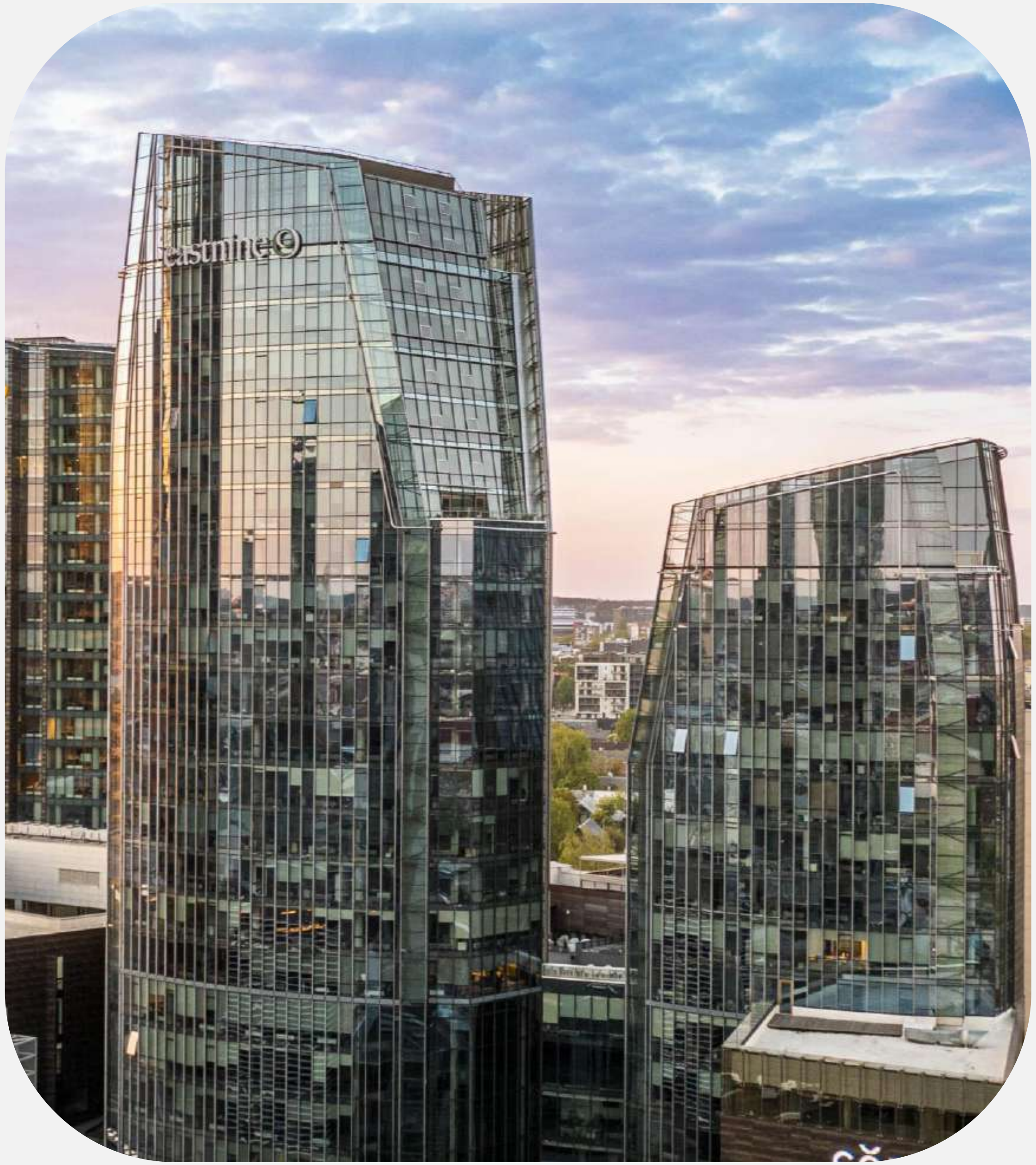
PAYSTRAX
A EUROPEAN PAYMENTS COMPANY

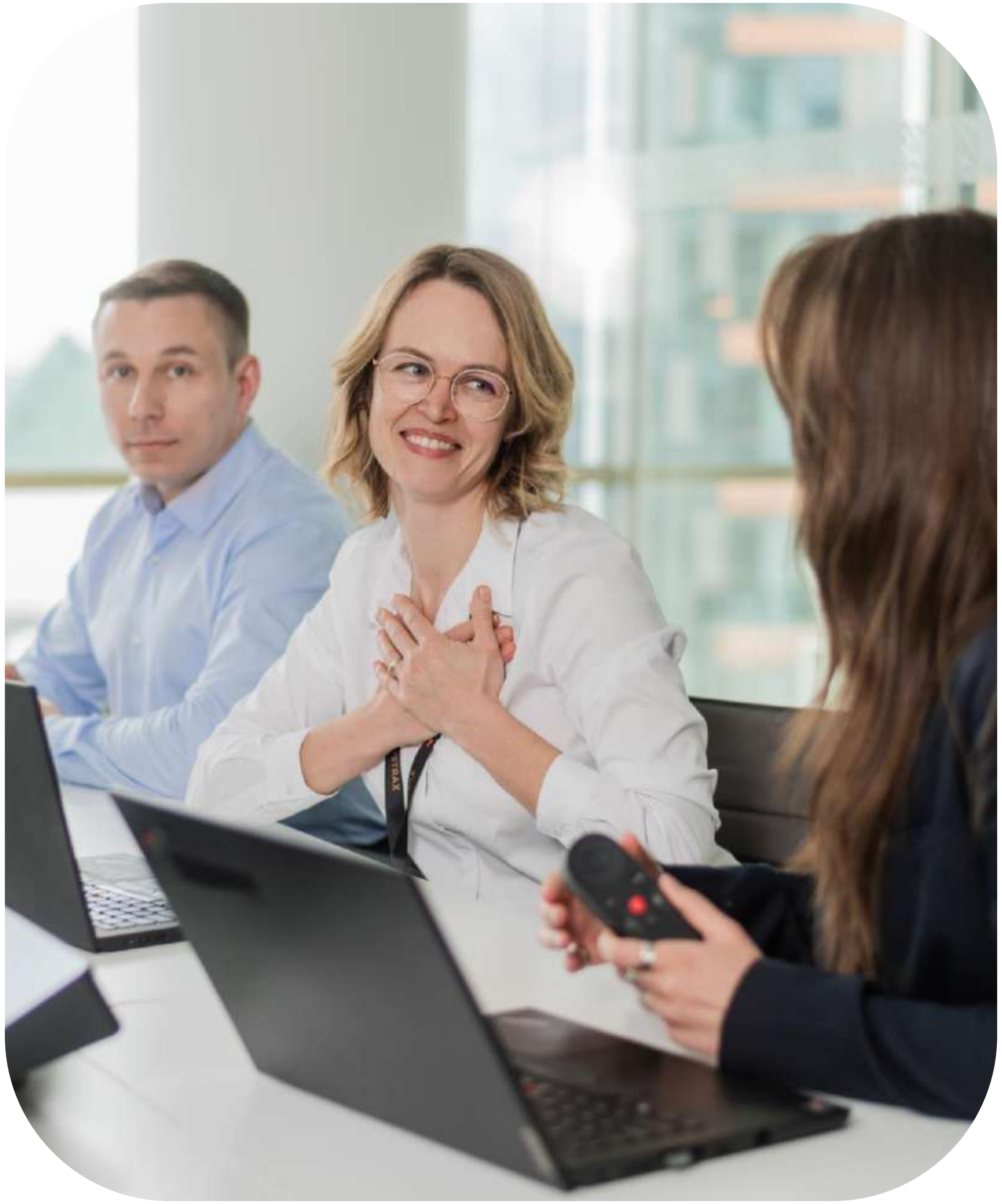
Navigating Regulatory Challenges:

How can acquirers effectively manage complex regulatory obligations

Johannes Kolbeinsson,

CEO and Co-founder at PAYSTRAX





About PAYSTRAX

We are a payment services provider with PAYMENT INSTITUTION licences in Lithuania and UK. Incorporated in 2018, we specialise in facilitating quick, secure, and cost-efficient payments for businesses.

We provide Visa and Mastercard transaction services for POS-terminals, online, mobile or any other electronic payment systems.

PAYSTRAX licences

Visa & Mastercard

Principal acquiring licences with VISA and MASTERCARD.

UK

FCA Payment Institution licence in the UK.

LT

Payment Institution licence from Bank of Lithuania.

EU/EEA

Licence is passported to all EU/EEA countries.

