EPA ASIA

ROUNDTABLE
THE FUTURE OF MERCHANT ACQUIRING

In collaboration with ingenico a Worldline brand

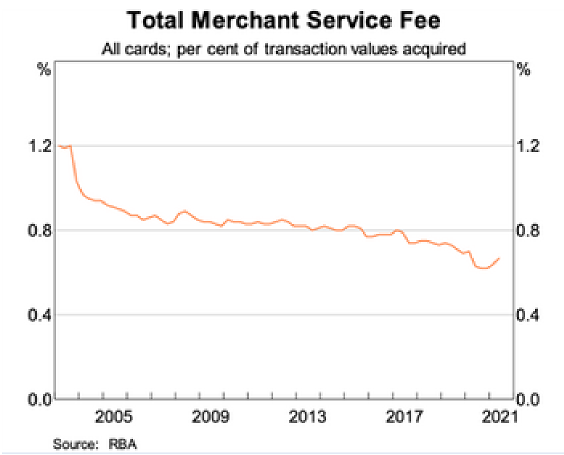
April 2022

The Future of Merchant Acquiring … Acquiring is more than just payments

Over 20 payments professionals from a range of backgrounds gathered on 27 April 2022 to round table the future of merchant acquiring – a lively discussion in a collegiate atmosphere led by Lance Blockley of The Initiatives Group ensued. This following article will present some of the key highlights.

Downwards pressure on revenue - The RBA intervention kicks things off

Since the first RBA (Reserve Bank of Australia) intervention into the cost of card payments in 2003, merchant service fees have reduced from an average of 1.2% to close to 0.7%. This margin pie getting smaller has impacted all aspects of the fees – interchange, scheme fees and, most importantly in the context of our conversation, the fees earned by merchant acquirers.



Adding to this downward pressure on fees has been:

- Australian merchants becoming sensitised to the price that they pay for accepting cards;
- the rapid rise in the use of cards - merchants are paying more in total as the number and value of card transactions has increased by far more than the 40% reduction in the cost per $ transacted; and
- the persisting perception by the majority of merchants (who are primarily small merchants) that cash costs nothing to accept.

Upward pressure on costs – no arguments around the table

The cost of compliance with regulatory and scheme mandates is "incredibly high and increasing".

In addition, there are the costs of delivering functionality to keep up with competitors, as well as innovations to gain a competitive advantage.

This particularly impacts our largest 4 acquirers, who, whilst they control over 80% of the market, have to deal with legacy transaction processing platforms which are costly to enhance and modify.

The changing competitive landscape
Australia's "Big 4" acquirers are experiencing greater competition from global acquirers, many "recently arrived" in Australia, such as Adyen, Stripe, Worldpay, Fiserv, Global Payments and Worldline (through its JV with ANZ), and local acquirers such as Till Payments and WPay. In addition, there is increasing disintermediation of the merchant-acquirer relationship by payment facilitators, ecommerce shopping carts and POS platform providers offering payments functionality (white labelled by licenced acquirers) within their service bundles.

You only become a commodity if you sell on price – is price everything?

A resounding "No" to price being everything, but it's tough. Everyone agrees that acquiring is/should be about far more than just the payment transaction, but in a market where the vast majority of merchants have been trained to be price sensitive, acquirers need to "deliver the value of the value add" in order to support their basic fee levels and then try to successfully monetise services that merchants may choose to pay for as add-ons.

Let's do a bit of market maths [1]
In Australia there are approximately 700,000 merchants with 75,000 (about 10%) accounting for 90% of the value of card transactions. The balance of 625,000 merchants delivering 10% of the business create an estimated 44% of net acquirer income. They offer more "dollar for dollar" but they are less capable of leveraging payments and the associated data to deliver greater value from the acquirer relationship... [1] *The Initiatives Group estimates, 2019*

What might merchants be willing to pay?

A fair price. But a fair price, whether it is 0.7% or 1.5%, means different things to different merchants.

Smaller merchants are likely to pay more for simplicity of pricing models, speed of set up and use, and integration with their existing POS platform. They are more likely also to recognise that they will pay more for the smaller volumes of transactions they can deliver. In fact, our market maths breakout box shows that they do pay more by delivering higher net per dollar fees to acquirers than the large merchants.

> *"For an SME it's just not worth it to shave a few basis points off the cost of payments, but in the face of media headlines we need to convince them..."*

Larger merchants will demand lower fees based on larger volumes, and pricing granularity down to dynamically calculated interchange + scheme fees + acquirer margin.

