Multi-Acquiring and the Benefits for Merchants

Global Merchant 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 PSPs to determine the operational financial and other benefits associated with different approaches. This report includes the research findings for merchants and their acquiring relationships, whether they are direct or via a payments gateway.

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

The study reveals that merchants operating across different vertical segments 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 – Merchants can maintain business continuity in the event that an acquirer experiences a service outage or a business failure. Having multiple connections to acquirers reduces the risk of being unable to authorize transactions, as these can be re-routed to an alternative acquirer.

Offering a range of alternative payment methods (APMs) – Merchants can increase the range of APMs accepted at checkout by using connections to multiple acquirers to better serve customers in different verticals or geographies.

Increased sales – Merchants can route authorization transactions to different acquirers to maximize payments acceptance. By optimizing transaction routing to multiple acquirers, a merchant can reduce declined transactions, so increasing sales revenues.

The significance of each advantage identified by our merchant sample varies depending on size of the merchant, vertical segment in which they operate and sales channels. This report aims not only to capture the total overview of the market, but also to determine how the nuances in size and category can affect the importance a merchant places on a payments gateway that is acquirer-agnostic. We hope that this will enable merchants to determine the expected benefits specific to their business before changing the number of their acquirer connections.

Summary of Key Survey Findings

+ The top three reasons why merchants work with more than one acquirer are: resilience (**21%**), reduced operational costs (**18%**) and improved conversion rates (**14%**)
+ **85%** of merchants that have moved to multiple acquirer relationships have seen an increase in conversion rates, with **23%** of respondents increasing their conversion rate by more than **10%**
+ **71%** of merchants that use a multi-acquiring strategy are either satisfied or very satisfied
+ **40%** of merchant respondents that use a single acquirer wish to swap to a multiple acquiring arrangement in the next 12 months. Reasons given include the desire to gain flexibility and access to APMs (**17%**), to reduce operational costs (**17%**) and to build resilience in their acquiring options (**15%**)
+ **50%** of smaller merchants have a single acquiring relationship, with the main rationale being cost efficiency or commercial reasons

2 Merchant Survey Findings

2.1 Background of Merchant Survey and Participants

The aim of the survey was to determine the rationale for different acquiring strategies adopted by merchants and to explore the operational benefits experienced by merchants who work with a payments gateway that is able to support multiple acquirers. To get the full picture of the market, we used a varied sample of merchant respondents, including merchants of different sizes, from different verticals and from around the globe (see section 5 for merchant survey dashboard). We investigated the number of acquirers a merchant works with and why they choose to operate this way. In total, 93 merchants were surveyed, with the majority of merchants operating in North America, Europe/MEA or globally.

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

1	2-5	6-10	>10
43%	44%	5%	8%

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%.

43% of merchants in our survey work with just a single acquirer, while 57% have a multi-acquiring arrangement. The number of acquirers worked with by merchants with multiple relationships varies: 44% of merchants work with between two to five acquirers while 8% are using more than 10 acquirers (with three merchants using between 30 and 33 acquirers and one merchant using 57). Multiple acquiring arrangements are becoming more popular. 57% of merchants use multiple acquirers today and another 40% of respondents that currently use a single acquirer wish to swap to a multi-acquiring arrangement in the next 12 months.

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

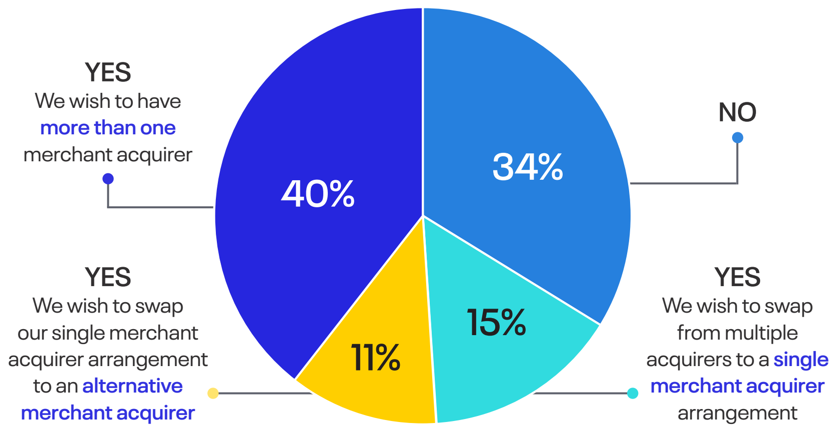


Figure 2

2.2 Merchants Working with Multiple Acquirers

The following section will examine how satisfied merchants are with using multiple acquirers, and explore their primary reasons for opting for such an arrangement. We explore how these reasons vary based on merchant size, as well as consider the major benefits seen by merchants swapping to a multi-acquiring arrangement.

If you work with multiple acquirers, how would you rate your satisfaction with your current arrangements?