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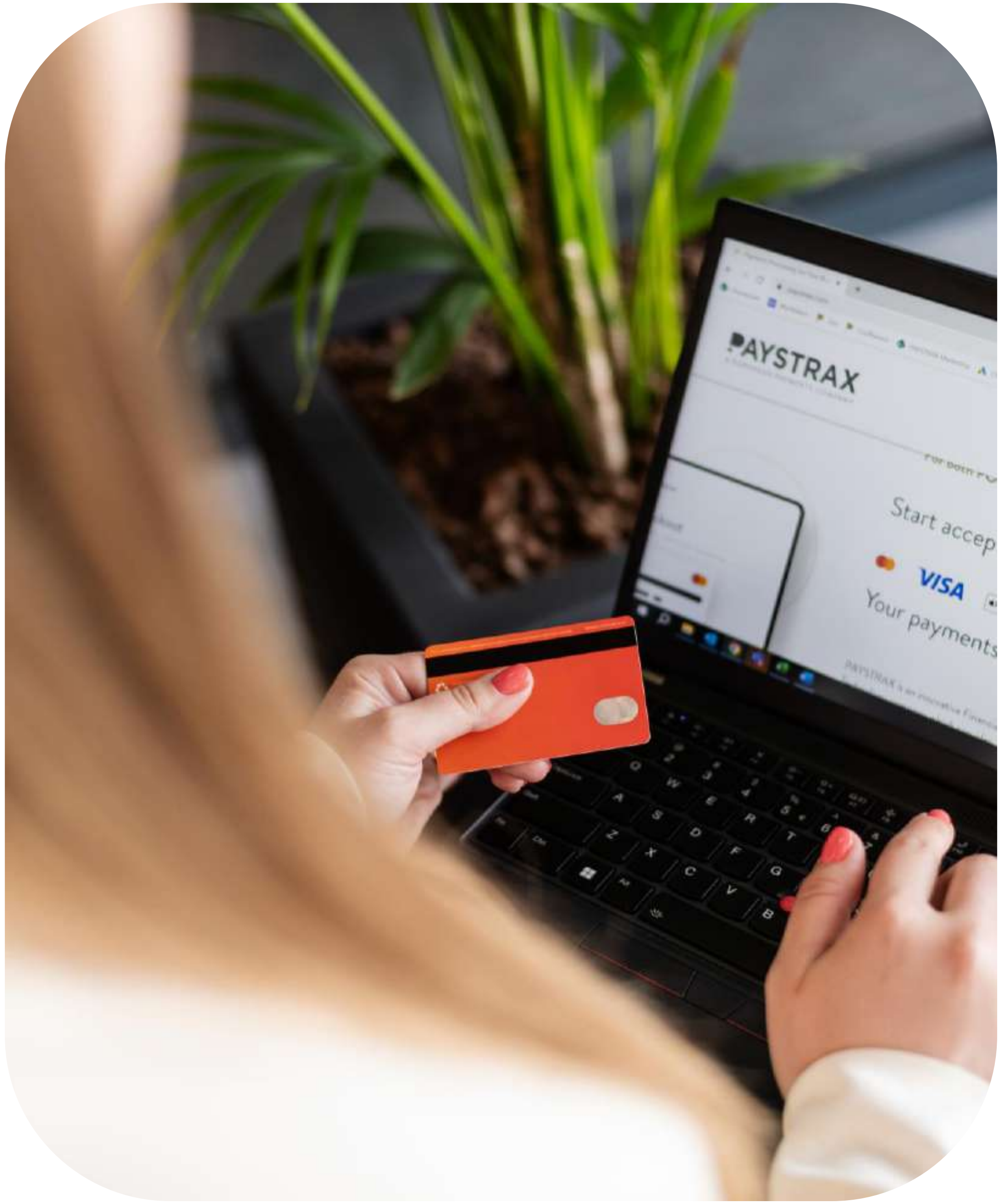
Main Challenges

Can small acquirers still compete?



PSD1 - a market meant for many.

- PSD1 (2007): Let there be competition!
- Payment Institutions were introduced to open up the market.
- Low entry barriers, simple licensing, small governance footprint.
- The goal: allow small, innovative firms to challenge big banks.
- Increase competition in order to
  - enable innovation,
  - new technology,
  - user friendly products and
  - lower prices.

"Spoiler alert: That dream is dying... death by paperwork."

What payment institutions & card acquirers face today

- The rapid layering of Regulatory burden: **PSD2, PSD3 (soon), AMLD5/6, GDPR, DORA, AMLA & etc.**
- Oversight from: **Central banks, FIUs, DPAs, card schemes.**
- Plus: **Internal audits, risk, compliance, MLRO, transaction monitoring, heavy reporting obligations...**
- The prime goal for rules and regulations in financial services are **consumer protection,** but often implemented at the cost of innovation and competition.
- There is coordination in legislation across EU/EEA, but **enforcement is widely inconsistent.**

"We went from being fintechs to regtechs by necessity."

Regulations

	Regulation
International legislation	Anti-Money Laundering Directives
	Payment Services Directive
	General Data Protection Regulation (GDPR)
	The United Nations Convention Against Corruption (UNCAC)
	United Nations International Convention for the Suppression of the Financing of Terrorism
	The Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
EBA guidelines	Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions ('The ML/TF Risk Factors Guidelines') under Articles 17 and 18(4) of Directive (EU) 2015/849
	Guidelines on internal governance under Directive 2013/36/EU
	Guidelines on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849
	Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849

Regulations

- Financial Services and Markets Act 2000
- Payment Services Regulations 2017
- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
- UK GDPR & Data Protection Act 2018
- FCA Handbook
- Sanctions and Anti-Money Laundering Act 2018
- Proceeds of Crime Act (POCA) 2002
- Terrorism Act 2000

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Anti-Money Laundering Directives

General Data Protection Regulation (GDPR)

United Nations International Convention for the Suppression of the Financing of Terrorism

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relationships and occasional transactions ("The ML/TF Risk Factors Guidelines") under Articles 17 and

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(EU)

Regulations

Financial Services and Markets Act 2000

UK financial sanctions guidance

Payment Services Regulations 2017

JMLSG Guidance

2017

Consumer Rights Act 2015

UK Interchange Fee Regulation

UK Companies Act 2006

Proceeds of Crime Act (POCA) 2002

Other legal acts

Regulations

Law on the Financial Institutions of the Republic of Lithuania

UK financial sanctions guidance

Law on the Payment Institutions of the Republic of Lithuania

JMLSG Guidance

Law on the Payments of the Republic of Lithuania

Consumer Rights Act 2015

Law on the Prevention of Money Laundering and Terrorist Financing of the Republic of Lithuania

