



Member Briefing Note

BIN Sponsorship in a new age of digital

This briefing note aims to increase understanding of the current challenges facing BIN sponsors and sets out the practical steps we are taking to articulate the value of the BIN sponsorship model. This note provides an overview of the key themes to emerge from the June 2023 members' meeting and our approach. This note should not be construed as guidance or legal advice.

What is the issue?

As a faster alternative for fintechs looking to take their products to market, BIN sponsorship continues to drive innovation in payments. Yet the importance and value of the BIN sponsorship model is often underplayed.

Context

The Payments Innovation Forum (PIF) is a not-for-profit trade body that's focused on supporting and championing innovation in payments. PIF was formed over a decade ago to educate, inform and articulate the purpose and value of new and alternative payment methods, both within and external to the industry. Over many years, PIF has successfully campaigned on a wide range of policy issues and is adept at disarming potentially harmful public perceptions.

As part of an ongoing programme of work, we wanted to assess the extent to which BIN sponsorship is perceived as a vital cog in the payments ecosystem and to discuss, in an open environment, the challenges BIN sponsors currently face and what could be improved to future-proof the concept. The premise of the discussion was that by comparing experiences in the market, we can identify where there are knowledge gaps and reach a consensus on how best to address them.

This discussion took place at a PIF event hosted by Mastercard in June 2023. We were joined by BIN sponsors, fintechs who have worked with BIN sponsors to take their product to market, and other key players from across the payments ecosystem.

BIN sponsorship is a mature concept, but a mystery to some

We began by asking about fintechs' familiarity with the concept of BIN sponsorship as a route to market. We learnt that it tends to be a 'mixed bag' of the well-informed and those who have no knowledge of payments "because payments is not what they do." Some want to be "the next Revolut" but have no grasp on the complexities, or limited or no understanding of the regulatory requirements, the demands or the costs.

Those that do have a deeper understanding of BIN sponsorship are typically more established firms who have the right people and resources in place. They typically have well-considered target markets and are leveraged from a technology perspective. It was suggested that the market is more educated in general because fintech has greater prominence.

Unsurprisingly, compliance was mentioned as a perpetual challenge for BIN sponsors, particularly if they are forced to manage, control or "rein in" fintechs who have not given the regulatory requirements a second thought.

"We need to be better at explaining that we're not a tax on becoming an issuer"

The panel considered why fintechs would want to pursue direct issuance when BIN sponsors provide enormous value. It was mentioned that "we have a collective responsibility to make sure fintechs understand that direct issuance is not necessarily the best route to market", and that there are many "fouled and littered fintechs who didn't heed that warning."

There was also reference to the natural friction between new fintechs and the BIN sponsors who bear the risk. That risk is increasing disproportionately, particularly in connection with tighter regulations which bear down on the regulated entity.

And it's not about 'commoditising' BIN sponsorship, it's about being responsible and servicing the industry in an appropriate and risk-managed way.

“The ultimate responsibility we have as issuers is to the end consumer”

The Consumer Duty was flagged in the context of the risk carried by BIN sponsors. Fintechs need to understand that their products/services also belong to the BIN sponsor because ultimately, the risk of a fintech running out of money or e.g., having inadequate financial crime controls, falls on the BIN sponsor.

The industry has a collective responsibility to “take that ownership” and ensure that trust is built and maintained. And there is a collective responsibility to ensure that the sector is governed by the right regulations and oversight, because this drives innovation and helps to ensure that consumers truly believe in what the industry is doing.

“BIN sponsors need to be better at explaining what they do”

Fintechs who are racing to take their products to market can view BIN sponsors as a barrier, e.g., they cost you money, and they insist on compliance with regulations that you don’t understand.

Those who want to move “at a million miles an hour” often fail to see the right level of value exchange for the cost. The industry needs to come together to demystify BIN sponsorship by explaining the risks, and by giving greater visibility to the value of these partnerships.

“I don’t think about BIN, I think about growth”

We asked two fintech founders why they chose to work with BIN sponsors. Reasons ranged from their partner’s ability to execute at pace, to their stability, longevity and expertise.

Reciprocity on regulatory oversight was an important factor for one fintech who was also FCA authorised, as was cultural alignment. References were also important: “if you were to start your company again, would you use the same partner?”

It was also essential that the BIN sponsor understood what the fintech was building, and understood their role in what the fintech was trying to achieve.

There was strong consensus that BIN sponsorship needs to be made easier to understand.

(Re) positioning BIN sponsorship for a new age of digital

What became clear is the need for a collective industry narrative that “truly socialises the value of BIN sponsorship”, and the power of fintech partnerships overall. In developing that narrative, we need to keep in mind that what matters most is the end consumer. We can talk about fintechs who want to go too fast, or who don’t heed the warnings, but we need to be actively thinking about building and maintaining trust in the industry.

We cannot predict what lies ahead, but the evolution of the BIN sponsorship model depends, to a large degree, on the extent to which we collaborate - whether that’s through education or pushing for best outcomes from regulatory proposals.

Options to promote the value of BIN sponsorship

Collaborative action:

Taking all of the above into consideration, we will establish a sub-working group under the remit of PIF’s Business Growth Taskforce. This group will be open to all members of PIF who will guide and help scope out our work. Output will be developed in consultation with members (e.g. issues identification via member survey).

Indicative output:

- High level overview of the BIN sponsorship model that sets out the value proposition with reference to alternative routes to market – pros, cons, risks.
- Supplementary explanation of costs and how these are broken down (scheme, processor, transaction monitoring, compliance, cost of e.g., something going wrong (chargebacks, investigation) etc.)
- Supplementary ‘Choosing a Partner’ guidance - what to look for, key considerations etc.
- White Paper on a collaborative approach to building and maintaining trust.