



Multi-Acquiring and the Benefits for PSPs

Global PSP Survey

February 2021

ACI Worldwide
Real-Time Payments

 **Edgar, Dunn
& Company**



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1 Executive Summary

ACI Worldwide, in partnership with Edgar, Dunn & Company (EDC), has undertaken a study to explore the acquiring strategies adopted by leading global merchants and payment service providers (PSPs) to determine the operational, financial and other benefits associated with different approaches. This report includes the research findings for PSPs.

EDC surveyed PSPs from across the globe in the final quarter of 2020. Insights derived from the survey were supported by in-depth interviews with selected PSPs.

The study reveals that PSPs identify three main advantages of an acquirer-independent strategy and use of an acquirer-agnostic payments gateway that can support multiple acquirers. In summary the advantages are:

Resilience – It is critical for PSPs to maintain business continuity for their merchant customers in the event that an acquirer experiences a service outage or a business failure. Having connections to multiple acquirers reduces the risk of being unable to authorize transactions, as these can be re-routed to an alternative acquirer.

Flexibility – PSPs highly value the flexibility that a multi-acquiring strategy gives them, both to route transactions to different acquirers to maximize payments acceptance and to increase the range of alternative payment methods (APMs) they are able to offer their merchants.

Improved cost control – By optimizing transaction routing to multiple acquirers, a PSP can reduce declined transactions, in turn reducing operational costs. Operating in a highly competitive sector, PSPs who can reduce operational costs for their merchants will have a significant competitive advantage.

This report aims to capture a total overview of the market and also to determine how differences in the size of a PSP affect the importance attached to having a payments gateway that is acquirer-agnostic. We hope that the report will enable PSPs to determine the expected benefits for their organization of a multi-acquiring strategy. We also encourage PSPs to read the companion report for merchants to understand the views of their customers on the value of accessing multiple acquirer relationships.

“We are like a marriage guidance counselor—we sit in the middle of merchants and acquiring banks, we understand the requirements from the merchant’s point of view and the risk appetite from the acquirer’s point of view—we effectively liaise between the two parties and keep them talking to each other.”

Nick Fox, Managing Director, Access Merchant Services





Summary of Key Survey Findings

- + The main reasons PSPs use multiple acquiring relationships are for resilience (24%), to reduce operational costs for merchants (21%) and to improve conversion rates (13%). These are the same reasons given by merchants participating in this survey.
- + 45% of PSPs see flexibility as the primary benefit of being acquirer-agnostic.
- + 66% of PSPs that use a multi-acquiring arrangement state that they are either satisfied or very satisfied with this arrangement.
- + 70% of PSPs plan to increase the number of acquirers they use within the next 12 months. None of the PSPs participating in this survey plan to decrease the number of acquirers they use over the same period.



2 PSP Survey Findings

2.1 Background of PSP Survey and Participants

The aim of the survey was to determine the rationale for different acquiring strategies adopted by PSPs and to explore the operational benefits experienced by PSPs who work with a payments gateway that is able to support multiple acquirers. In total, 68 PSPs were surveyed, with the majority of their customers located in North America, Europe/MEA or globally (section 5 for PSP survey dashboard).

Figure 1 shows that 29% of the PSPs surveyed work with a single acquirer, with the remainder having multiple acquiring arrangements. Fifty-one percent use between two and 10 acquirers, while 7% are connected to more than 30 acquirers. One PSP in our survey has over 100 acquirer integrations.

How many acquirers do you currently work with across your entire payments gateway business?

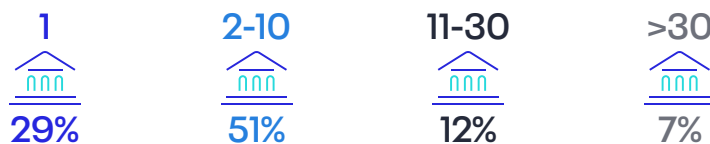


Figure 1

Note: Throughout this report, percentages have been rounded for simplicity, with the result that charts and graphs may not always total to 100%.

Figure 2 shows that 70% of PSPs are looking to increase the number of acquirers that they currently work with, while no respondents wish to reduce the number.

Do you have plans to change your acquiring arrangements within the next 12 months?

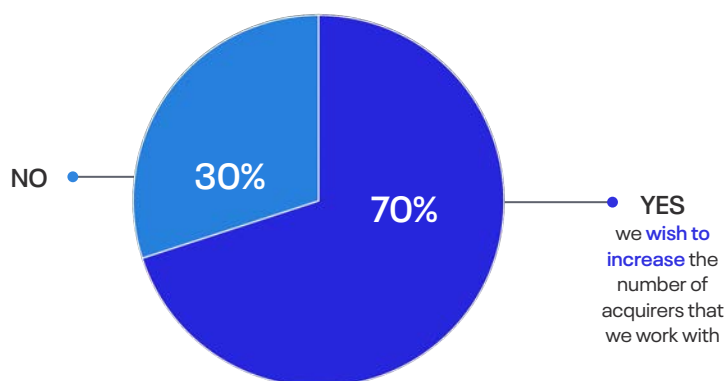


Figure 2





The decisions for us as a gateway to connect to different acquirers are largely driven by our merchants."

Jan Florian Richard
Global Partnerships and
Innovation—Financial Solutions,
Arvato



Having multiple acquirer relationships enables the PSP to negotiate price with them. We made a strategic decision to partner with ACI to minimize integration times with new acquirers."