UK Interchange Fee Regulation

Law on the International Sanctions of the Republic of Lithuania

UK Companies Act 2006

Law on the Prevention of the Corruption of the Republic of Lithuania

Other legal acts

Terrorism Act 2000

Regulations

Law on the Financial Institutions of the Republic of Lithuania

Law on the Payment Institutions of the Republic of Lithuania

Law of the Republic of Lithuania on Tax Administration

Law on Public Limited Companies of the Republic of Lithuania

Law on Legal Protection of Personal Data of the Republic of Lithuania

Law on the Prevention of the Corruption of the Republic of Lithuania

Regulations

Resolution No. 03-138 of the Board of the Bank of Lithuania of 12 September 2017 "On the approval of the rules for submitting a notification on the acquisition and transfer of a qualifying share of the authorised capital and/or voting rights of financial market participants supervised by the Bank of Lithuania"

Resolution of the Board of the Bank of Lithuania No. 238 of 24 December 2009 "On Permits Issued by the Bank of Lithuania to Electronic Money and Payment Institutions"

Resolution No 03-17 of the Board of the Bank of Lithuania on the approval of 'Requirements for financial market participants to prevent money laundering and/or terrorist financing prevention'

Resolution No. 247 of the Board of the Bank of Lithuania of 30 December 2009 "On internal control, risk management and protection of funds received requirements for electronic money and payment institutions"

Resolution of the Board of the Bank of Lithuania No. 03-181 of 14 November 2013 "On the approval of the provisions on the assessment of managers and key function holders of financial market participants supervised by the Bank of Lithuania"

Other legal acts

Regulations

Resolution No. 03-138 of the Board of the Bank of Lithuania of 12 September 2017 "On the ... rules for submitting a notification on the acquisition and transfer of a qualifying ... capital and/or voting rights of financial market participants supe...

Resolution No. 03-83 of the Board of the Bank of Lithuania of 24 May 2018 "On the approval of the rules for calculating the initial capital and equity of electronic money institutions and payment institutions and the forms of the report on the calculation of the initial capital and equity of electronic money institutions (payment institutions)"

Resolution of the Board of the Bank of Lithuania No. 246 of 30 December 2009 "On the Rules for Maintaining the Public List of Electronic Money and Payment Institutions"

Resolution No 03-166 of the Board of the Bank of Lithuania on the approval of 'The Rules on the Outsourcing of Operational Functions of Financial Market Participants"

Resolution No. 58 of the Board of the Bank of Lithuania of 6 May 2004 "On the Approval of the General Rules for the Submission, Examination and Issuance of Permits by Financial Market Participants Supervised by the Bank of Lithuania"

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...rd of the Bank of Lithuania of 24 May 2018 "On the approval of the rules for ... of electronic money institutions and payment institutions and the ... initial capital and equity of electronic money institutions ...itutions)"

Guidelines of the Bank of Lithuania on Compliance Function

Resolution No 03-98 of the Board of the Bank of Lithuania on the approval of 'Instructions to financial market participants regarding the implementation of international sanctions'

Resolution No 03-166 of the Board of the Bank of Li... Outsourcing of Operational Functions of Financ...

Resolution No. 58 of the Board of the Bank of Lithuania of 6 May 2004 "On the Approval of th... Rules for the Submission, Examination and Issuance of Permits by Financial Market Participants Supervised by the Bank of Lithuania"

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Order of FCIS Director No V-240 on approval of ‘Money laundering and suspicious monetary operations or transactions recognition criteria list’

Order of FCIS Director No V-314 on the approval of ‘Technical requirements for the customer remote identification process using electronic means allowing direct video transmission’

Order of FCIS Director No V-129 on the approval of ‘Monetary operations, transactions and customer registers management policy’

Order of FCIS Director No V-131 on the approval of ‘Description of the procedure for the approval and presentation of a copy of the identity document’

Order of FCIS Director No V-273 on the approval of ‘Appropriate implementation of international financial sanctions in the area of supervision of FCIS’

Resolution No. 58 of the Board of the Bank of Lithuania of 6 May 2004 “On the Approval of th… Rules for the Submission, Examination and Issuance of Permits by Financial Market Participants Supervised by the Bank of Lithuania”

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Order of the Minister of the Interior of the Republic of Lithuania No 1V-701 on ‘Suspension of suspicious monetary operations or transactions, submitting information to FCIS, and submitting information to FCIS on cash transactions when the amount is equal to or greater than EUR 15,000 or its equivalent in foreign currency’

Order of the State Data Protection Inspectorate Director No 1T-72 (1.12.E) on the confirmation of ‘Description of the procedure for submitting personal data security breach report to the State Data Protection Inspectorate’

Order of FCIS Director No V-15...

