CLICKBANK

BACKGROUND ON THE PAYMENTS ECOSYSTEM

Different Business Types

Payment Processor: Examples include First Data, Chase Paymentech. Holds a direct connection to the networks provided by VISA/MasterCard/AMEX. Real-time authorization of funds and daily settlement of transactions. Typically only large merchants connect to a Payment Processor due to certification/volume/technical considerations. Consumer payments flow directly to a merchant's bank account.

Payment Gateway: Examples include Authorize.net and Braintree. Provides APIs and tools for smaller merchants to access multiple payment processors. May offer some level of order forms, PCI compliance and other technical integrations. Consumer payments flow directly to a merchant's bank account.

Payment Facilitator: Examples include PayPal and Stripe. Uses their own merchant account and connection to a payment processor to facilitate credit card payments for small merchants called sub-merchants. Heavily regulated by card brands with different services per territory. Pays the sub-merchant funds from transactions.

Internet Retailer: Examples include ClickBank and Amazon. Holds a merchant account and has a connection to one of the above listed entities. Is also audited as a retailer and regulated differently than the above entities.

Each of these distinct business types operates under different requirements and compliance guidelines established by the card brands

Merchant Accounts

This is applicable for a business that uses either payment gateways or payment processors

Underwriting is Required: Vendors must undergo an underwriting process by the acquiring bank where the compliance team evaluates the risk of the products, the background of the business owners, etc. Initial processing limits of $25,000 per month are not uncommon. If the owners have ever been on the “terminated merchant file” then they will not be approved.

High Risk Products: Digital information products, card-not-present transactions, subscriptions and cross-border sales are all deemed high risk and the merchant account reserves and transaction fees are inflated accordingly.

Steady/Consistent Sales: With a merchant account, acquiring banks expect consistent, normal sales volumes. They are uncomfortable with the direct response launch model that drives numerous sales, quickly.

Freezes/Reserves: An acquiring bank may force higher transaction fees due to the risk profile of direct response marketing and may also hold high reserves. Freezes can be placed on an account that experiences a sales launch leaving little to no funds for the vendor or to pay affiliates.

Fraud Controls: A merchant is subject to additional fraud screening and “Know Your Customer” compliance for consumer protection. This is a mix of card and government regulations that must be adhered to.

PCI DSS: Your business is subject to PCI regulations that, at a minimum, require security assessments and quarterly screening.

Merchant Accounts cont.

Sales and VAT Tax: The vendor is required to collect and remit sales and VAT tax for any buying consumer. This includes registration with the various government entities that expect tax to be collected.

Affiliate Payments: Affiliates must rely on the merchant account holder to pay for commissions.

OFAC/KYC Controls: If you use your accounts to pay bad actors masquerading as JVs or affiliates, listed by the Office of Foreign Asset Control, you can be held criminally liable for enabling terrorism or sending funds to sanctioned countries/individuals.

Chargebacks: Each of the card brands has multiple chargeback programs, not just one blended rate that is examined. For example, an online merchant may find their US VISA chargeback rate to be below the acceptable threshold, but their Australian Dollar sales may be outside of limits, bringing penalties and fines that can add up to substantial, business crushing levels.

Fraud Flags: The card brands examine certain chargeback types and measure them differently depending on the reasons given by the consumers for disputing a purchase. These fraud flags come with their own penalty programs.

Brand Compliance: Card brands are very protective of their brand and marks. Each online merchant is subject to direct screening by the brands to ensure compliance with their branding guidelines.

FTC: A sub-merchant is required to carry the full burden of FTC compliance for US sales.

Why Not Use A Payment Facilitator and Avoid the Headaches of Merchant Accounts?

Payment Facilitators

Different Risk Profile: The card brands know that payment facilitators are providing processing aggregation to numerous sub-merchants who have not passed underwriting. This inherently risky approach means card brands impose significant requirements on these types of businesses.

Local Presence: The payment facilitator is only permitted to conduct business with sub-merchants who exist within the same territory as the facilitator. This is why Stripe and other companies offer services to limited geographic regions.

Limited Processing: For any individual sub-merchant that exceeds $100,000 per year in sales, they are required to sign a three-party agreement with the payment processor that provides services to the facilitator. For PayPal, they refer to this as their Commercial Entity Agreement.

Cash Flow: Most facilitators cannot pay affiliates directly due to the brand requirements on cash flow to the sub-merchant. PayPal works around this with Adaptive Payments, but it still requires the sub-merchant to push the money, unless a tool has been granted permission to do this on the vendor's behalf.

Sales and VAT Tax: Payment Facilitators generally do not provide tax handling. The sub-merchant is required to identify their own tax liability, set the amount to be charged to the consumer and then ensure their business is registered within each tax jurisdiction for their consumers and remit that tax as required.

OFAC/KYC Controls: If you use your accounts to pay bad actors masquerading as JVs or affiliates, listed by the Office of Foreign Asset Control, you can be held criminally liable for enabling terrorism or sending funds to sanctioned countries/individuals.

Payment Facilitators, cont.

Underwriting: With larger volumes, a Payment Facilitator is required by the card brands to review the sub-merchant in an underwriting type process whereby the business owners are scanned for presence on the terminated merchant file, for background screening and to ensure the business is legitimate. In addition, those business principles are submitted to the payment processor used by the facilitator for screening.

International Processing: Depending on the payment facilitator's upstream providers, there may be limitations on international currencies and payment methods.