Thierry Arrondo
Risk and Payments,
Vendo Services

When asked why they seek to increase the number of acquirer integrations, PSPs of different sizes appear to agree on the importance of increasing the operational service resilience of their business. **Figure 3** below reveals that smaller PSPs focus on increasing acquirer connections to optimize their operations, reduce operational costs and reduce declined transactions. On the other hand, larger PSPs (>50Bn transactions) have a focus on increasing the range of APMs they can offer to merchants, as well as enabling cross-border eCommerce and improving conversion rates.

Which of the following reasons drives your desire to increase the number of connections to acquirers? (Select up to 3 options)

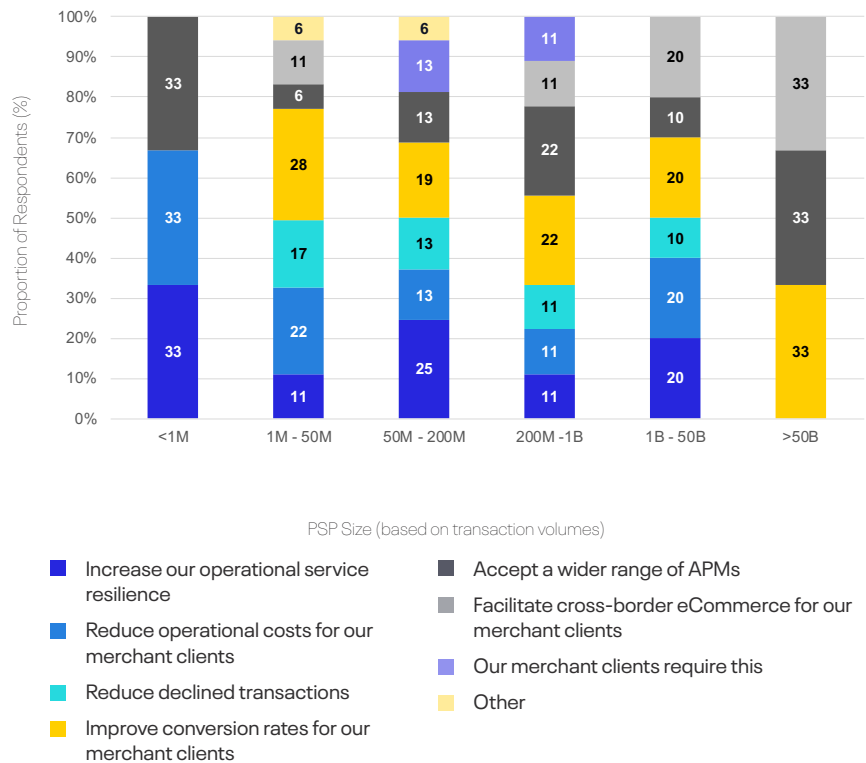


Figure 3

In outlining the benefits they enjoy through maintaining an acquirer independent stance, **Figure 4** shows that almost half (45%) of PSPs surveyed believe that this offers greater flexibility. Twenty-four percent say it improves cost control and 21% agree that it delivers resilience for their merchant clients.



As a PSP/payments gateway, what is the primary benefit of being acquirer-agnostic?

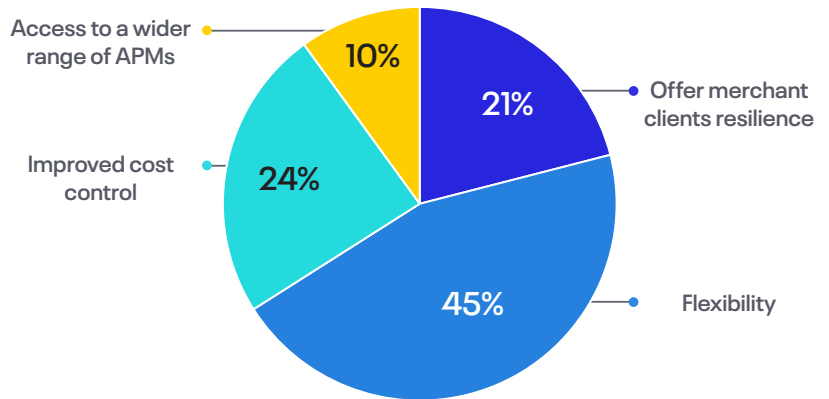


Figure 4

2.2 Primary Reasons for Working with Multiple Acquirers

The following section will examine how satisfied PSPs are with their connection to multiple acquirers and their primary reasons for opting for such an arrangement.

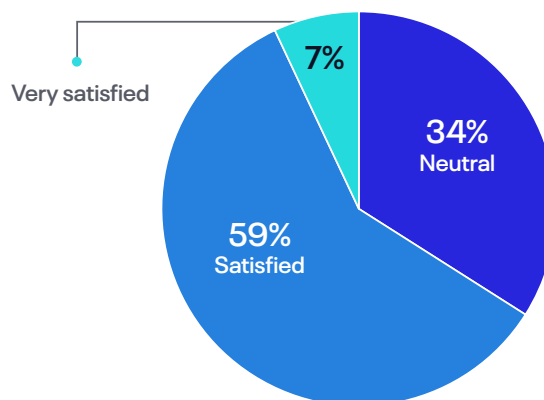


Figure 5

Of the 70% of PSPs that have relationships with multiple acquirers (Figure 1), over 65% are satisfied or very satisfied with their acquiring arrangement. There were no PSP respondents that claimed they were dissatisfied with their setup. This result is logical, as none of the surveyed PSPs plan to change from a multi-acquiring arrangement to a single arrangement (Figure 2).

The primary reasons PSPs give for working with multiple acquirers are resilience (24%), reducing operational costs (21%), improving conversion rates (13%), reducing declined transactions (9%) and enabling cross-border eCommerce (7%). Other reasons include being able to offer a case-by-case personalized service to build merchant loyalty.

