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Acquiring: Winning Strategies for the Digital Revolution

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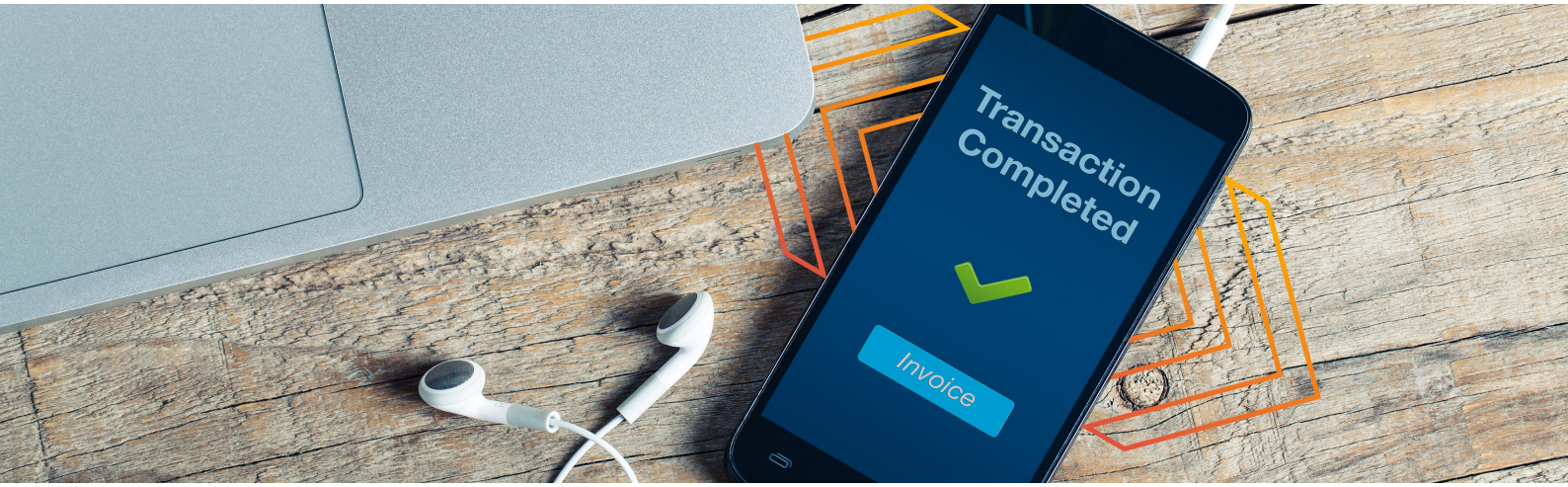
The changing commerce landscape demands a new approach for acquirers. To secure success, acquirers need to become payments partners.



Whether you're an established company or a new entrant, today's acquiring market is far from easy.

New payment trends such as instant account-to-account transactions, mobile wallets and cross-border e-commerce have brought greater complexity, while the evolution of shopper preferences and increased market diversity have made growth a challenge, even for some of the most well-established acquiring companies.

These challenges have led to two emerging trends: sector consolidation, with a spate of mega-mergers such as the acquisition of WorldPay by FIS Global or FIServ's acquisition of First Data Corporation; and secondly, the rise of specialist digital-first acquirers serving specific verticals such as the online gaming and leisure sectors.

Reading the runes: what's next?

Developing a winning strategy in this context is no mean feat – and trending consumer preferences only complicate the picture. Although digital wallets are projected to account for up to 35% of all transactions by 2025[1] and account-to-account solutions are rising fast, data from PCM's European Yearbooks predicts[2] cards will still be behind half of all transactions in five years' time.

Similarly, research from the United Nations shows that e-commerce now accounts for one dollar in every five spent world-wide[3] – and yet physical purchases (especially for higher-value items) will continue to make up half of all spending five years from now. With change being the one constant, how can acquirers stand out from the crowd, gain competitive advantage and win profitable market share?

Bridging the digital divide

Acquiring companies can suffer by being perceived as either "physical" or "digital". Digital acquirers (or those who only focus on e-commerce and m-commerce) risk limiting themselves to 15-20% of today's total addressable market, while those mainly serving in-store merchants could miss out on the

"Though digital wallets and account-to-account payments are rising fast, cards will still matter five years from now."

[1] **See WorldPay, "Global Payments Report 2021":** https://worldpay.globalpaymentsreport.com/en/?strala_id=1002907
[2] **See Payments Cards and Mobile, January-February 2021, "Still Holding All the Cards":** https://www.paymentscardsandmobile.com/magazines/european-payments-in-2021-still-holding-all-the-cards/
[3] **See UN News, 3 May 2021:** https://news.un.org/en/story/2021/05/1091182

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rapidly-growing online market. Customer behaviours are changing such that they now expect fast, secure and seamless transactions at all times – as well as the ability to browse in-store and shop via mobile - often at the same time.

Omnichannel – the new normal

While offering acquiring services for both online and physical transactions is important, successful acquiring needs to go further. Acquirers should be looking to develop technologies that support the ability to pay any time, anywhere via any device, as cross-border omnichannel payments become the new norm – as well as instant payments.

