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Acquirers grapple with new payments landscape

By Jane Cooper | Published: 02 February, 2015 | Comment on this article

The explosion in payment choices in recent years has left consumers confused as banks struggle to keep up with the latest innovations. This has made the role of the merchant acquirer more important than ever, as Jane Cooper discovers.

The payments industry is changing rapidly, with a proliferation of new ways to pay becoming available every year. Scanning a finger, tapping a bracelet or using Bitcoin are just some of the ways that consumers can now pay. The options are endless, but behind these transactions is an industry that is grappling with the pace of change to ensure that this choice does not result in a confused customer base.

Merchant acquiring is an oft-ignored part of the banking industry, but its role is crucial to consumer payments. Every time a consumer pays by card – or other method – it is the acquirer that captures, authorises, processes and settles that transaction. For consumers, the acquirer may only be the name that pops up on the screen as their payment is processed. For retailers, the acquirers are the ones who make it possible for them to accept card payments.

Philip McHugh, chief executive officer of Barclaycard Business Solutions, has witnessed a big change in merchant acquiring in recent years. “It has gone from boring to exciting and from simple to more complicated,” he says. Now it is not just additional payment networks that are on offer, such as China UnionPay, but mobile schemes such as Apple Pay as well as different form factors, including wearables and near-field-communication (NFC) technology. “Merchants are looking at all of this and saying ‘I cannot accept 200 payment [types]',” says Mr McHugh.

Merchant bombardment

Merchants are “bombarded” with what are billed as the latest solutions, says Zilvinas Bareisis, senior banking analyst at consultancy Celent. This, in his view, is just one of the factors that has made merchant acquiring “the most exciting area of payments” in recent months. As well as the increasing number of payment types, there are other forces at play. “There are now even more different types of merchants accepting payments,” says Mr Bareisis. This can range from the complex needs of the largest supermarkets to the sole traders who use their smartphones to accept payments. As well as accepting payments at the point of sale (POS) in the physical world, online shopping and e-commerce is growing rapidly. “Suddenly the scope for serving the merchants has increased,” says Mr Bareisis.

Considering these challenges, Mr McHugh at Barclaycard explains that his philosophy is not about finding a “silver bullet” for the next most popular payment type. “We want to be a business that helps customers pay any way they want, and allow merchants to accept payments any way they want. The people who figure that out will be the winners in this business. If you are focused on the latest gizmo, innovation and product you can lose out,” he says, adding that acquiring is about helping merchants make sales – whether it is in store or online – and being quick, dependable and reliable.

Acquiring is very much a scale game, which requires significant investment in technology – something that credit card transactions company Elavon has been doing in recent years. “We will continue to invest to retain our advantage. Scale continues to matter in payments, as well as security and reliability,” says Simon Haslam, the company's CEO.

The art of acquiring

While these things have always been important to payments, now the industry is having to consider other aspects of transactions. “Acquiring is now a bit of an art,” says Ron Kalifa, deputy chairman of payment processing company WorldPay. Acquiring used to be about the processing of transactions, but these days the art comes from using data to enable the merchant to sell more to their customers, he says.

Mr Haslam, meanwhile, says it is about adding value. “Most industries have to bring new value to their customers, or risk decline, and payments is no exception,” he says.

Offering different services adjacent to payments is also important, according to Mr Bareisis. He says that even POS terminal manufacturers are branching out into other areas and making several acquisitions.

VeriFone, for example, is no longer focused on just capturing payments. “Connected commerce” is the phrase that June Yee Felix, president of VeriFone Europe, uses. VeriFone is known for its equipment at retailers’ tills, but now the company is extending into partnerships and payment ecosystems, rather than just the hardware at the point of sale.

“By the time they even get to the store we make it easy for customers to do transactions,” says Ms Felix. In an example of catching the customer before they even think about paying, VeriFone partnered in the US with Gilbarco, a company that provides fuel pumps and other technology for petrol stations. Through the partnership, which was announced in 2014, VeriFone is able to broadcast entertainment and advertising to people paying at the pump – a captive audience. When people fill their vehicles with petrol, explains Ms Felix, “usually within 15 minutes they go somewhere and spend money”.

A banking business?

There is a debate about whether bank acquirers or independent companies are best placed to provide these transaction services and keep up with all the changes occurring in the payments industry. In Europe, merchant acquirers were often bank owned, whereas the US has more of a history of independent companies – such as First Data – in the acquiring space.

In recent years, banks have had to decide whether acquiring is a key part of their strategy. Some have decided that it is core to their business while others have not. In the UK, for example, two major banks – HSBC and RBS – sold off their acquiring divisions in 2009 and 2010, respectively. WorldPay, RBS’s former acquiring business, is now owned by private equity firms Bain Capital and Advent International.

This sale has been good for everyone, says Mr Kalifa at WorldPay. RBS was able to divest an asset as part of its agreement with regulators for receiving state aid while the business was able to get the attention and investment it deserves. “It has been good for RBS, customers and staff,” says Mr Kalifa, who adds that the business has been able to grow at a faster pace since becoming independent.