Account Limits and Closure: For Payment Facilitators, their compliance and review teams may use opaque processes to review accounts. It is not uncommon for an account to be frozen with little notice and few recourses to the sub-merchant. This is especially true for direct response marketers where the facilitator is working to balance the high risk of information products against their broader portfolio of accounts. This can be extremely interruptive and risky for affiliates who invest up front to drive consumers. In the event that their compliance teams see increases in refunds or chargebacks and since Payment Facilitators typically are required to pay funds into the sub-merchant's bank account promptly, they have little recourse but to freeze the accounts.

PCI: A sub-merchant may remain subject to PCI screening and compliance, even when using a Payment Facilitator.

FTC: A sub-merchant is required to carry the full burden of FTC compliance for US sales.

How You Win with ClickBank as an Internet Retailer

Retailer Benefits with ClickBank

Tax: We handle all the tax collection and remittance. Right now, we currently calculate tax rates for nearly 10,000 United States jurisdictions and 30+ VAT countries. Any client that wishes to use either a gateway, processor or facilitator is directly responsible for registering with each entity to pay sales and valued-added tax for products sold online.

No Underwriting: As the retailer, we approve and agree to resell your products, not your business. If you wish to use a merchant account or cross certain volume levels with a facilitator, you will be responsible for full underwriting.

FTC Compliance: With the power of the marketing largely in the hands of the vendor, we screen and raise objections for potential FTC compliance issues that we find. This is not a service provided elsewhere.

Customer Support: We offer front-line customer support for all inbound calls related to purchases. A processor, gateway or facilitator does not typically offer this.

PCI Compliance: We take care of all the PCI requirements, certification, and annual recertification. ClickBank is certified as a PCI Level 1 company, the highest rating available.

Retailer Benefits with ClickBank, cont.

Chargebacks: We manage and deal with all the chargeback processing. This includes research and dispute processes that save sales, which neither vendors nor affiliates ever have to worry about.

Card Policies Compliance: Card brand and merchant policies apply to our business, not your business.

Affiliates Paid On Time, Every Time: We can pay affiliates directly for commissions since we control the cash flow. Affiliates love the reliability of having ClickBank pay for commissions versus trusting unknown vendors to do so.

JV Partner, Affiliate and Consumer Screening: We handle all Office of Foreign Asset Control (United States Treasury Department) and Anti Money Laundering and Know Your Customer (AML/KYC) requirements. We protect vendors from rogue affiliates that may attempt to funnel cash from stolen credit cards to banned countries/terrorism, etc.

Fraud Controls: Our screening and fraud controls protect everyone, including consumers, from bad actors in the industry.

Large Sales Fluxuations: Our business does not limit accounts or freeze processing when a sales launch happens as we are accustomed to this type of dynamic sales spikes.

Competitors

Competitor Landscape

Affiliate Networks

Payouts: Funds are pushed on a Net 30/45/60 day basis to the affiliate network who pays affiliates. They handle the referral attribution and much of the affiliate management for vendors.

Examples: CJ, LinkShare, ShareASale, AvantLink, LinkConnector, FlexOffers, etc.

Account Cash Flow: Vendor is required to establish and sell through either a Payment Gateway, Payment Processor or Payment Facilitator and then remit commissions to the affiliate network. This may include funding an account on the platform.

Tradeoffs: Vendors must have a merchant account, Vendor is responsible for PCI compliance, OFAC compliance, FTC compliance, sales and VAT tax registration, collection and remittance, Vendor is responsible for credit card brand rules, brand protection and chargeback program compliance, merchant accounts can be limited due to surges from a sales launch, etc. Affiliate payments are for typically lower commission amounts and on a delayed basis after close-of-month

Payment Facilitator Enabled Affiliate Networks

Payouts: These networks typically use PayPal Adaptive Payments to pay affiliates or need you to push funds from PayPal to affiliate accounts. Their platform will ask for permission to access your PayPal account in order to split funds on your behalf. In some cases, payouts are delayed based on various conditions such as affiliate's age on the platform/sales volumes, etc.

Examples: JVZoo, Warrior+, PayDotCom, DigiResults,

Account Cash Flow: Most of these types of platforms expect integration to a Payment Facilitator such as PayPal or Stripe.

Tradeoffs: Payments can be inconsistent for affiliates, Vendor still bears full responsibility for taxes and OFAC compliance, Vendor can still have their account limited or closed at mercy of the facilitator, May still require PCI compliance, International processing may be limited, No FTC compliance support

Competitor Landscape

Attribution Only Platforms

Payouts: The commissions are tracked by the platform, but the toolset does not handle affiliate payments directly.

Examples: InfusionSoft, HasOffers, etc.

Account Cash Flow: No cash transits the attribution platform.

Tradeoffs: Requires vendor to take on full burden of a merchant account (or the risks with a payment facilitator) along with requirements to issue 1099s to affiliates, check them for KYC/OFAC compliance, handle all PCI/sales/VAT tax issues, etc. Includes gluing together multiple platforms for solving each of these problems.

Retailers with Affiliate Networks

Payouts: Depends on the retailer and their model.

Examples: ClickBank, RevenueWire, ClickBetter, etc.

Account Cash Flow: Most of these types of platforms manage their own integrations to payment processors or gateways and provide direct payments to affiliates and all parties involved with a transaction.

Tradeoffs: The retailer is in control of how products are ultimately marketed on their platform.

CLICKBANK

Questions?