According to data from FIS Global[4], the number of shoppers using the internet to purchase across borders rose from 38% to 55% of all online shoppers during the pandemic. However, many of these shoppers were frustrated in their journey as their preferred payment method was not available. FIS estimates that if merchants (and their acquirers) were to offer a wider range of payment methods, merchants' conversion rates could increase by 58% on average, and up to 250% in some cases. Statistics like these underline the importance of working with merchants to offer a wide range of payment methods and currencies, including crypto, in both domestic and cross-border environments.

"Acquirers have the opportunity to offer real-time processing and fraud monitoring solutions to support their merchants' growth ambitions."

Omnichannel payments are overwhelmingly being driven by younger, mobile consumers. Within this segment, there's a strong preference for the immediacy of instant and faster payments methods. US instant payments service Venmo grew by 59% in 2020[5], and is now used by 15% of all US consumers; similar growth rates are being seen by Venmo's European counterparts like Trustly and others. As instant cross-border solutions grow in popularity among the young, acquirers have the opportunity to offer real-time processing and fraud monitoring solutions to support their merchants' growth ambitions.

SCA: acquirers add value

The recent introduction of Strong Customer Authentication, or SCA, provides a good example of how acquirers can help their merchants overcome significant challenges. Introduced to help fight rising online fraud as part of the EU's Second Payments Services Directive (PSD2), SCA provides protection through the provision of richer customer data in the transaction process and requires transactions above €30 to be confirmed via two-factor authentication.

According to TechHQ, fraud attempts through the digital channel reached a record high of 5.2% of all traffic in April 2021[6], while as many as one in seven attempted e-commerce transactions fail payment authorisation[7], according to The Economist, leading to lost revenue and frustrated customers.

Acquirers have the opportunity to work with merchants to advise on the best way to manage the move to SCA. Areas in which acquirers can add value include the introduction of robust fraud monitoring and 3DS solutions. Acquirers can also advise merchants on how to manage transaction declines and resubmissions, including the use of risk-screening software to decide whether to request an SCA exemption based on proven risk models. Such approaches will help to deliver a better experience for end customers and improve merchant revenue and conversion rates.

[4] **See FIS Global, 24 December 2020, "Cross-border e-commerce growth during the pandemic":** https://www.fisglobal.com/en/insights/merchant-solutions-worldpay/article/cross-border-e-commerce-growth-during-the-pandemic
[5] **See The Business of Apps:** https://www.businessofapps.com/data/venmo-statistics/
[6] **See Tech HQ, 21 May 2020, "As e-commerce booms, so does fraud":** https://techhq.com/2020/05/as-e-commerce-amid-covid-19-booms-so-does-fraud/
[7] **See Crowdfunding Insider, 17 April 2021:** https://www.crowdfundinsider.com/2021/04/174313-600-billion-lost-to-payment-declines-last-year-according-to-analysis-from-digital-commerce-fraud-prevention-fintech-riskified/

New landscape, new approaches

Despite all the uncertainty in the current market, a couple of points have emerged. Firstly, growing complexity means flawless execution and the highest levels of customer service are entry-level conditions for success. Secondly, merchants need richer transaction data from their acquiring partners to help them navigate increasing regulatory burdens, a widening range of payment methods and the advent of "omnichannel" payments. This enhanced data can be used by merchants both to protect their business through improved risk management and fraud protection, and for operational purposes such as inventory management and sales and marketing.

Winning acquirers will go even further, offering tailored software solutions based on rich data in areas like dispute resolution and customer profiling to help merchants make better-informed decisions. At a time when entirely new dimensions such as cryptocurrency and account-to-account payments are gaining ground, merchants need expert help to remain relevant and competitive.

Acquirers with the right technology in place to support merchant needs will cement their place as valuable partners to their merchants and position themselves well for future growth. Rather than undertake expensive and costly in-house builds, partnerships can help acquirers get value-added services to market more rapidly. Typically, these partnerships will be with agile service providers that can support merchants' existing needs – and anticipate what's coming next. While there's no denying the challenges acquirers face at present, building a great strategy based on rich transaction data, value-add services and partnerships will lead to success both today and in the emerging omnichannel environment.

"Acquirers should look beyond basic services to new approaches like richer transaction data and value-add services in fraud, risk and inventory management."

Tribe provides modular payments technology to banks, fintechs and acquirers, enabling them to offer innovative payments services without compromising on speed, scalability or quality.

Our core platform - ISAAC – supports issuer and acquirer processing and a range of API-led services including a proprietary 3D Secure solution, real-time data analysis and fraud and risk monitoring.

Tribe's technology stack also includes Digital Banking, Bank Connect and Open Banking solutions which give fintechs and payments companies fast, easy access to banking rails and financial services capabilities. Our cloud-based services provide clients and partners with enhanced flexibility and rapid speed to market, along with the ability to scale, expand across borders, and work better in complex regulatory environments.

To find out more about building a winning approach in today's acquiring market, get in touch with Tribe

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