Faster growth was the reason behind Worldline’s spin-off last year. The European acquirer had an initial public offering (IPO) in June 2014, separating it from French IT firm Atos so that it could expand. At the time the IPO was announced, Gilles Grapinet, CEO of Worldline, said: “With this IPO, Worldline will significantly increase its strategic and financial flexibility to seize opportunities and enlarge its footprint in the fast-moving and rapidly growing payment markets.”

The partnership model

First Data, which is owned by private equity firm KKR, has entered into a number of partnerships with banks. One of these partnerships is a joint venture with Bank of America Merchant Services. Tim Tynan, CEO of Bank of America Merchant Services, believes that this model is the best in the industry because of the combination of the bank’s expertise and First Data's technology, platform and innovation.

Although Elavon operates under a separate brand, it is owned by US Bancorp. “While several other [companies] in our space are sourcing capital for IPOs or via private equity firms, and managing all the overhead that comes with that, we have no such distraction – we can focus on executing our long-term and short-term strategies with customers as our focus,” says Mr Haslam.

When asked whether US Bancorp has considered spinning off Elavon, Mr Haslam says: “We are core to the bank’s payment organisation and a spin-off is not a consideration.”

Michael K Passilla, CEO of Chase Merchant Services, the payment processing and merchant acquiring business of JPMorgan Chase, has a similar answer. “The synergies we have are huge and I don’t see us divesting,” he says.

UK-based Barclays also stands out as it is one of the few banks that has kept its acquiring division. The bank has certain advantages because Barclaycard has scale as a merchant acquirer and is also a large issuer of cards. In the UK market, for example, this means that it has a large market share at both ends of the payments process; Barclays puts many of the cards into the hands of consumers, and is also on the receiving end of the payments at the retailers as well.

This can be useful when introducing new products to market, such as contactless payments that only require a consumer to tap their card – or other NFC-enabled device – against a terminal. By being both the acquirer and the issuer, Barclaycard was able to introduce the NFC terminals to merchants as well as issue contactless cards to its customers, giving the new payment type a kickstart to becoming mainstream.

Also, if a bank is both a large issuer and acquirer it means that it can process ‘on us’ transactions in a closed-loop environment. This means, for example, when a customer pays for something in a shop, if the same bank is behind both the card and the retailer’s terminal, that payment can be processed internally by the bank. This removes the need for the payment to travel across an external network such as Visa or MasterCard.

Given all the choice that is now available to merchants and consumers, Mr Passilla says of Chase Merchant Services’ strategy: “Our best investment is continuing to innovate to make payments easy, safe and simple for businesses and consumers.

“Also this year, we will launch Chase Pay in the US, which will offer customers a simple payment option when making an online payment transaction. Chase Pay enables consumers to pay with their Chase card at participating online merchants without the need to key in their payment, billing and shipping details. For the consumer, it’s easy, secure and simple. When consumers ‘checkout with confidence’, Chase Pay reduces purchase path friction, which lowers shopping cart abandonment. Because Chase knows its consumers, approval rates of Chase Pay transactions are typically higher.”

New challengers

Regardless of whether the acquirers are independent or bank owned, the traditional players are being challenged by a number of smaller, more nimble companies such as Stripe and Braintree, which enable merchants to accept payments over the internet and focus on customer experience. Mr Bareisis notes that these companies have an advantage because their technology seamlessly integrates into the merchants’ business.

Another company that is challenging the incumbents is Credorax. Koen Vanpraet, chief commercial officer at Credorax, says: “We are a technology company that moved into acquiring.” The company is registered as a financial institution in Europe and licensed as an acquirer in each of the markets where it processes payments. While traditional acquiring has been built around card issuance and POS terminals, Credorax is targeting the e-commerce and m-commerce markets.

Credorax has a single global platform, which means that a merchant can accept payments from customers in other markets without needing another acquirer. In the past, says Mr Vanpraet, if an online retailer wanted to expand into the US and the UK, for example, they would have to sign up with acquirers in each of those markets.

Although there has been a vision of seamless cross-border acquiring across the various countries in Europe with the Single Euro Payments Area, it has not been realised yet, according to Mr Bareisis. “That vision is still not there. Most merchants selling across Europe still have multiple acquiring contracts,” he says.

Keeping ahead of these innovations is a challenge for the traditional acquirers. Mr Tynan at Bank of America Merchant Services says: “The leaders will find ways to adapt to the rapidly changing environment and create the best experiences for both the merchant and their customers.”

Part of this changing environment is the blurring of payment types. “It is inevitable that the market is converging. There is still a defined line between e-commerce and POS, but you will see that line becoming thinner and thinner. At some point it will be just a transaction,” says Mr Vanpraet.

Mr Tynan agrees, saying: “We are experiencing an increased convergence of the physical and digital worlds that creates significant opportunities. Examples include a POS system supported by a cloud-based app store or the ease and growth of both e-commerce and m-commerce payments. But it’s not just about the technology, it’s about enhancing our client’s customer’s experience,” says Mr Tynan.

Focusing on what the consumers and merchants want can be difficult with so many choices now available, but WorldPay’s Mr Kalifa also sees the opportunities in this new payments world. “Apple Pay, Bitcoin, biometrics, APIs – at the end of the day it is all good because it is pushing the boundaries, particularly against traditional players, and requires them to invest to stay at the forefront of what the consumer and merchant wants,” he says.