

Master balance and collateral in card issuing projects

During the implementation of card issuing projects with Verestro and our partner payment institutions, we receive questions about liquidity management and collateral in card issuing projects. Let me summarize and explain the key dependencies.

There are two important points that need to be taken into account:

1. Collateral - this is a dedicated amount of money and account which needs to be transferred by our partner to our account to cover costs of payment risks and collateral that we need to pay to Mastercard or VISA. Usually it is between 3-5 days of transaction volume. The collateral is non-refundable until the end of the project and may grow in time together with the volume of transactions. If we do not take collateral, there is a risk that in case of growth, we will have to block the partners' transactions because we will not have enough liquidity at Mastercard or VISA accounts.

2. Master balance - it is an account (in other words cash balance) dedicated to our card issuing partners where our partner stores his own money which covers fees paid to Quicko and/or transaction settlement in case of working with external balance API. There are two possible situations that affect the amount of the master balance:

- Scenario 1 - In case External balance API is used which means that partner keeps information about user balance and every transaction authorisation is routed to partner for approval. In such a case we have to keep the Master balance of the partner up to the amount of transactions. Every transaction authorisation is verified by the partner but also on our Master balance account. A day later we have to settle money for this transaction with Mastercard so we must have enough cash on Master balance to cover this transaction amount. Every day or any time our partner transfers additional money to the Master balance to make sure that there is enough liquidity to cover costs of transactions of their users. This means that the amount on the Master balance is high enough to cover transactions of users during a day, week etc.
- Scenario 2 - In case internal balances are used, we have a situation where all users' money are kept at our payment institution. It means that the partner does not need to provide additional funds to cover transaction volume. In such a case the partner

needs to transfer just an adequate amount to cover the amount of transaction and card fees to be paid for card issuing activities.

In all card issuing projects both collateral and masterbalance exist so please make sure you are aware of differences between those two definitions.

Thanks for reading.

Revision #5

Created 12 April 2024 04:31:48 by Krzysztof Drzyzga

Updated 18 April 2024 05:08:55 by Justyna Mazurek