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Equal Rules, Unequal Impact

The proportionality problem

Small acquirers are held to the same standards as:

- Large global banks with large compliance teams.
- Big fintechs with scale-driven compliance automation.

Yet, small PIs with down to 20 employees are expected to:

- Conduct comprehensive AML/KYC/KYB risk assessments.
- Build and run transaction monitoring systems, partly in real-time.
- Appoint independent audit and compliance functions.
- Maintain business continuity, ICT security, and fraud analytics programs akin to banks.
- Etc.

In small acquirers, 40–50% of all employees can be in governance roles: compliance, AML, risk, security, monitoring and reporting.

- Just a few years ago, it was 10–15% and it is far less in big banks.

AML/CTF: Still Fighting the Last War?

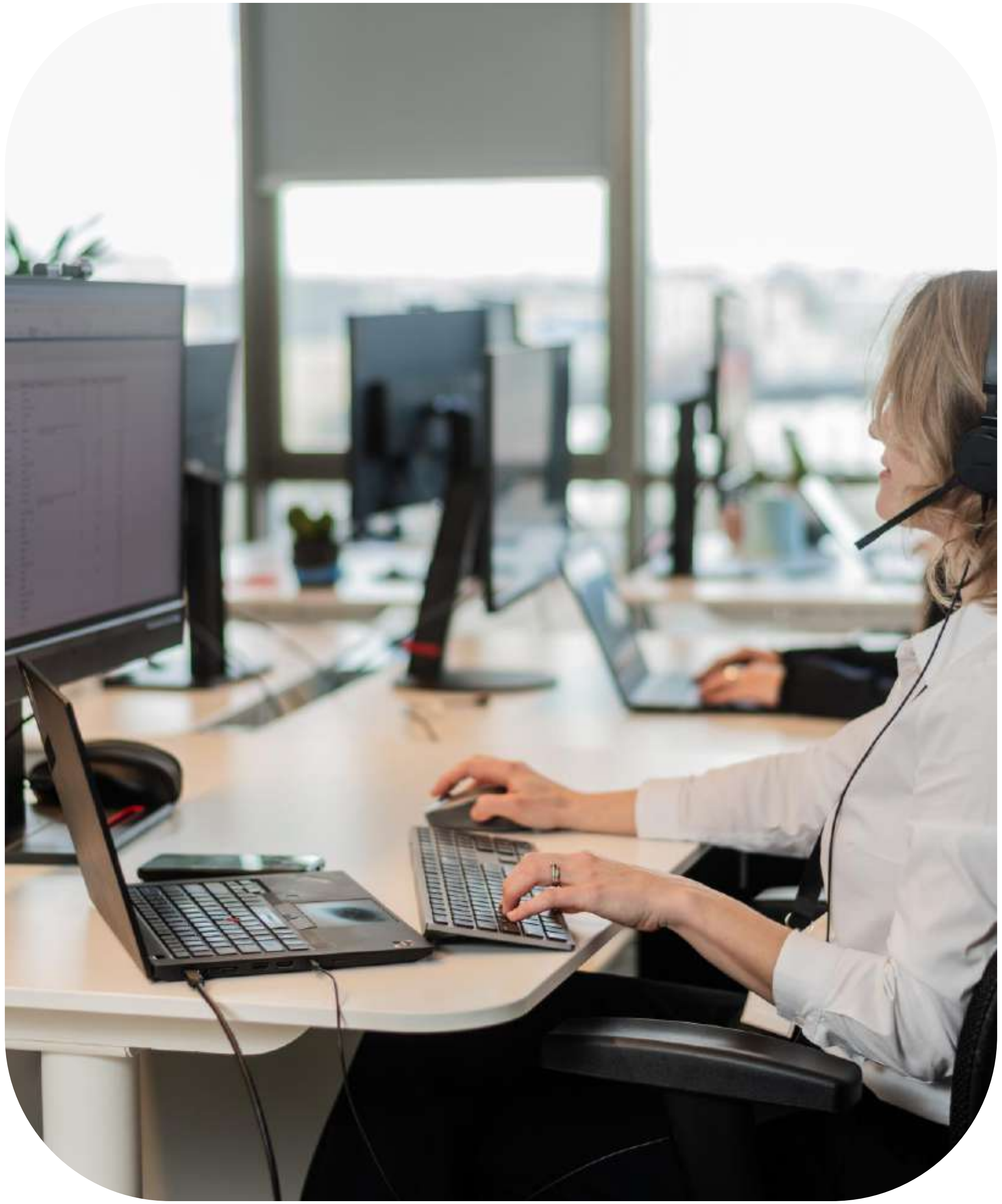
- CDD, ODD, EDD, SARs, KYC, KYB...
- The same merchants, cardholders and transactions are often monitored by 3 or more financial institutions.
- Some of the methods are outdated, built for paper trails, not digital crime.
- Real launderers have moved on.
- We chase PDFs and passport selfies.

"Money launderers use crypto mixers. We ask merchants for utility bills."