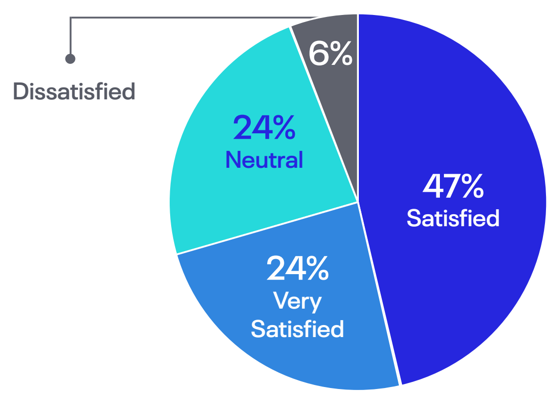


Figure 3

Of the 57% of merchants that stated they use a multi-acquiring arrangement (**Figure 1**), the majority are either satisfied (47%) or very satisfied (24%). Only 6% of merchants are dissatisfied, with one of the reasons given being that legacy banking acquiring platforms are outdated and provide poor reporting capabilities. The number of merchants that are neutral or dissatisfied derives from the 15% of merchants that wish to change from a multiple acquiring arrangement to a single arrangement, as seen in **Figure 2** above.

Which of the following descriptions best matches the rationale for your plans to change your merchant acquiring arrangements within the next 12 months? (Select up to 3 options)

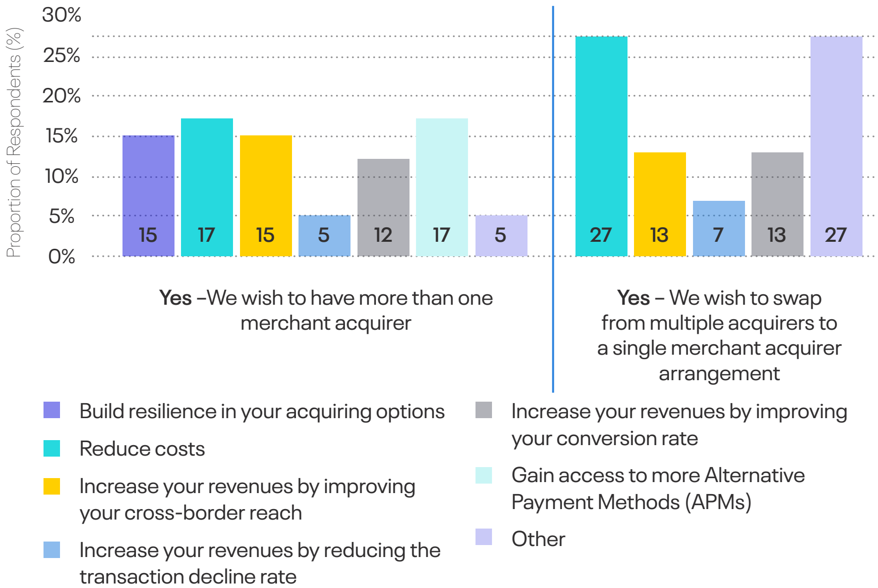


Figure 4

Figure 4 displays the reasons why certain merchants are planning to change their existing acquiring arrangements within the next 12 months. Reducing costs and increasing the range of alternative payment methods (APMs) accepted are the main reasons for merchants to reduce the number of acquirers they are working with to a single acquirer arrangement.

Merchants who are planning on working with a single acquirer to reduce costs are likely to extend the relationship with a cheaper acquirer to cover all their payment needs. We can only hypothesize that the reason some merchants want to work with a single acquirer to gain access to more APMs is linked to the fact that merchants are dissatisfied with their acquirers and their legacy banking platforms which are outdated. These legacy platforms are unlikely to support a wide range of APMs, pushing merchants to terminate these outdated acquiring relationships, and opt for a single acquirer that can support a wide range of APMs.

"Our philosophy when it comes to payment types is that we must accept all the different types of plastic cards and as many alternative payment methods as possible. We currently accept 35 alternative payment methods around the world. We are always thinking about adding more to this list, such as open invoice, bank transfers, etc."

Payment Director, Global Fashion Retailer

"Merchants want to be able to accept a wide range of payment methods, or even allow their customers to pay over a few monthly installments. Therefore, we need to be gateway- and acquirer-agnostic so that we can provide the right solution to fit the merchant's needs and we don't fit the merchant to the solution."

Nick Fox
Managing Director
Access Merchant Services

ACI Insight
Access to relevant APMs is critical for merchants as they seek to expand their businesses, whether domestically to attract a more diverse range of consumers or internationally, into new markets. It is also essential to be able to support customers with flexible payment options as their circumstances and needs change. Through 2020, we saw a significant increase in demand for "pay later" and "pay by installment" options as the COVID pandemic hit the financial security of consumers around the world.

Improved access to APMs is also, perhaps more understandably, a driver for merchants wishing to multiply their acquiring relationships—with another key reason being the need to build greater resilience. The increasing transaction traffic to which these acquiring platforms are exposed can often put too much strain on them, leading to periods of outage which may, in turn, lead to failed transaction conversion.

Overall, the primary reasons given by merchants for working with multiple acquirers (**Figure 5**) are resilience (21%), reducing operational costs (18%), improving conversion rates (14%), enabling cross-border eCommerce (11%) and enabling acceptance of a wider range of alternative payment methods (11%). Other arguments the respondents have provided include: operating across multiple geographies—which requires them to have different acquirers for different markets, ensuring compliance because of Britain's exit from the European Union, leveraging pricing advantages from local acquirers and supporting domestic payment schemes.

