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Marketplace payment solution, how did an EU particularity become an international standard?

Jordan Graison, Head of Sales, Limonetik, shares his expert view of how the EU regulation particularity become an international standard

PARIS, ILE DE FRANCE, FRANCE, November 15, 2018 /EINPresswire.com/ -- The payment issue is undeniably tied to legislation. But how is it affected by all the marketplace turmoil? Considering the regulation puzzle and the challenge of accountability, have all the players involved in payment been dealt a fair hand?

Current situation in the midst of turmoil

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> *Jordan Graison*

The act of payment used to be simple: a value chain was established between buyer and seller. Payment was a transaction between the two parties. Today, the marketplace model has caused disruption because the marketplace has become a middleman in the transaction. Granted, the marketplace system has been around for centuries. There is nothing surprising about a spot where sellers and buyers meet to exchange goods and services. What has changed is the context in which these exchanges are taking place: on an e-commerce platform where cash is no longer used in the transaction.

Not only are products and terms of delivery so diverse, but marketplaces must also provide a payment service, because they bill on behalf of third parties. The transaction process involving a payment service provider (PSP) as middleman between buyer and seller has changed. So you have sellers A, B, C, etc. The payment method issuer provides the same function as before, for there is still only one buyer, but now, several recipients are to be paid for the same transaction. How do you accommodate x number of different individuals, and hence, x number of procedures and compliances?

A regulation puzzle

Payment gets complicated when a marketplace has to re-invoice everyone. This is actually right when the regulator steps in. Supervision is a real necessity: What happens if the middleman goes bankrupt? Payment Service Directives 1 and 2 (PSD1 and PSD2) are intended to monitor compliance and enforce the rules of the game: to strictly prohibit gaining profit and credit off the sellers' money. So how does the market adapt?

The payment institution acts as a go-between, placing the funds in escrow, as in a real estate transaction. When an arrangement is compliant, the payment institution registered in an EU country, which in turn is monitored by the European Central Bank, protects the sellers and buyers. The marketplace can then choose to act as an agent or to register with regulators as a payment institution.

A regulation that seemed crazy in Europe ten years ago has gradually becoming a common standard. Use of an escrow account has become an international model. Just as no one can pay for an apartment with a suitcase full of banknotes, escrow is an accepted requirement in the world of online marketplaces.


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The challenge of accountability

The potential impact on payment is obvious and the risks are high. An interconnected economy is affected by all the players involved. If someone fails to honour the rules of the game the risks can have a cascading or domino effect. Regulators are especially worried about the potential threat to the economic system. And indeed, marketplaces are occupying an increasing proportion of the digital economy. By 2020, this will amount to a trillion dollars. Hence the urgency of adopting payment solutions that protect sellers and buyers alike.

To guard against contingencies, reconciliation in a marketplace must be perfect. Bear in mind that the purpose of a marketplace is to make money as a middleman. The European policy of prohibiting credit allowance (ie, insufficient funds) requires knowing what to pay whom in order not to have regulation issues. If a marketplace is not compliant, its account is sure to be closed. Therefore, effective reconciliation must absolutely honour all accounting regulations to ensure sellers are paid neither too much nor too little.

The headache of managing chargebacks

What happens if a consumer’s personal data is hacked, and the hacker then buys himself a vacation? The risk of chargebacks continues to grow. Reaching $40 billion this year, chargebacks are a terror to the market. How do you factor in the effect of a chargeback? Who should be held accountable? There is no standard way to arbitrate this type of situation, and experts are predicting a nasty increase in this type of fraud.

The United States has already been hard hit. Chargebacks due to a revoked line of credit on a bankcard are a commonplace occurrence that can financially asphyxiate a marketplace. For instance, when a marketplace with 2000 sellers generates one chargeback per month for $20 billed, the marketplace or its sellers will eventually incur a loss of $40,000. Today no solution exists in terms of a uniform regulation. Except for big marketplaces that pass the loss on to the sellers, most will have to face the difficult choice of accepting or refusing the chargeback and running the risk of losing sellers who would take the hit. This will clearly put the marketplace business model at risk.

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