Letter vs. Princip based compliance

- Supervisors: "Follow the law to the letter."
- What about effectiveness?
- Box-ticking culture prevails.
- Costs rise, but doesn‘t always reduce the risks.

"Regulations want intelligence. Enforcement wants templates."



Copy-Paste legal frameworks but misaligned enforcement

- PSD2, AMLDs, GDPR – harmonized across EEA.

Same laws in all countries, e.g. Sweden, Estonia, Lithuania...

- Enforcement varies wildly:

Sweden, UK: remediation focus.

Lithuania: fines, warnings, press exposure.

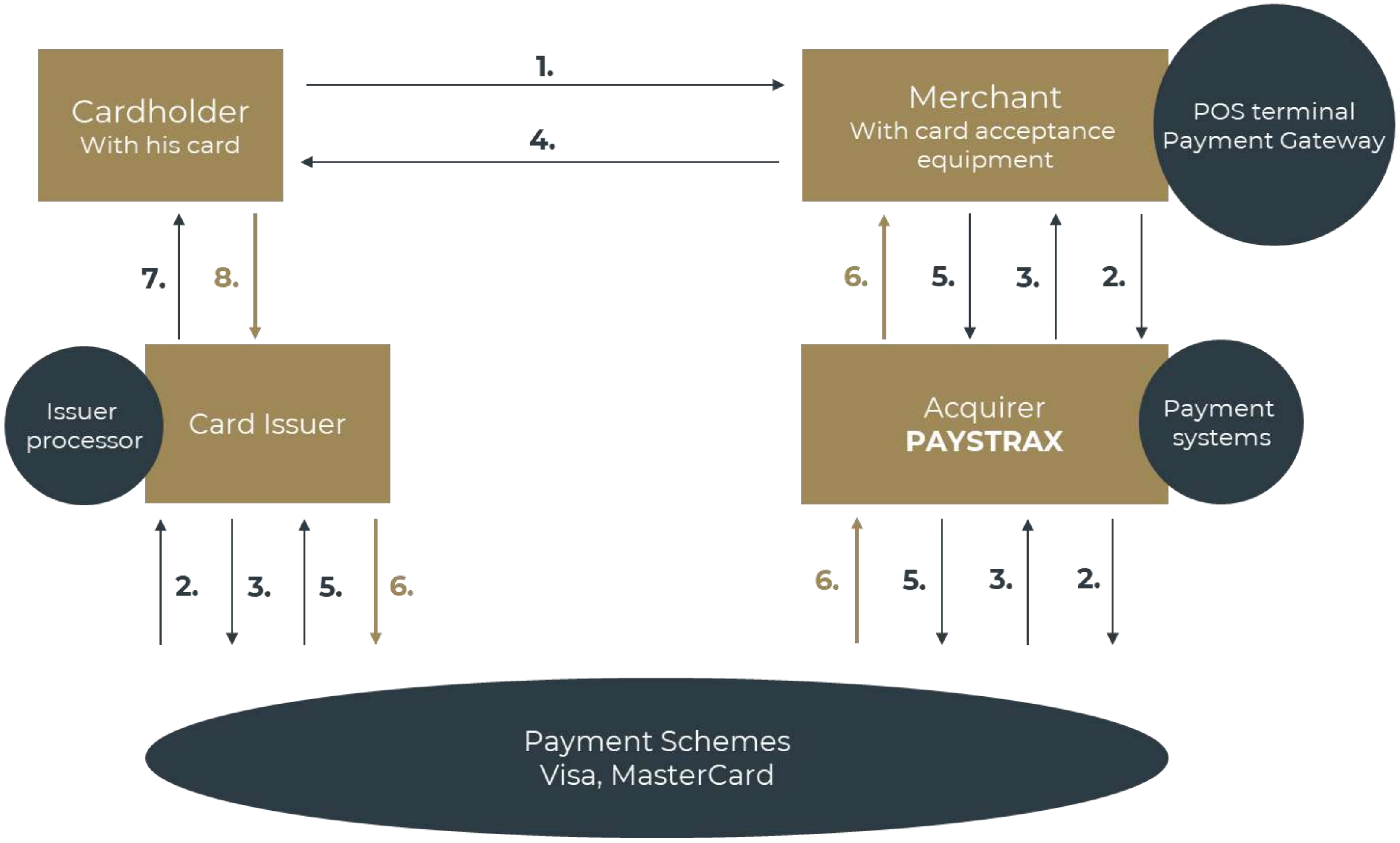
“Our problem is: You can't innovate under regulatory siege, where everybody is afraid of the authorities."

And then come the card schemes...

- Visa and Mastercard rules:
  - Risk thresholds, Reserve demands
  - Onboarding bureaucracy, no appeals, limited transparency
  - Penalties
  - Dispute systems, with chargebacks and frauds

Card Fraud and Friendly Fraud? Defined as fraud—yet it's not criminal.