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

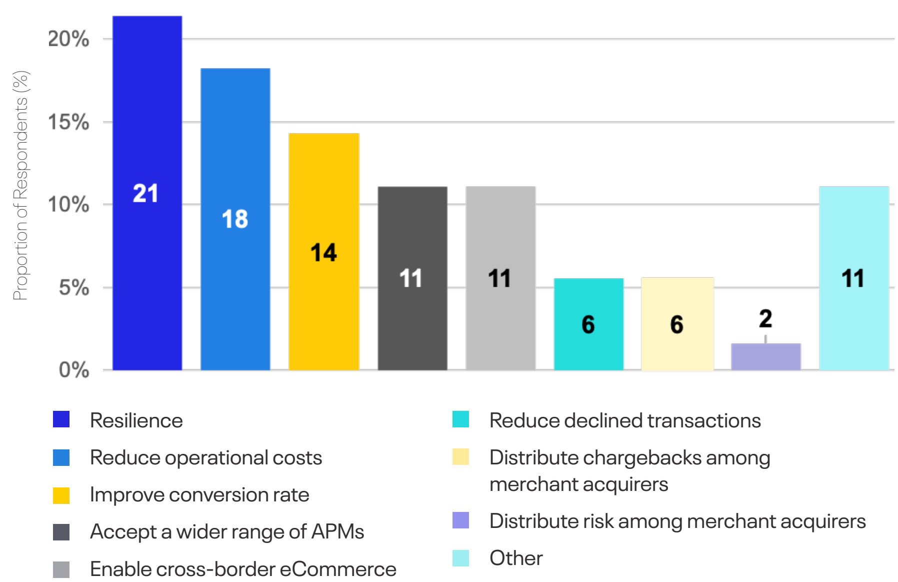


Figure 5

If we examine the primary reasons given for a multi-acquiring arrangement through a different lens, we can observe (**Figure 6**) that they vary depending on merchant size. If we look at large merchants, the main reasons given for using multiple acquirers are resilience, flexibility (enabling acceptance of a wider range of APMs) and reducing operational costs.

Merchants with revenues between $50M and $200M still find resilience important, however reducing operational costs and improving conversion rates are considered more critical.

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

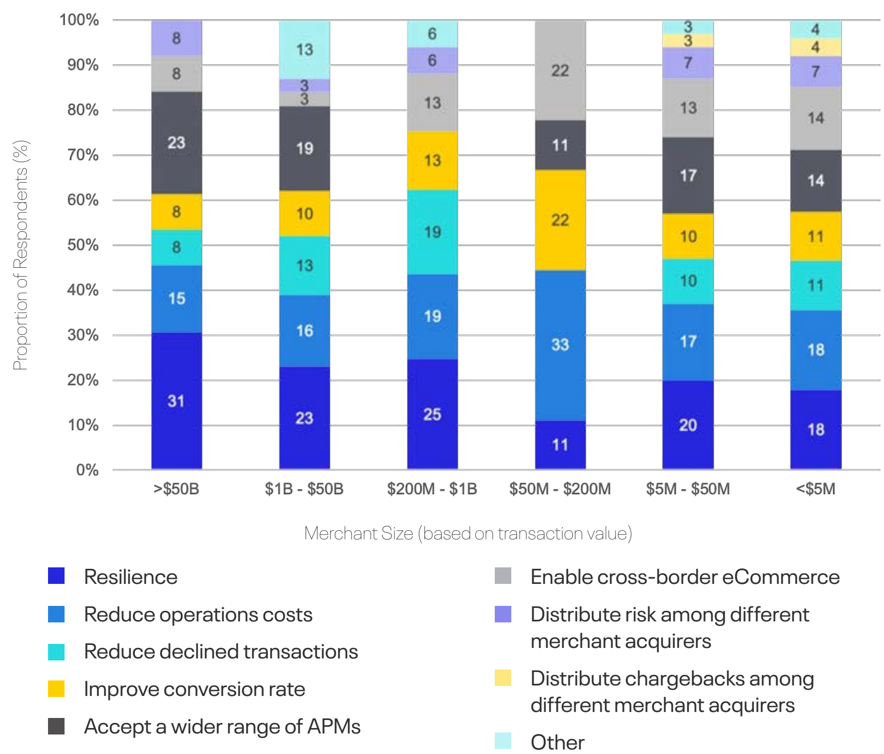


Figure 6

The size of a merchant is not the only factor which could impact a merchant's decision to work with multiple acquirers. Merchants in different industry verticals have different needs and types of transactions to process, which will affect the requirements for their acquirer relationships. We can observe from **Figure 7** below the varying reasons why merchants within different verticals work with multiple acquirers.