What would be your primary reason for working with different acquirers? (Select up to 3 options)

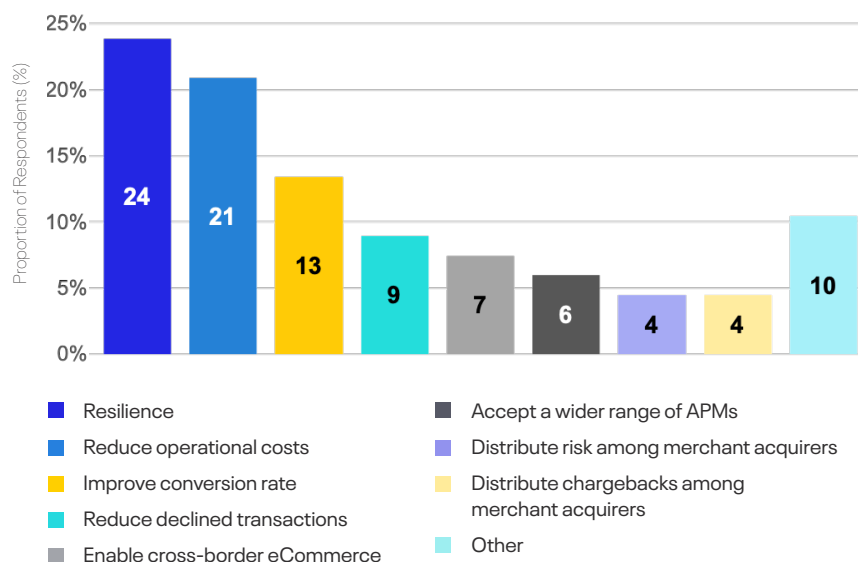


Figure 6

Looking at this in more depth, we can observe (Figure 7) that PSPs with different transactional volumes have different rationales. While increasing resilience and reducing operational costs are more important for smaller and medium-sized PSPs, larger PSPs are motivated by the ability to distribute risk and chargebacks for their merchants across different acquirers.



We connect to many different acquiring banks and we need to offer our merchants more than one acquirer to ensure they have the right ones available depending on need, risk and processing requirements. Some of our merchants will need resilience and alternative connections if one acquirer is unavailable. This allows a merchant operating in a mission-critical environment, such as selling tickets for an event, zero service interruption."

Nick Fox
Managing Director
Access Merchant Services



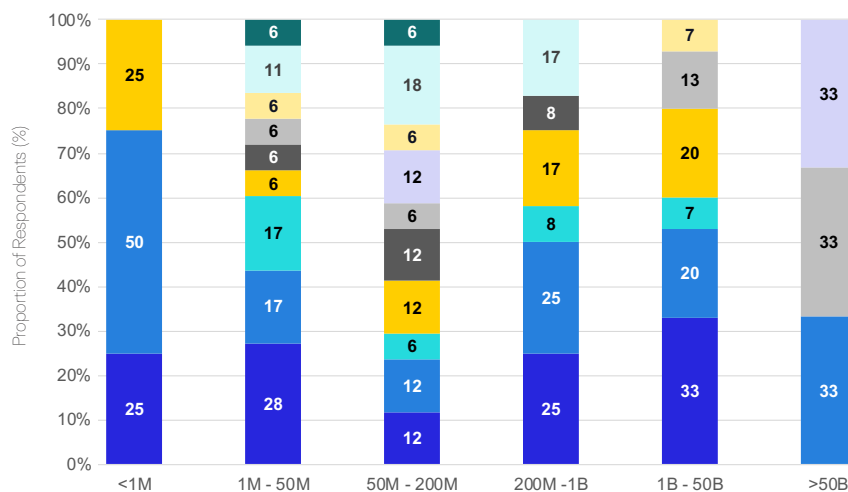
As the merchant portfolio of a PSP diversifies, so does the need for additional acquirer connections increase. Having multiple acquirer relationships creates confidence in the gateway."

Dr. Tschangiz Scheybani
Managing Director and
Co-Founder
Payreto

ACI Insight

The ability to deliver strong conversion rates to merchants is critical to PSPs. Analysis of our own PSP customer base indicates that those who work with multiple acquirers are achieving an acceptance rate up to **16% higher** than PSPs with a single acquiring relationship.

What are your primary reasons for working with different merchant acquirers? (Select up to 3 options)



PSP Size (based on transaction volumes)

- Resilience
- Reduce operational costs
- Reduce declined transactions
- Accept a wider range of APMs
- Facilitate cross-border eCommerce for our merchant clients
- Distribute risk for our merchant clients
- Distribute chargebacks across different acquirers
- Distribute transactions for different types of merchants
- Distribute transactions according to merchant/consumer location
- Improve conversion rates for our merchant clients

Figure 7

Transaction Routing

The majority (70%) of PSPs in our survey are able to route transactions to different acquirers based on set criteria—see **Figure 8**. This is in line with the proportion of businesses that work with multiple acquirers, outlining how a key benefit of having those multiple relationships lies in the ability to route transactions flexibly. A further 10% of PSPs plan on being able to route transactions flexibly in the future—considering these respondents must be working with a single acquirer, they will do so by working with more acquirers.



Smart routing is part of our “Champions and Challenger” strategy and we do AB-testing to get the data to prove or disprove the performance of different acquirers.”

Jan Florian Richard
Global Partnerships and Innovation, Financial Solutions
Arvato

Are you able to route transactions to different acquirers based on certain criteria?

