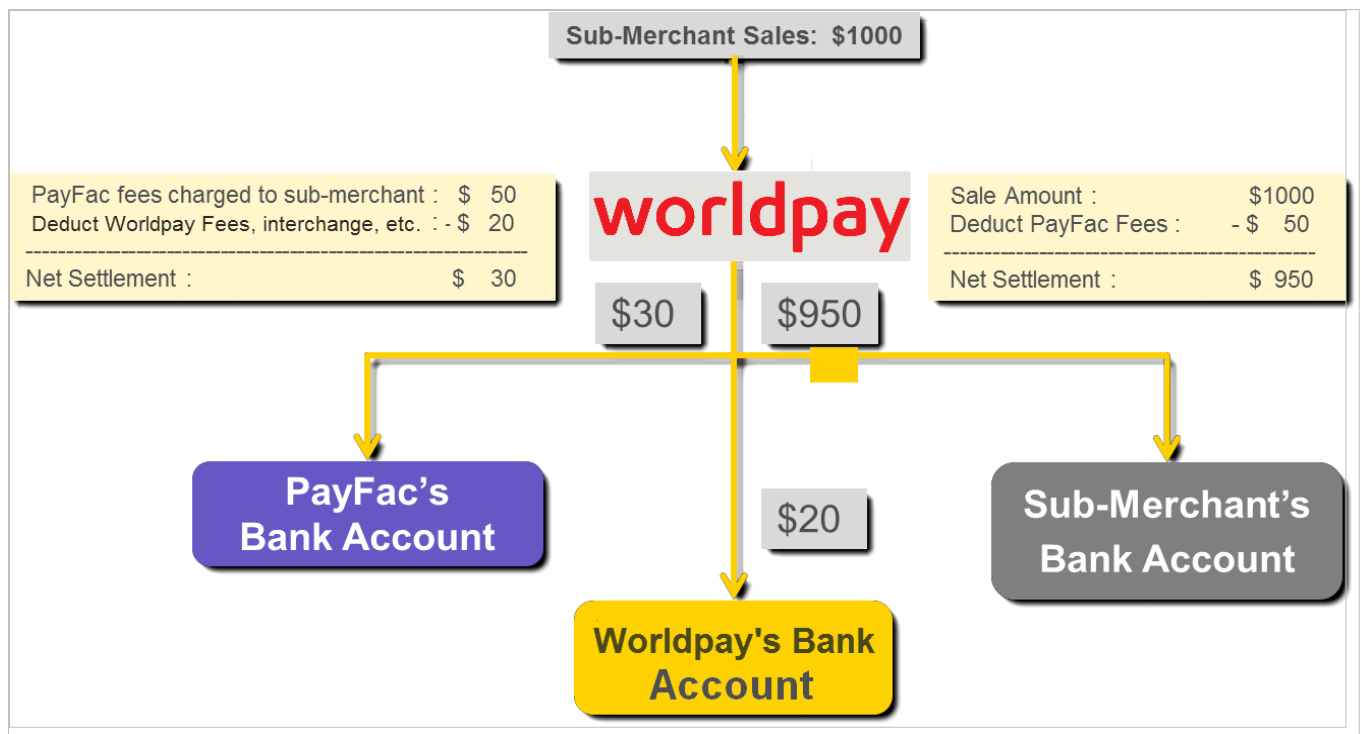
Funds Disbursement Timing

Depending upon your contract, there are two components that determine the timing of the funds disbursement:

- **Funds Transfer Method** - funds can be distributed to your organization via Automated Clearing House (ACH) or wire transfer. All sub-merchants in Managed Payout are always settled by ACH; it is not technically possible for a sub-merchant to be paid by wire for Managed Payout.

- **Float Days** - the number of days Worldpay waits before *initiating* a transfer of funds to the Payment Facilitators and sub-merchants. Standard float days are:

  - One-Day Float - transfer of funds is initiated the day after receiving the transactions.

  - Two-Day Float- transfer of funds is initiated two days after receiving the transactions.

Table gives some funds disbursement examples.

TABLE 4   Funds Disbursement Timing Examples

Contracted Terms	If a transaction is received on...	The funds transfer is initiated on...	And the transaction settles on..
One-Day Float with ACH	Monday (Day 0)	Tuesday (Day 1)	Wednesday. Funds are paid to sub-merchants and the Payment Facilitator on Wednesday for Monday's activity.
Two-Day Float with ACH	Monday (Day 0)	Wednesday (Day 2)	Thursday. Funds are paid to sub-merchants and the Payment Facilitator on Thursday for Monday's activity.
One-Day Float with ACH and Wire Transfer	Monday (Day 0)	Tuesday (Day 1)	Tuesday (Payment Facilitator). Wednesday (sub-merchant). Funds are paid to the Payment Facilitator on Tuesday for Monday's activity, and to sub-merchants on Wednesday.