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

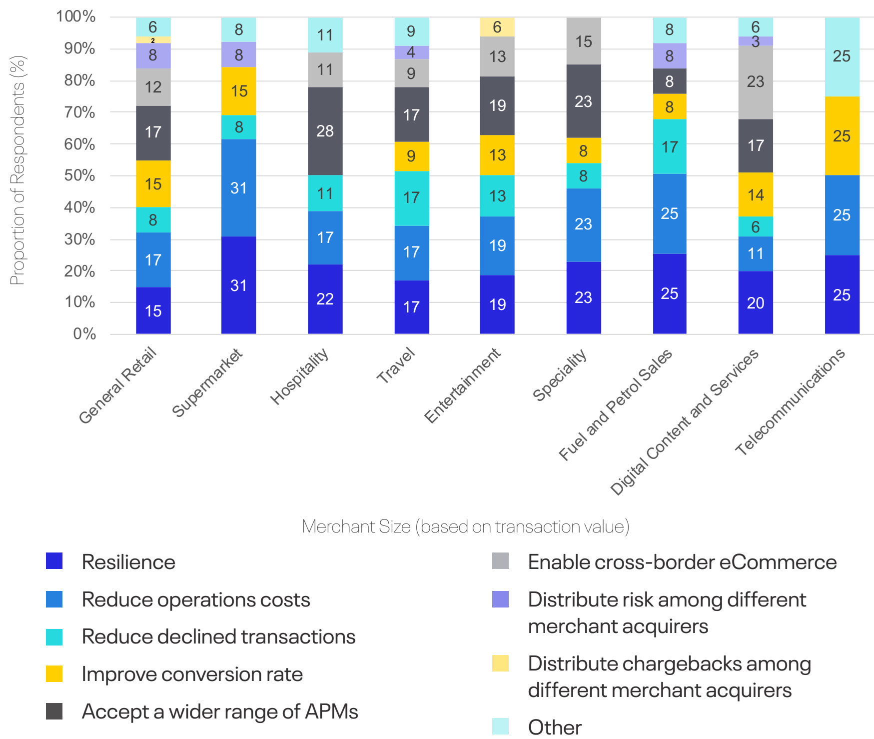


Figure 7

Improving resilience is a constant among the reasons why merchants across verticals choose to work with multiple acquirers. The rise of electronic forms of payment and eCommerce makes having backup acquirers more important in case of difficulties in processing a transaction, regardless of the vertical. Reducing operational costs is also a common reason to choose multiple acquirers, to leverage price differences offered for different payment methods and geographies. For those merchant verticals which tend to have a higher number of foreign customers, such as in hospitality (28%), travel (17%), and entertainment (19%), accepting a wide range of APMs is one of the main reasons for having multiple acquirers. These merchants want to make sure they can accept the preferred payment methods of these customers, such as Asian digital wallets and European domestic schemes.

Enabling cross-border eCommerce is becoming an increasingly important factor in the decision to adopt multiple acquiring relationships. While eCommerce is "borderless," merchants will benefit from having tailored relationships to ensure they can seamlessly accept payments from across a wide geographic scope. Verticals in which enabling cross-border eCommerce is important include digital content and services (23%) and specialty (15%)—including bookshops, shoe shops, florists, sporting goods, and camping and outdoors. The needs of these merchants, who want to operate across geographies, enable cross-border eCommerce and attract foreign customers with alternative payment methods, cannot be effectively satisfied by a single acquirer.

Another important factor for different verticals is reducing the rate of declined transactions. Merchants in verticals with typically high transaction values need to ensure they maintain a low rate of declined transactions to avoid losing out on potential sales. Examples include merchants within travel (17%), fuel (17%) and entertainment (13%).

Although increasing conversion rates is not given as one of the main reasons why merchants swap to a multi-acquiring arrangement, 85% (**Figure 8**) of respondents that moved to multiple acquirer relationships have seen an increase in conversion rates. 43% of respondents have seen an increase of 1%-5%, 19% of 6%-10% and a further 23% saw an increase greater than 10% in conversion rates.

Do you agree with the following statement, that having multiple acquirer relationships can increase your conversion rate?

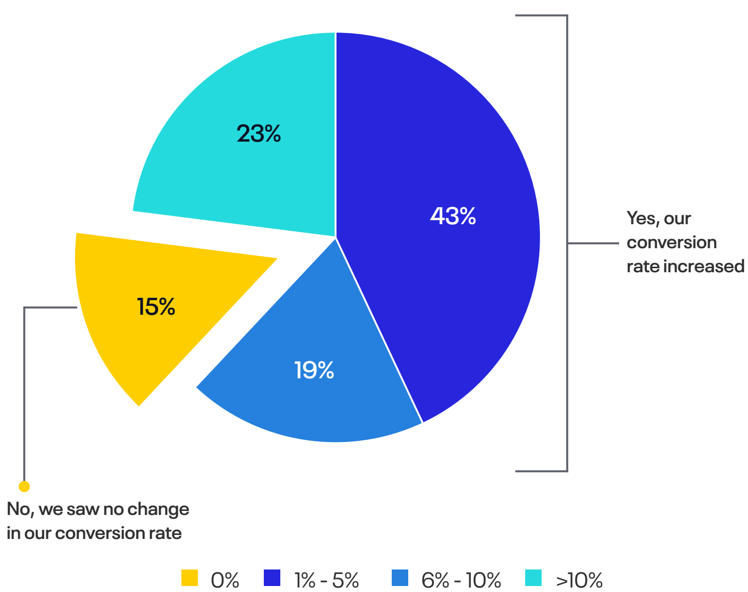


Figure 8

> **If you are a merchant that sells in different regions, you need to have multiple acquirer relationships to optimize your acceptance rates. You need a portfolio of acquirers to serve the specific needs of the merchant."**

Thierry Arrondo
Risk & Payments
Vendo Services

> **We have multiple acquiring relationships and nine PSPs across our global operation. This is not just because no single PSP can cover the world but because we are carefully monitoring the conversion rates and domestic acquiring is required to accept domestic payment schemes, such as Cartes Bancaires, in France. This helps us to reduce the cost of acceptance and improves the conversion rate."**

Payments Director
Global Fashion Retailer

While fraud prevention was not a topic explored within our acquiring survey, merchant commentary in subsequent interviews has highlighted the significant role played by fraud management capabilities in conversion—and the need for merchants trading in the U.K. and European Union to manage effectively their exemption strategy under new PSD2 strong customer authentication (SCA) requirements.