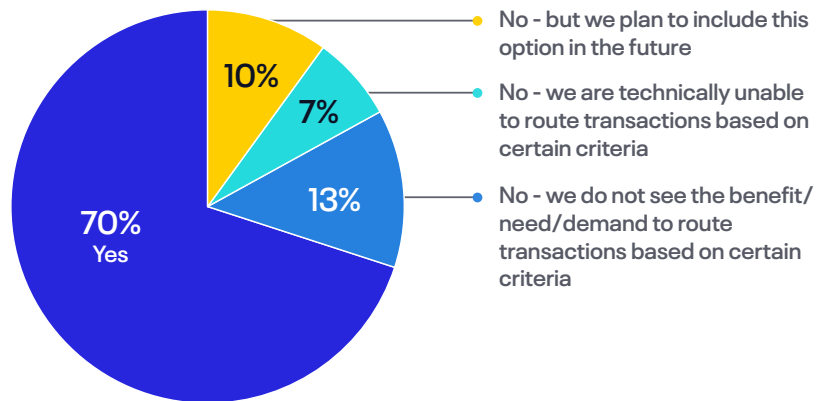


Figure 8

How do you decide to route transactions to different acquirers? (Select up to 3 options)

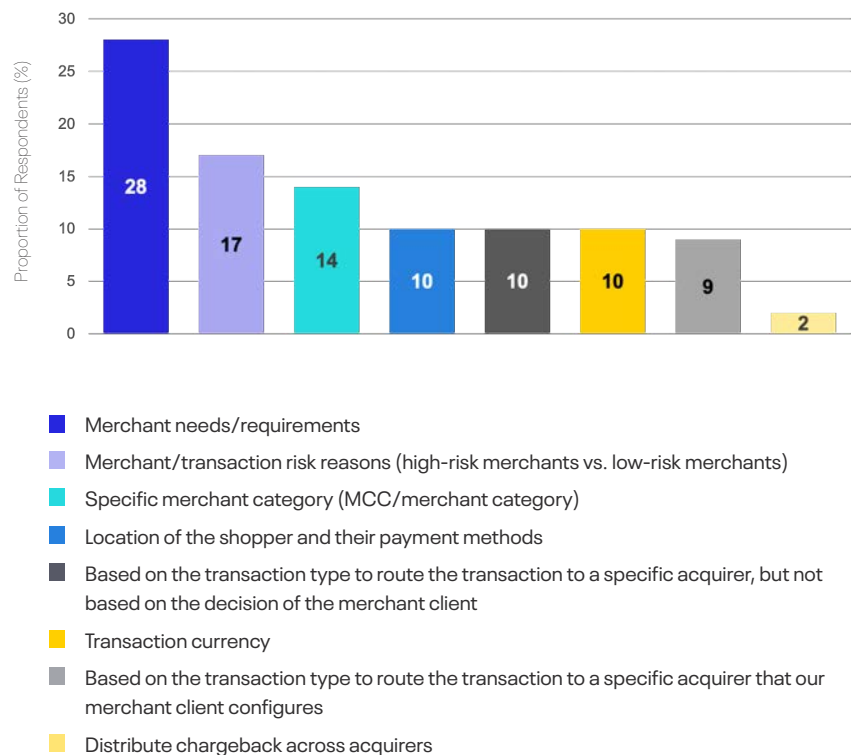


Figure 9





We do not want to be biased towards specific acquiring solutions simply because they are compatible and already supported by our current PSP. Actually, we do the opposite: we identify our functional and financial needs based on strategic guidelines, organize a tender process, receive all proposals, contact the selected acquirers and submit our request to our PSP."

Xavier Fouré
eCommerce Treasury
Manager
Decathlon

Figure 9 shows the reasons why PSPs choose to route a transaction to different acquirers. This appears often to be determined by merchant requirements (28%), indicating PSPs' willingness to try and meet the needs of merchants to win/maintain their business. The specific business of a merchant is also a determinant of where PSPs will route a transaction—with the decision being based either on merchant category codes (MCCs) or whether merchants are considered to be high-risk businesses (17%).

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At ACI, we have seen a very significant (66%) increase in the number of PSP customers adopting smart dynamic routing techniques over the past 18 months. These techniques include transaction dispatching—allowing card transactions to be routed to different acquirers based on attributes such as MIDs, card brand or ticket size—as well as smart retry, which allows failed card transactions to be automatically re-sent either to the same card acquirer or an alternative one. We've seen an average 12% conversion uplift for customers using transaction dispatching and up to 15% of rejected transactions being accepted using a smart retry approach.

Smart Retry—Use Cases

- + A European PSP customer of ACI has used smart retry over 12 months to achieve a **conversion uplift in excess of 28%** across a broad merchant portfolio.
- + In another case, one of our PSP customers implemented a smart retry strategy for a major retailer making use of different MCCs. Since different codes represent different risk levels to acquirers or credit schemes, different risk and routing rules are often applied by the acquirer based on the MCC definition. Some MCC settings are stricter than others and have a higher decline rate. In this case, the retailer has a main MCC which is used for the initial authorization attempt. If this attempt fails, ACI reverts the transaction to the second MCC (which also truly represents the retailer's business) and retries the order.

The retry takes place without any shopper interaction and is fully automated, based on the technical response from the acquirer and rules defined by the PSP.

After just eight weeks of activating ACI's smart retry capabilities, 12.6% of the transactions that failed in the first attempt were recovered and the retailer secured an **additional \$1.3M in sales revenue** which would otherwise have been lost.