You have already determined how much and which fees are pulled from the sub-merchant's settlement by Setting up and Assigning Fee Profiles profile to the sub-merchant at the time of sub-merchant creation. When a sub-merchant processes transactions, Worldpay calculates the fees the sub-merchant owes your organization using the settings in the corresponding fee profile and disburses the funds to your operating account and the sub-merchants accordingly.

Reconciliation Through Scheduled Secure Reporting

To assist with reconciliation, the following reports are available for Payment Facilitators through the Scheduled Secure Reports (SSR) service:

Managed Payout Reports

These reports are specific to Payment Facilitators using Managed Payout:

- **Sub-Merchant Financial Summary Report** - contains financial data for funds transfers to sub-merchants. The information in the report is based upon the settlement transfer date, and is produced daily.

- **PayFac Fee Report** - contains financial data for fees assessed to sub-merchants enabled for Managed Payout. The information in the report is based upon the settlement transfer date, and is produced daily.

- **Sub-Merchant Funds Transfer NOC Report** - contains Notice of Change (NOC) data detailing changes in sub-merchants accounts discovered during funds transfer operations. The report is produced daily.

- **Failed Sub-Merchant Fund Transfer Report** - contains data failures to fund transfers to sub-merchant accounts. The report is produced daily.

- **PayFac Tax ID Mismatch Report** - contains data about Legal Entity Tax Identification Numbers validation failures. This report only applies to Legal Entities that have a sub-merchant funded through our platform. The report is produced daily.

See the *Worldpay eComm Scheduled Secure Report Reference Guide* for more information on obtaining these reports.

Notes on Minimum Funds Threshold

The data in SSR reports are Payment Facilitator-focused, not sub-merchant focused. Therefore, on days when the threshold of minimum funds transfer to the Payment Facilitator is not met, the settlement date in the **Net Settled Sales by Transaction (NSS)** report will not match the settlement date from the **Sub-Merchant Financial Summary** report. From a merchant reporting perspective, this means *settled with the merchant* in our accounting system. In the case of Payment Facilitators, the merchant is the Payment Facilitator itself, therefore we do not identify a transaction as *settled* until it has settled with the card brands and all associated fees have settled with the Payment Facilitator and sub-merchants.

For example, the **Sub-Merchant Financial Summary** report could show the funds settling to a sub-merchant on May 1st, whereas the **NSS** report shows the funds settling as of May 5th, when all the money movement has settled. The **NSS** report shows how funds are settled in relation to the organization/Payment Facilitator. Nothing is visible in the **NSS** report until it's truly settled to the Payment Facilitator.

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PayFac Reconciliation Dashboard

The PayFac Reconciliation Dashboard (Figure 5), accessible via the iQ Reporting and Analytics platform, provides a single source tool for Managed Payout Payment Facilitators to access all the necessary data when performing financial reconciliation, eliminating the need to access multiple reports. The PayFac Reconciliation Dashboard includes three report views:

- **PayFac Reconciliation**: a cumulative view of reconciliations to both the Payment Facilitator and sub-merchants.

- **PayFac Funded**: reconciliations to the Payment Facilitator when sub-merchant funding is *not* utilized (standard funding).

- **Managed Payout**: reconciliations to the Payment Facilitator and sub-merchants when Managed Payout sub-merchant funding is utilized.

You can view each of these PayFac Reconciliation report views by Activity (post) date or by Settlement (funds transfer) date. In all views, Summary data is presented in the top frames, and other detailed data is presented in various frames below.

For complete information on the PayFac Reconciliation Dashboard, see the *Worldpay eComm iQ Reporting and Analytics User Guide*.

FIGURE 5   PayFac Reconciliation Dashboard (Reconciliation View) - Settlement Date