In Europe, we are seeing a number of merchant customers seeking to control their own 3D Secure exemption handling within the SCA environment, rather than relying solely on their acquirers to do so. Further benefit is likely to be derived from a multi-acquiring strategy here since, where a primary acquirer is unable to adhere to transactional risk analysis metrics under PSD2, this may add friction to a merchant's transaction flow through no fault of its own. The ability to switch traffic to an alternative acquirer in such circumstances would seem a sensible, even essential, option.

In other regions, where PSD2 does not apply, there is clear evidence that dynamic use of 3D Secure can significantly improve conversion rates.

"Using the fraud prevention solution from our PSP allows us to have access to a wider range of information to be more precise in terms of scoring, to conduct a more detailed analysis and thus to take better decisions when deciding whether to trigger 3D Secure or not."

Xavier Fouré – E-Commerce Treasury Manager, Decathlon

Dynamic 3D Secure—Use Case

With surging demand from online and Click and Collect sales, a large furniture merchant sought to add an extra layer of security to their U.S. operations with minimal impact on sales. The merchant implemented ACI´s dynamic 3D Secure functionality, selecting 18% of transactions for 3D Secure authentication over the past 12 months while allowing the remaining 82% of transactions to flow through without 3DS screening. Just 0.53% of screened transactions were rejected and the merchant has been able to hold down the chargeback rate while maintaining a 92% overall conversion rate.

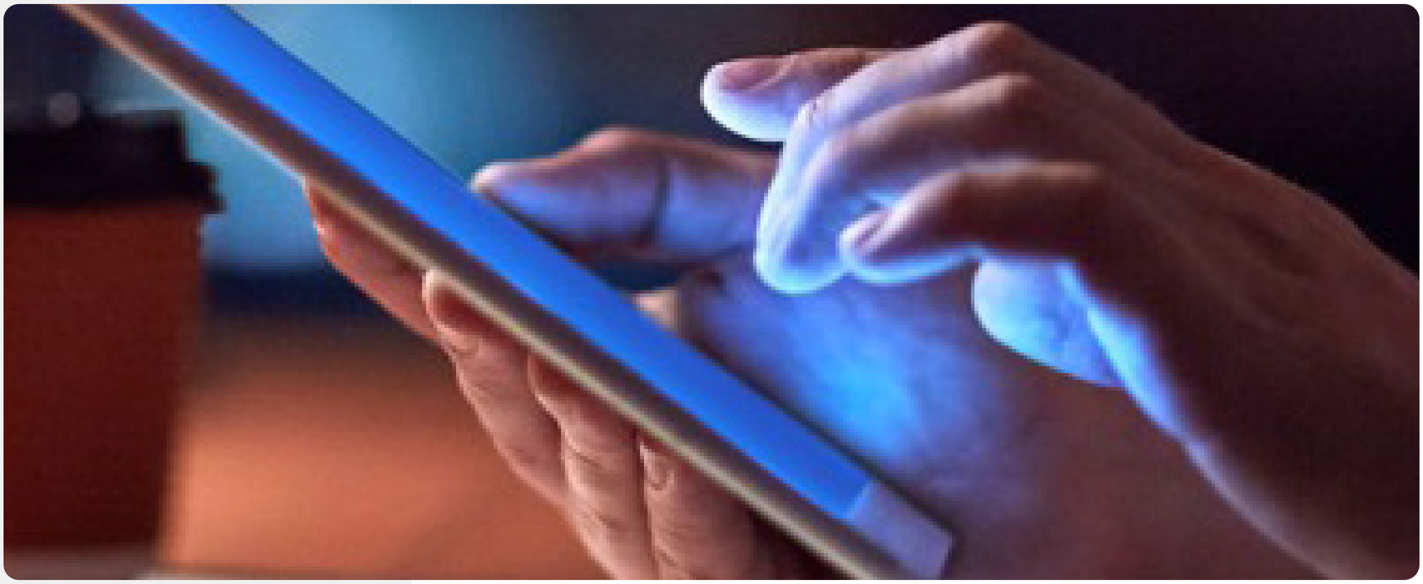
"Because we operate an omni-channel business we have to be smart at handling our payment transactions. This is especially important for our European online business where we must be ready for the PSD2 and SCA rule changes that will be implemented in 2021. Leveraging aggregated fraud data from our fraud prevention partners is a significant advantage for our business when making decisions to accept payments."

Payments Director – Global Fashion Retailer

ACI Insight

Across our customer base we see a significant increase in conversion rates achieved by merchants adopting a multi-acquiring strategy.

A powerful example is one of ACI's major online gaming customers that switched from a global to a local acquirer in a key geographical market. This was achieved using a phased approach, deploying our weighted dispatching capabilities. Credit card transactions were moved gradually to the local acquirer to ensure the company could manage the volumes being delivered. Once traffic was fully migrated, the connection to the global acquirer was retained to provide smart retry and alternative acquirer options in the market. The result of this move from a global acquirer to a local acquirer was a significant 42% increase in the acceptance rate over an eight-month period.