Which of the following characteristics are relevant when selecting/working with an acquirer? (Multiple options allowed)

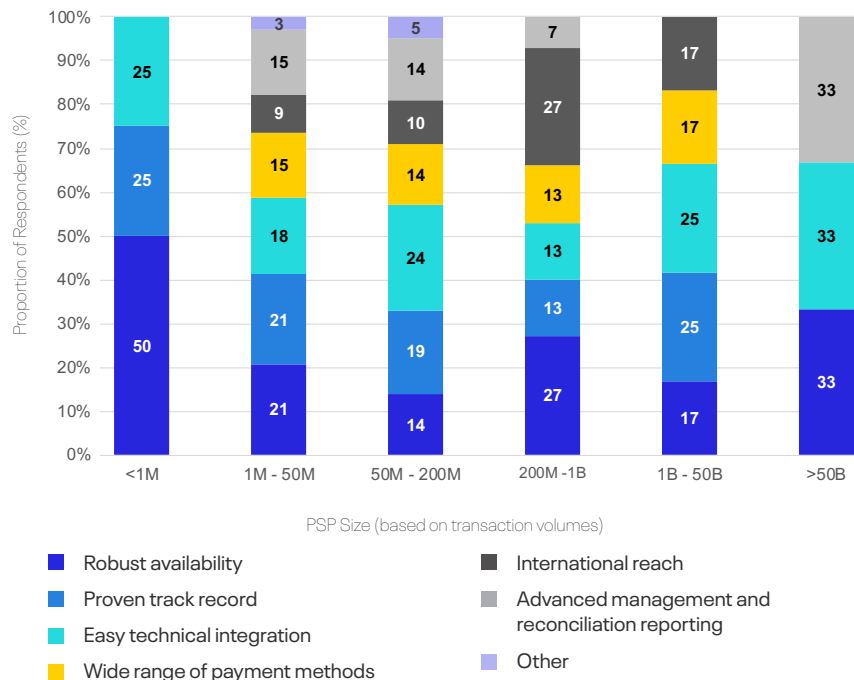


Figure 10

Finally, we asked PSPs what the most relevant characteristics were in determining which acquirers to work with (Figure 10). Unsurprisingly, the answers differ depending on the size of the PSP, with larger PSPs (>50Bn transactions) wanting advanced management and reconciliation reporting, while smaller companies look at whether acquirers have a proven track record. Perhaps surprisingly, considering previous results, accessing a wide range of APMs and international reach were not among the most popular reasons cited by PSPs for choosing an acquirer to work with.



2.3 Primary Reasons for Working with a Single Acquirer

When we look at PSPs that work with a single acquirer, the main reasons provided for this acquiring arrangement are that it meets customer needs (40% of PSP respondents) and that it is more cost-efficient or the result of other commercial reasons (30%). Twenty percent of PSP respondents were part of an acquiring business themselves.

Why do you only work with one acquirer?

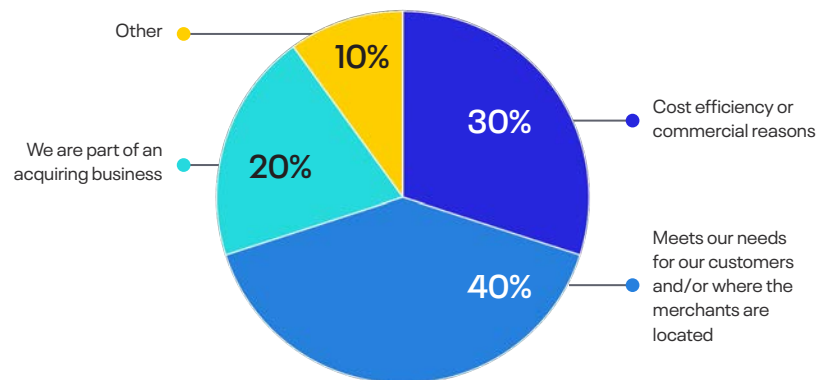
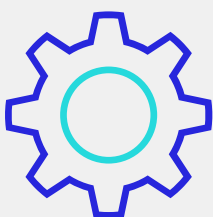


Figure 11

Reasons vary depending on PSP size, as seen in **Figure 12**. Fewer large PSPs tend to work with only a single acquirer, with only four such PSPs processing more than 1Bn transactions. From the responses below we can see that the most popular reason for PSPs to work with only one acquirer is that their current merchant customers do not ask for multiple acquirer integrations. This is most likely due to



merchants not knowing the potential advantages that having multiple acquirers could bring to their business back-end processing. It is the job of the PSP to propose a multi-acquiring relationship and lay out the advantages to the merchant.

Why do you only work with one acquirer?