Merchants large and small are likely to pay more (or at least be less likely to switch provider for a better price) if acquirers can provide value added services that deliver demonstrable improvements to their business.

Delivering the value out of the "value add"

The fair price is all about value. Whilst pricing undoubtedly needs to be "in the ballpark", it also needs to be supported by value adds.

Much of the discussion was about whether or not merchants would pay more for the data associated with their transactions – the consensus was they won't. However, they will pay (or be more likely stay) if the data is delivered to them in a way that is not about the numbers themselves, but rather as an insight or an outcome that meets the needs of the merchant. This may be as simple as using it to provide implementable ideas on bringing new customers to the merchant or encouraging larger transaction sizes, or as complex as assisting a merchant in selecting the location of a new store.

But it is critical to recognise that the needs and capabilities of merchants to exploit payments related opportunities do vary dramatically. Only a handful of merchants will be able to effectively use a data feed straight into their data analytics system – most won't, as most will not have a "data analytics system". Acquirers must use a needs-based spectrum of support services, from delivering relevant insights and suggestions, through to localised business building promotions on behalf of small merchants (and reporting the individual results to each merchant).

Getting better – from partnering to exiting

"To be in or enter acquiring you need to be crazy, brave or stupid" - an extreme statement likely more relevant to acquirers who are not using acquiring to attract, retain and cross-sell (margin generating) business banking products. Thought provoking all the same.

Where acquirers are only providing payments processing, low margins are:

- demanding creation of economies of scale, and recognising that it may be more important to be building the experience around the payment and then monetising related services;
- making it more difficult to achieve the ROI required to invest in and deploy innovation within legacy acquiring systems – will it be better to outsource or enter a Joint venture?; and
- making it more attractive to others in the eco-system … where transaction fees are additive to existing, profitable businesses focussed on the merchant sector, such as shopping carts or POS platform providers – increasing the risk of the aforementioned disintermediation of the acquirer from the merchant.

Consider also the current model of POS terminals being bundled into the acquiring deal – is this what merchants really want or need or, in some cases, is it better for acquirers to allow merchants to BYO the POS terminal of their choice?

Managing fraud – “Why should an online purchase be data rich, yet an in-store purchase (with a real person) be anonymous?”

Fraud at physical POS has been minimised (e.g. Chip&PIN) and the far more prevalent ecommerce/CNP fraud is, within reason, under control.

However, fraud has not disappeared. As such, it is mandatory that acquirers provide a good fraud solution “out of the box”, or where a merchant is sophisticated enough to choose a separate fraud platform, make integration of this with the chosen acquirer easy. Some argue that the payments industry has erred towards convenience at the cost of security over the past decade, with a push for "seamless" payments.

Others believe that this is wrong: indeed today identity theft and scams are responsible for far larger financial losses...

The reality is likely somewhere in between, and more related to fraud controls being appropriately deployed for each payment channel.

An interesting discussion ensued about tokenisation. The merchant view on tokenisation was mixed: maybe a very beneficial move for card-on-file in ecommerce, where customer data is already held; but in the form of digital wallet credentials for tap’n’go transactions (whilst credited with further reduction of fraud at POS), it has hamstrung the ability of bricks and mortar merchants to get to identify and know their customer.

Is it appropriate that rich data is available to an ecommerce merchant about a customer who may be thousands of miles away in a different time zone and checks out as a guest, whilst there is a paucity of identification data available from the payment transaction with a digital wallet at physical POS regarding a customer who is a real person there in the store in front of the sales assistant? How can the merchant know the in-store customer is actually the same person that buys from them online, when the tokenised digital wallet prevents knowing who they are?

A loyalty program might overcome this apparent inequity, however loyalty programs are not necessarily appropriate for all types of merchants nor all types of customers.

It's not all about cards

Historically merchant acquiring has focussed on cards, and for good reason as they have been the dominant form of electronic payment at the checkout.

However, we're now in an era in Australia where physical cards are under threat and other payment rails can be activated within the virtual payments world. Whilst Apple Pay and Google Pay wallets are provisioned using cards, it's old news that mobile wallets such as Paypal and those prevalent in China have offered direct provisioning from bank accounts.

"Plastic cards are the cheques of 5 years ago..."

The growth of in-app payments and the rebirth of account-to-account payments with the ongoing growth of the NPP, the easy account identification offered by PayID and the soon to be launched PayTo services mean that card payment rails are no longer the only game in the payments acceptance and merchant acquiring. Payments are becoming embedded for consumers, and even from acquirers is becoming embedded for merchants (e.g. Bambora in Europe, and PayPal in a number of markets).