2.3 Merchants Working with a Single Acquirer

The following section will examine the reasons why merchants opt for a single acquiring arrangement, and the perceived advantages of such an arrangement.

43% of the 93 merchants that participated in the survey say they work with a single acquirer. **Figure 9** below shows that merchants choose to work with a single acquirer primarily for cost efficiency/commercial reasons (63%) and due to the fact that the single acquirer meets the needs of their customers and where they are located. Other reasons why a merchant might want to work only with a single acquirer are: for simplicity, due to a legacy decision which will be changed by on-boarding more acquirers, because multi-acquiring is not offered by their payments gateway provider and because the merchant is an acquirer themselves.

Why do you only work with one acquirer? (Select one option)

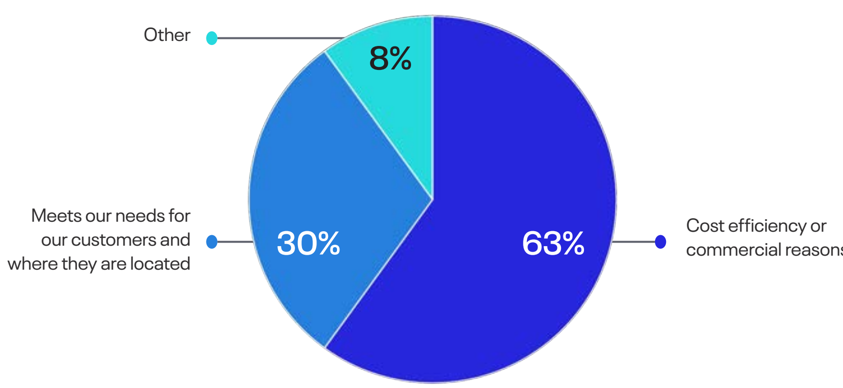
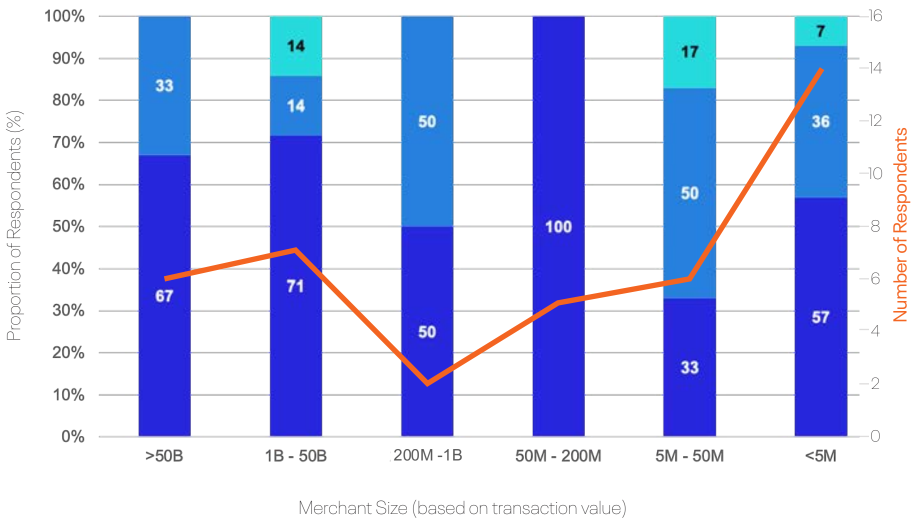


Figure 9

Why do you only work with one acquirer? (Select one option)



- Cost efficiency or commercial reasons
- Meets our needs for our customers and where they are located
- Other

Figure 10

Digging deeper, it can be seen from **Figure 10** that half the merchants that work with one acquirer are smaller merchants with less than $50M in transaction value. We can hypothesize that, besides the cost considerations, smaller merchants might work only with a single acquirer because their size does not require them to use more, or because they might operate in a limited number of markets, which makes the complexities associated with cross-border eCommerce and/or APMs less relevant.

Why do you only work with one acquirer? (Select one option)

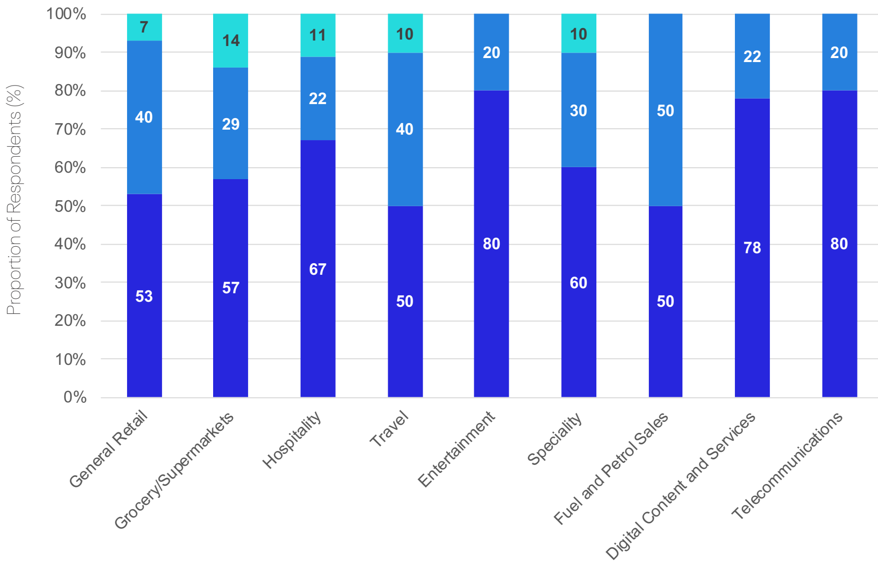
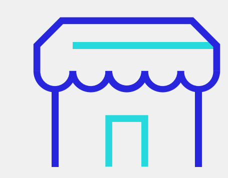