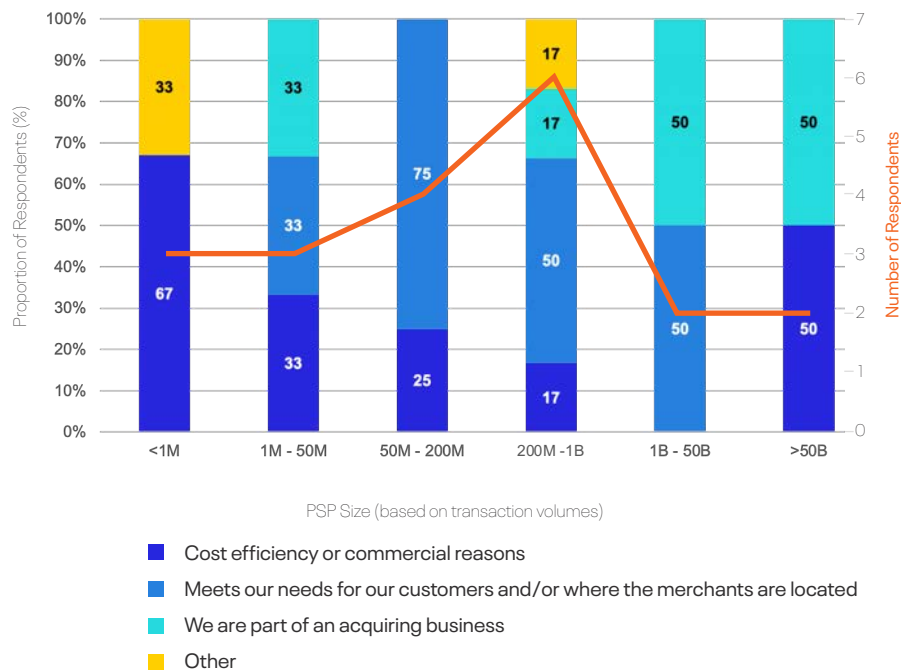
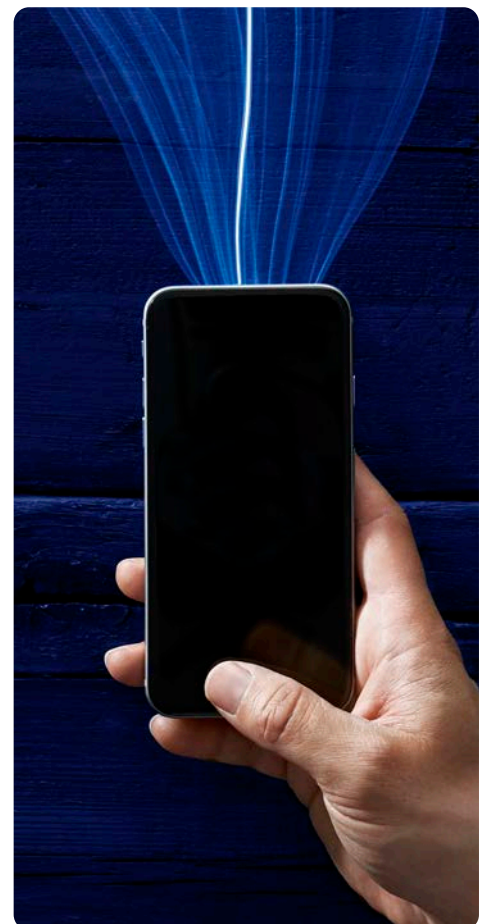


Figure 12

The reasons why a PSP may decide to work with a single acquirer do not differ significantly based on the merchant verticals they serve. This can be seen from **Figure 13**, where the main reason seems to be that PSPs are limited in working with only one acquirer by being part of an acquiring business. It is interesting to note that, while for merchants cost efficiency or commercial reasons was the main deciding factor for working with a single acquirer, this is the least important factor for PSPs. We can denote that the actual integration with multiple acquirers is a more significant cost for merchants than PSPs.



Why do you only work with one acquirer?

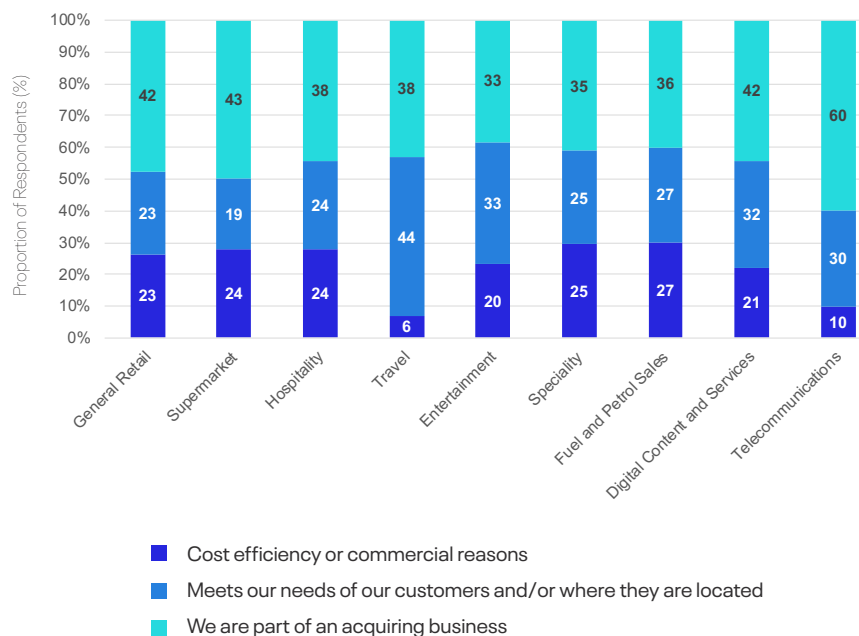
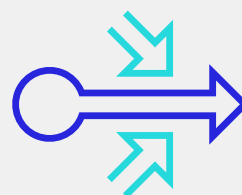


Figure 13

ACI Insight

Those PSPs who are part of an acquiring business are, of course, likely to work with other acquirers only in very exceptional circumstances. For the rest, it is worth exploring whether the apparent cost efficiencies of a single acquiring relationship outweigh the benefits in terms of improved conversion rates and enhanced flexibility and control that a multi-acquiring strategy can deliver. Indeed, it should be noted that 21% of PSP survey respondents who have adopted a multi-acquiring strategy report reducing operational costs as one of the key reasons for doing so (see Figure 6).



3 Conclusion

Our study indicates that the benefits of acquirer independence are clear to PSPs, with over 70% of our respondents already engaged with multiple acquirers and 70% looking to increase the number with which they engage.