PAYSTRAX 4-party system, transaction and fund flow

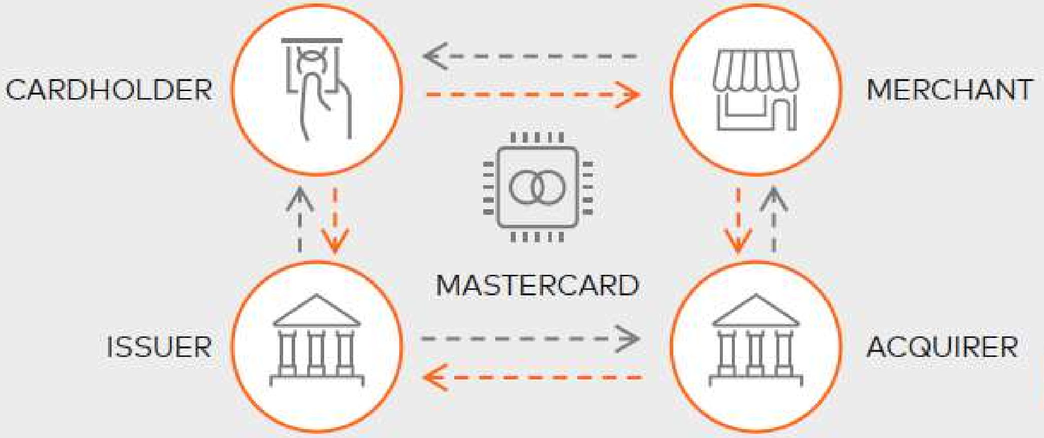


Payment process and fund flow:

1. Cardholder buys product/service and pays with card
2. Authorisation request from POS terminal/payment gateway
3. Authorisation reply from card issuer
4. Merchant delivers product/service to cardholder
5. Transaction is submitted
6. Transaction amount is settled to merchant (fund flow)
7. Monthly cardholder bill
8. Cardholder payment to the card issuer

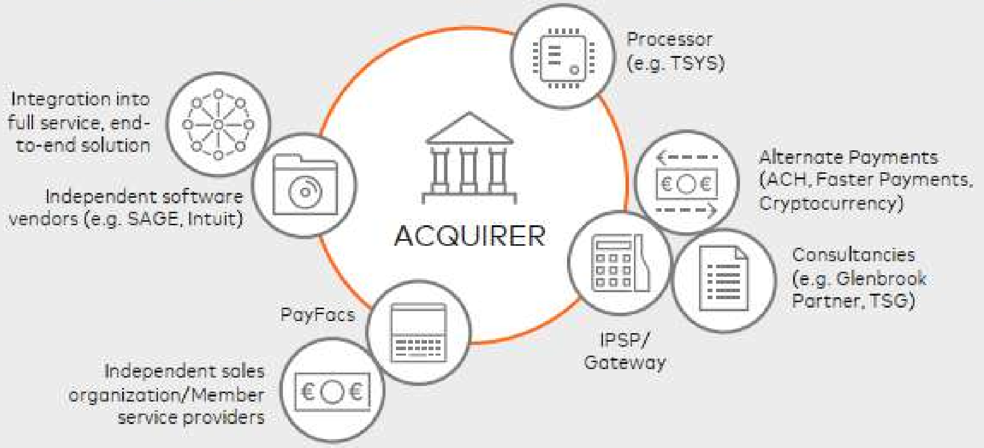
The acquiring landscape has become highly complex with the emergence of new business models slicing up the acquiring value chain into a number of new players

1990 – TRADITIONAL ACQUIRING



- **Simple 4-party model** with acquirer doing all functions (processing, risk management, sales etc.)
- **Acquirer takes the entire fee** for every payment transaction without sharing with other parties
- Mostly physical acceptance (POS machines) and **no e-commerce** payments
- Cards are the only payment instruments
- **Traditional banks** are major players with local acquiring
- Acquiring focused on **large merchants**

2020 – NEW AGE ACQUIRING



- **High complexity** with many players – processors, Payment Facilitators (PayFacs), gateways, ISOs, etc.
- **Lower fee** as transaction fee split across many parties in the value chain
- **POS, e-commerce and m-commerce** – industry moving towards omnichannel acceptance
- **Cards, mobile wallets, wearables** and other form factors
- Independent **central acquirers** (regional/global presence)
- Acceptance penetrates **SME** and recently also **micro- and nano-merchants**