Figure 11

Across different merchant verticals, cost efficiency and/or commercial reasons is the main factor impacting a merchant's decision to work with a single acquirer, accounting for between 50% - 80% of respondents in each vertical. Customer needs and location are also an important factor which led to merchants only having a single acquirer. This was accentuated in the travel, general retail, and fuel and petrol verticals, where this accounted for 40% - 50% of respondents' decisions to work with a single acquirer.

Overall, we can infer from the survey responses that merchants who work with one acquirer are not in the process of expanding their geographic scope, nor facilitating cross-border eCommerce payments. They are predominantly smaller merchants who are already satisfying their customer needs and have little ambition to reach out to new customers. Cost efficiency and commercial reasons are the most likely to influence the merchant's decision to work with a single acquirer. If the decision is due to a commercial and cost reason, it is possible that the merchant does not see the potential from incremental transaction traffic or cost savings per transaction which can occur when being able to choose and be flexible where and how to route different transactions.



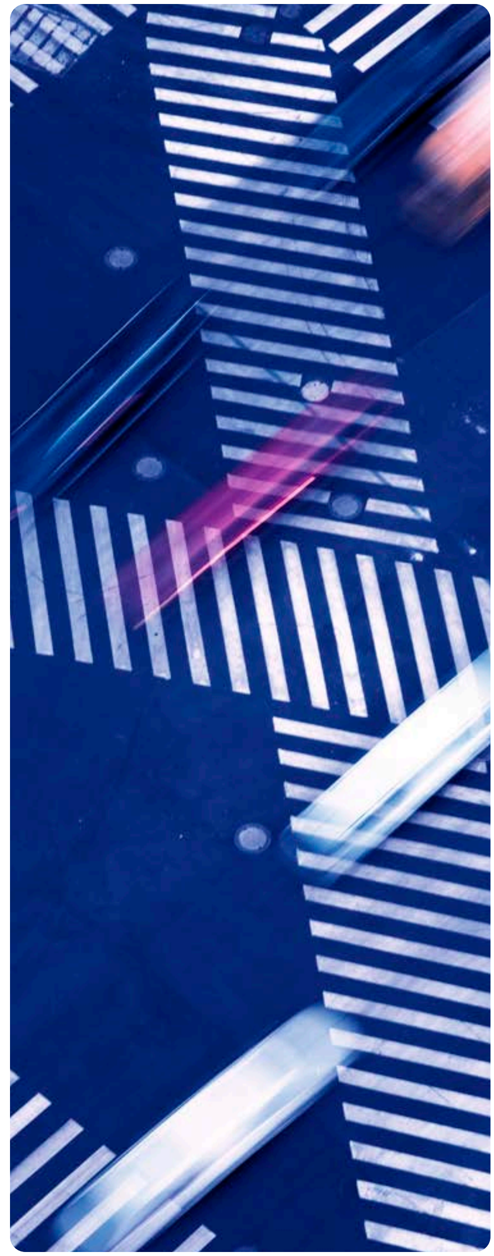
3 Conclusion

The idea behind merchants using multiple acquirers is to provide them with options. When merchants are able to select which acquirer they use to process transactions, they can be more resilient when there is an outage on the acquirer's end, more flexible if operating across multiple verticals, and improve conversion and cost controls by optimizing transaction routing to different acquirers.

It is clear from our study that the majority of merchants—especially larger merchants and those operating internationally—recognize these, as well as other benefits from multi-acquiring. We see evidence of significant improvement in acceptance rates as well as the ability to access a broader range of payment methods and to leverage pricing advantages offered for different payment methods and geographies.

It is striking, too, that merchants working with multiple acquirers express a high level of satisfaction with these arrangements—and that a significant percentage of those currently working with a single acquirer intend to move to a multi-acquiring strategy over the next 12 months.

At first glance, working with a single acquirer may offer an appealing simplicity. For the majority of merchants, however, this is clearly outweighed by the enhanced flexibility, control and improved conversion that result from greater independence and the use of an acquirer-agnostic gateway that can support multiple acquirers.



4 Survey Methodology

To conduct the research for this initiative, Edgar, Dunn & Company (EDC) designed two online surveys for merchants and PSPs. 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 merchants and PSPs.

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 re-targeting. Overall, 93 merchants and 68 PSPs were surveyed.

Supplementing the information collected from the surveys, EDC conducted in-depth telephone interviews with Tier 1 and Tier 2 merchants and leading PSPs 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.