In a highly competitive environment, the ability to ensure service continuity to the merchant base is critical to PSPs. If an acquirer fails or if service is unavailable for any reason, it is essential that the PSP can quickly switch traffic to an alternative acquirer.

At the individual transaction level, ACI is seeing a strong and growing appetite among PSPs for smart dynamic routing options, underlying the importance of retaining flexibility to meet merchant needs. These options give PSPs the ability to route transactions to the acquirers most likely to accept them, and to re-route them in the event of initial decline without making further demands on the consumer.

PSPs also recognize the additional benefits that a multi-acquiring strategy enables, including to deliver to their merchants: an increased range of alternative payment methods to support shopper recruitment and retention and a reduction in the number of declined transactions to support a positive customer experience. There are clearly cost benefits too—both in terms of the ability to negotiate pricing and reduce operational costs for merchants.

With connections to multiple acquirers, PSPs can tailor their service more precisely to meet the needs of individual merchants. They can provide access to the optimal mix of local and cross-border acquirers, to acquirers best suited to handling transactions of different types, in different verticals, and to those supporting the payment methods most relevant to the merchant's customer base. All of this increases merchant stickiness and can be reliably and cost-effectively delivered through use of an acquirer-agnostic payments gateway that supports multiple acquirers.



4 Survey Methodology

To conduct the research for this initiative, Edgar, Dunn & Company (EDC) designed two online surveys for PSPs and merchants. The surveys explored the acquiring strategies of respondents and the benefits they associated with their chosen strategy. The survey results enabled EDC to identify advantages and operational benefits of different acquiring arrangements for both PSPs and merchants.

Surveys were open to all and promoted through relevant media, associations and membership groups. Additional participants were secured through a social media campaign, leveraging LinkedIn and search engine marketing and retargeting. Overall, 68 PSPs and 93 merchants were surveyed.

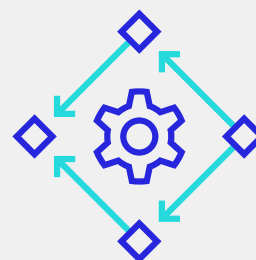
Supplementing the information collected from the surveys, EDC conducted in-depth telephone interviews with leading PSPs and Tier 1 and Tier 2 merchants to gain further insights. These interviews helped to increase our understanding of the perceived virtues of a multi-acquiring approach and the benefits that merchants seek to gain from their acquiring configuration.

EDC analyzed the surveys on a market level, then delved deeper into the data to look at the results from PSPs/merchants of varying sizes, operating across different verticals and sales channels. EDC used the qualitative data collected from the interviews to determine and qualify the benefits that merchants of different sizes, operating in different markets and verticals, gain from using a multi-acquirer strategy.