And this is all before what QR code enabled payments might mean...

“If you want to pay then tap’n’go, if you want more, then QR…”

Tap’n’go is fast, convenient and trusted. Australians are the biggest adopters of open-loop NFC tap’n’go payments in the world. But does that mean it cannot change?

Not necessarily. But how far will QR code enabled payments go? Undoubtedly, Covid 19 has trained us on how to use QR codes and to use our phones to pay more often.

But we have also experienced how slow QR codes can be. When considering the overall payment experience if all we want to do is tap and walk out then tap’n’go is likely the winner.

But if within the payment process consumers want to identify themselves as part of a merchant’s loyalty program and/or get real time access to tailored offers and make the payment, then a scan of a single QR code might very likely be the winner.

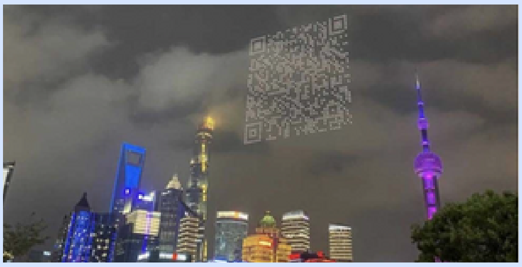
Horses for courses? – “If the merchant’s customers are 30 years old or less, then QR Codes are table stakes…”

Reflect that tap’n’go was in market for 6 years in Australia but did not get significant traction until the supermarkets adopted it in 2012. Consider then that the major supermarkets are now delivering single QR scan loyalty/offer/payment solutions at POS and think about what may be ahead. In addition, this is before provisioning the payment credential in-app using the NPP (New Payments Plattform*) is available….

**The New Payments Platform is a centralised platform that facilitates real-time clearing and settlements of payments between participating Australian financial institutions.*

Letting your imagination go...

QR codes as a total experience, not just a payment...



To celebrate the anniversary of a video game, its creators recently staged a massive drone show. In the city of Shanghai, a total of 1,500 drones soared through the sky, performing a series of choreographed performances in reference to the game.

The evening event featured characters from the game fighting each other, text messages and the game's logo among other things. However, the most interesting thing happened at the end of the show. All the drones formed a giant QR code in the sky.

By capturing this code through the camera of the mobile phone, viewers are taken directly to a personalised link. Through this link, they learned exclusive information about the video game and have the possibility to download it immediately to their mobile phone (undoubtedly linked to an embedded payment method!)

About the author
David Ojerholm

David has 40 years experience in financial services and over the last 6 years has specialised in payments as Partner at The Initiatives Group. His career includes being a founder of Pinpoint, that grew to provide loyalty programs to 25 banks, their 100 million customers and 50,000 merchants, eventually being acquired by Mastercard to become their global loyalty business. Prior to that David worked at Westpac and American Express.

Expert Participants

Moderator

Lance Blockley
MD, The Initiatives Group

Speakers

Barakat Elayyan
Sales Director , FIS

Karen Last
GM Merchant Solutions,CBA

Diana Augustine
Account Director, Ingenico

Nigel Fox
VP ANZ/APAC at Boost Payments Solutions

Nish Dharmaratne
Global Head of Product, GTS at Westpac

Katrina Stuart
Acting CEO New Payments Platform

Jennifer Berthold
Chief Commercial Officer at Linkly

Chris Hughes
Head of Merchant Payments at WPay

Brian McGrory
VP and Head- Merchant Sales and Acquiring at Visa

Callum Juniper
Business Development Director at Worldpay

Mike Ryan
Senior Director APAC at AfterPay

Vinay Rao
Chief Technology Officer at Till Payments

Stacey Ryland
VP Acquisition AU/NZ Merchant Services

Alison O'brien
Director of Customer Success at PayPal

Abhijit Guha
Executive Director Product at JPMorgan.

Sarah Bowles
Group Chief Digital Officer at EML

David Ojerholm
Company Director - The Initiatives Group

Karthik Ramasubramaniam
Senior Conuslting Partner EPAM Systems

We always turn to our members for thought leadership

Thank you

In collaboration with

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Over the past 40+years, Ingenico has constantly shaping innovative payment solutions with the best levels of security. With more than 35 million installed merchant terminals across the globe, our solutions, services and technology impact hundreds of millions of consumers, every single day. We are the global leader in in-store payment acceptance and the trusted partner of long-term industry players and newcomers alike.