*slides borrowed from Mastercard

The Bigger Picture

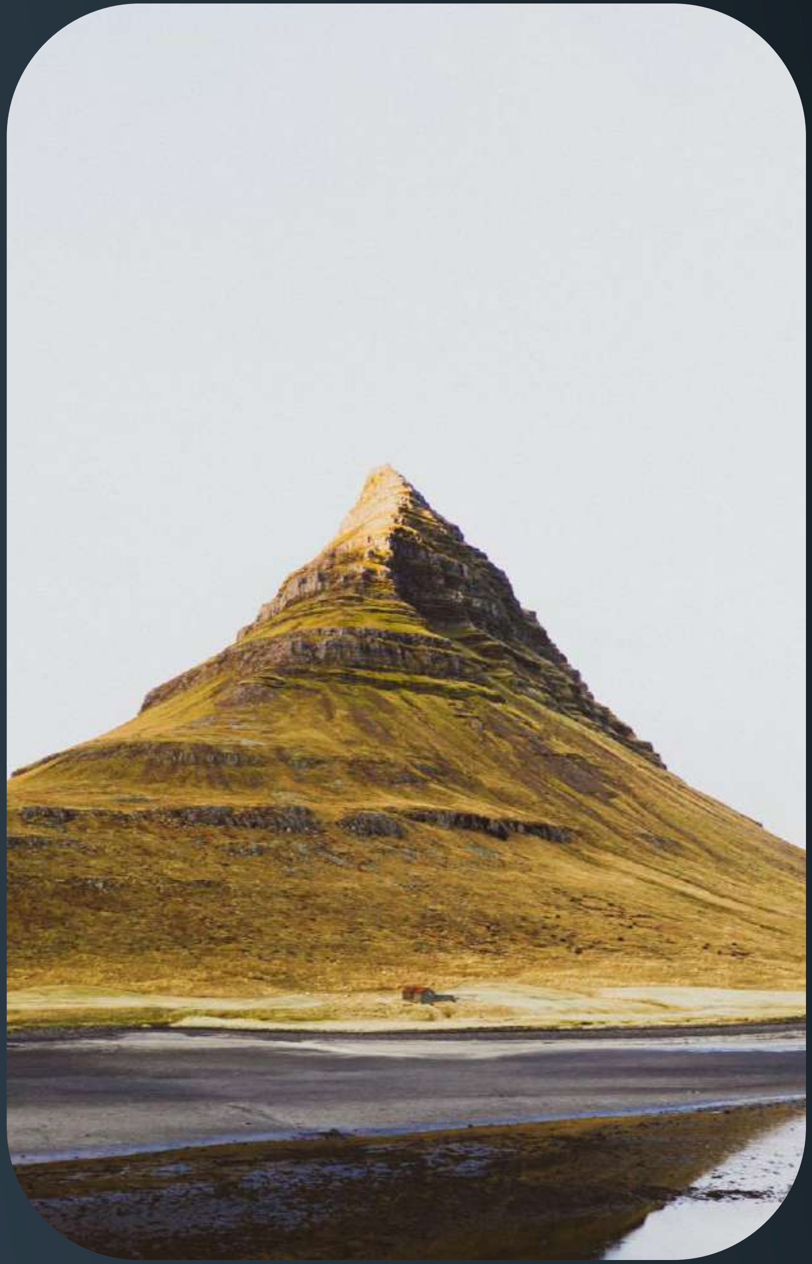
Market demands:

- Lower fees
- Faster onboarding
- Better UX

We want the same, but are buried in governance.

The market is tilted toward giants

- Big banks: vast resources, economies of scale, lobbying abilities.
- Small PIs: focus on innovation, agility, frugality.
- But we’re swamped with compliance work.
- This isn’t a level playing field.



How to level the playing field and enable small company competition

Reclaim the PSD vision

Give the smaller players a better chance to compete.

Introduce proportionality in regulatory burden.

Introduce streamlined compliance obligations, e.g. lower audit requirements, lighter reporting cadence or reduced governance structure for PIs.

Review all applicable laws and regulations

Make changes or remove regulations that cause more burden than benefits.

Align proportional and equal enforcement throughout the EU/EEA countries

The emphasis should be on fighting the real criminals and punishing them, not on punishing the market players for not complying 100% to legal letters.

We must think of new solutions to reach the same goals with less burden.

How to level the playing field and enable small company competition

Risk-Based Proportionality Frameworks

Regulators should enforce size and risk-based expectations more explicitly.

Example: DORA provides some exemptions for smaller ICT setups—this could be extended to AML and reporting.

Regulator Interpretation & Support

Clearer, less ambiguous regulatory guidance from supervisors helps PIs to be compliant, and also reduces reliance on expensive external consultants.

Introduce shared compliance infrastructure

Authorities should invest in a compliance infrastructure to the benefit of all. So that not all individual market player has to have their own full blown infrastructure.

Encourage industry-led utilities or cooperatives that share transaction monitoring tools, AML databases, and risk scoring engines. Analogous to shared KYC repositories in capital markets (e.g., KYC.com).

Conclusion - Reality Check

- Running a small acquirer today is a governance marathon.
- The original PSD spirit is fading away.
- Let’s rebalance regulation with proportionality.

"Let small firms breathe, and they'll build a healthy, innovative and efficient future of payments."

Imagine a world where regulatory enforcement is risk-based, supportive, and consistent. Where small PIs can invest more in product innovation than policy **revision.**

Where regulators act as partners, not punishers, and healthy, well-governed businesses are empowered, not buried.

In that world:

- New entrants bring real competition.
- Merchant fees go down—not only because of pressure, but because compliance isn't eating half the budget.
- Payments are faster, smarter, safer and fair.

That world isn't fiction. It was the founding vision of PSD1. And it's still within reach, if we remember what we set out to build.

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Thank you!

Feel free to reach out if you ever need card acquiring services!

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