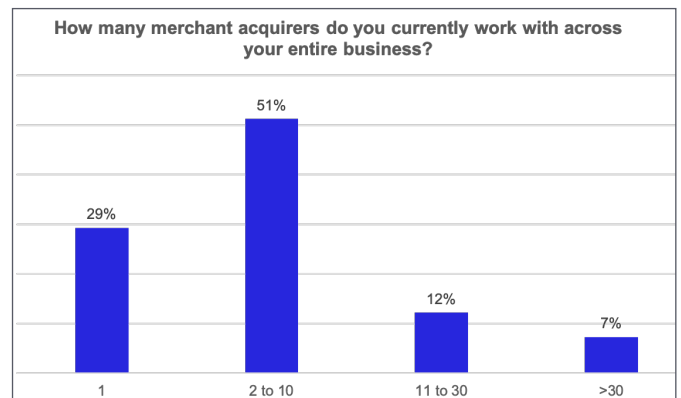
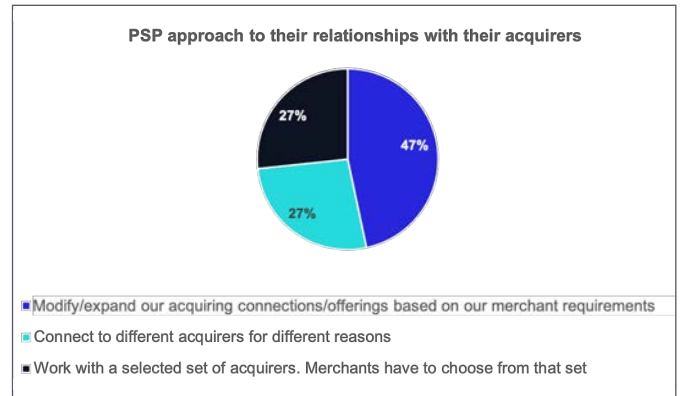
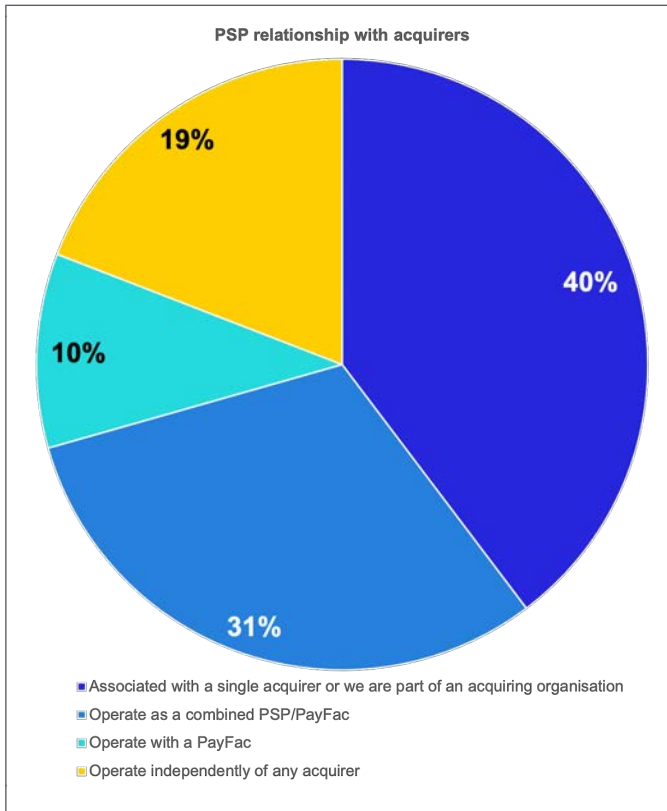
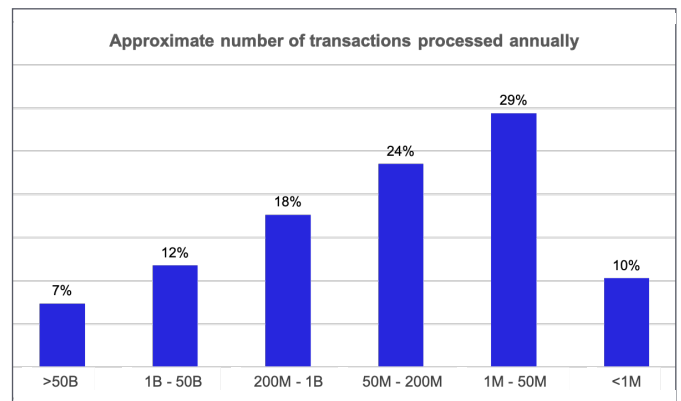
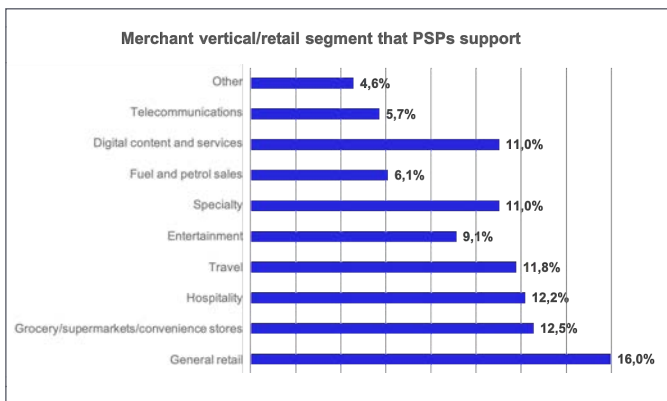
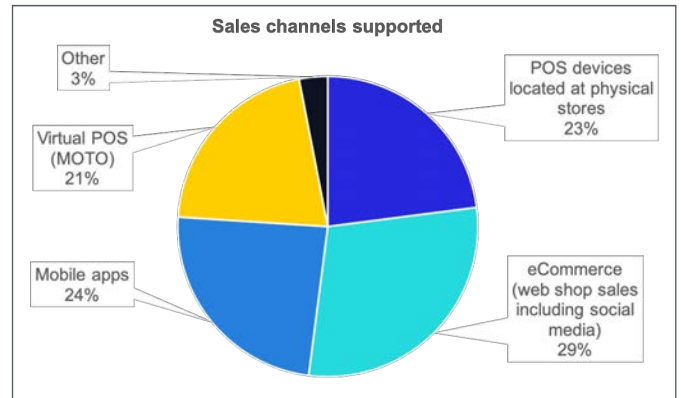
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See www.edgardunn.com



5 PSP Survey Dashboard

PSPs' merchant customer locations	Responses
North America (Only)	37%
Europe, Middle East and Africa (EMEA)	34%
Asia Pacific	7%
Latin America	6%
North America and Europe	3%
Global	12%
Other	1%





ACI Worldwide is a global software company that provides mission-critical real-time payment solutions to corporations. Customers use our proven, scalable and secure solutions to process and manage digital payments, enable omni-commerce payments, present and process bill payments, and manage fraud and risk. We combine our global footprint with local presence to drive the real-time digital transformation of payments and commerce.

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aciworldwide.com
[@ACI_Worldwide](https://twitter.com/ACI_Worldwide)
contact@aciworldwide.com

Americas +1 402 390 7600
Asia Pacific +65 6334 4843
Europe, Middle East, Africa +44 (0) 1923 816393

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ACI® Secure eCommerce™ is an integrated acquirer-agnostic payments and fraud management solution for merchants and PSPs, available via a single point of access in the cloud for high performance and scalability. The solution today supports over 80,000 merchants.

Within ACI Secure eCommerce, the multi-language, multi-currency payments gateway connects merchants and PSPs to a global payments network of local and cross-border acquirers and alternative payment methods. This is achieved with a single, one-time integration through an open RESTful API.

The solution enables PSPs to support their merchants to

- + Easily implement new payment options for emerging shopping channels and payment types
- + Reduce time to market for delivering new payment methods, entering new markets and establishing connectivity to alternative acquirers
- + Increase acceptance, conversion and payments performance through smart transaction routing capabilities
- + Consolidate settlement files from different acquirers and APMs to reconcile the initial authorized payments transaction against settled funds

Built on open payments architecture, ACI Secure eCommerce offers a complete set of customizable tools to meet the demands of any merchant or PSP. New applications and services can be built quickly and easily in line with changing market requirements.

The ACI eCommerce payments gateway is available to PSPs as a white label solution.

To learn more, please contact merchantpayments@aciworldwide.com