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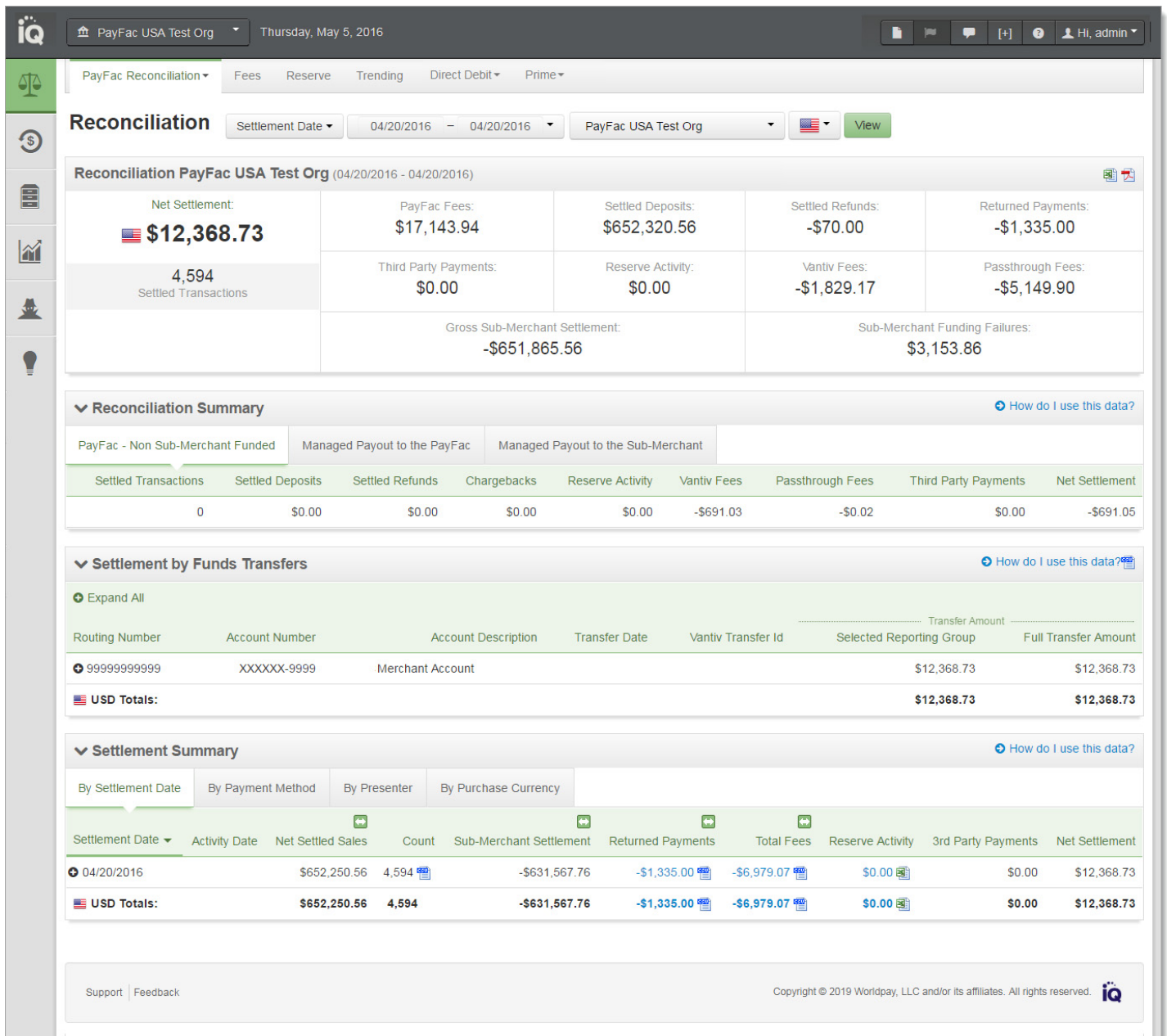
Payment Facilitator Responsibilities

Before you enable Managed Payout, you are responsible for the following tasks for each sub-merchant:

- Validate the sub-merchant's bank account and ensure that the sub-merchant has ownership.

- Ensure that Worldpay can credit and debit the sub-merchant's bank account.

- Validate the Tax Identification number of the sub-merchant.

- Disburse funds for American Express sales volume and issue a 1099K for the amount disbursed (for merchants in your portfolio that are American Express conveyed).

- Issue a 1099K to the sub-merchant if you have disbursed funds to the merchant directly for any portion of the calendar year.

Tax ID Validation Process

The Internal Revenue Service requires that "a payment settlement entity (PSE) must file Form 1099-K, *Payment Card and Third Party Network Transactions*, for payments made in settlement of reportable payment transactions for each calendar year."

Worldpay issues 1099-Ks to Payment Facilitators and sub-merchants to the extent allowed for or required by applicable law. Prior to issuing 1099-Ks, it is the responsibility of the Payment Facilitator to provide and validate sub-merchant Tax ID information to ensure that the validation process performed by Worldpay through IRS.gov is successful.

If the Tax ID validation fails, it is indicated in the Legal Entity Background Check Results panel of the PayFac Portal. You can also view the **PayFac Tax ID Mismatch Report**, available through the Scheduled Secure Report (SSR) service, to determine if a Legal Entity Tax ID Validation has failed. This report only applies to legal entities that have a sub-merchant funded through our platform, and is produced daily.

You can re-submit the sub-merchant request when certain Tax ID validation errors occur using the **Edit** button at the top of the View Sub-merchant page of the PayFac Portal to edit and re-submit Tax ID information.

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