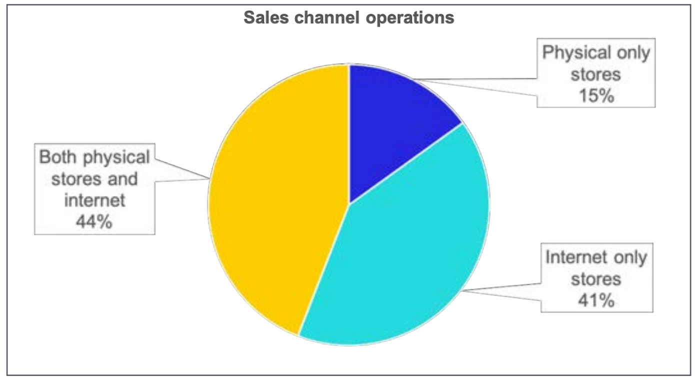
EDC analyzed the surveys on a market level, then delved deeper into the data to look at the results from merchants/PSPs of varying sizes, operating across different verticals and sales channels. EDC used the qualitative data collected from the interviews to determine and qualify the benefits that merchants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

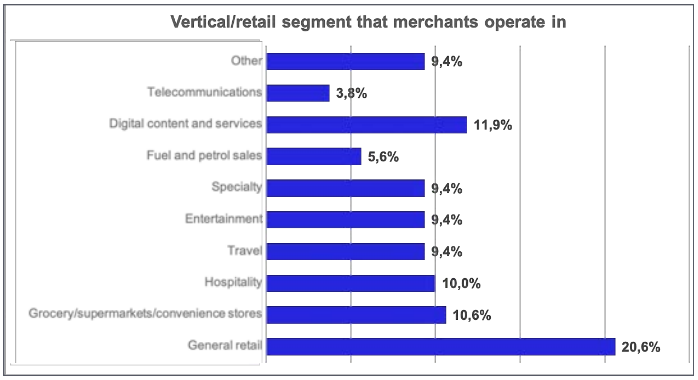
Edgar, Dunn & Company (EDC) is an independent global payments strategy consultancy, founded in 1978, and is widely regarded as a leading trusted adviser in the payments industry. Today the company serves clients in more than 45 countries on six continents from locations in San Francisco, London, Sydney, Paris, Frankfurt and Dubai. EDC provides a full range of strategy consulting services, expertise and market insight. Clients include the global payment brands, issuer and acquiring banks, processors, and merchants, including hotels, airlines and international omnichannel retailers.

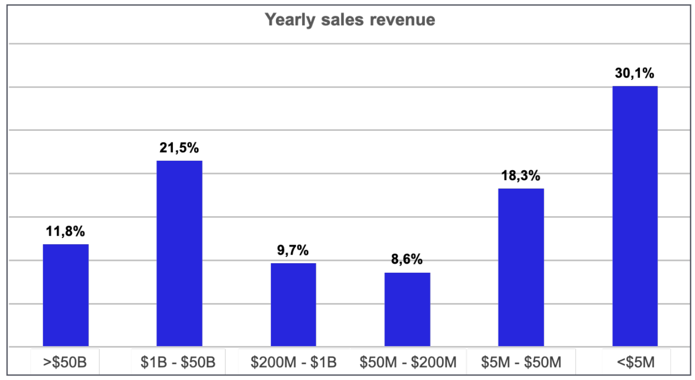
See www.edgardunn.com

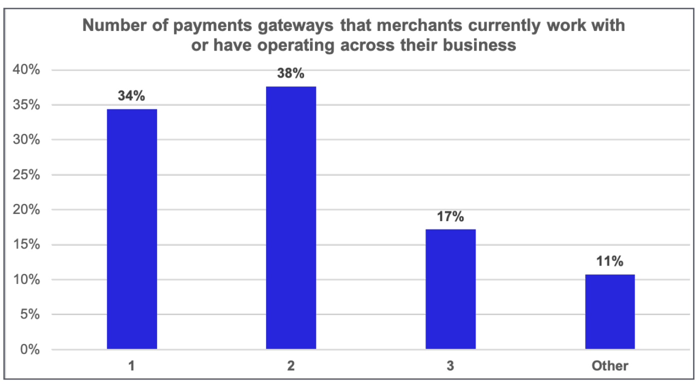
5 Merchant Survey Dashboard

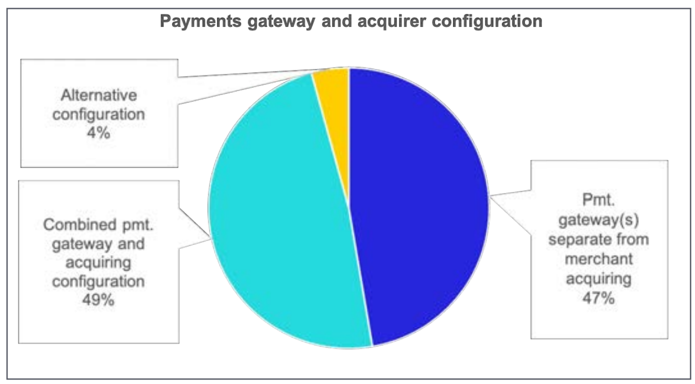
Merchants' consumer locations	Responses
North America Only	55.9%
Europe, Middle East and Africa (EMEA)	16.1%
Asia Pacific	4.3%
Latin America	1.1%
North America and Europe	6.5%
Global	12.9%
Other	3.2%

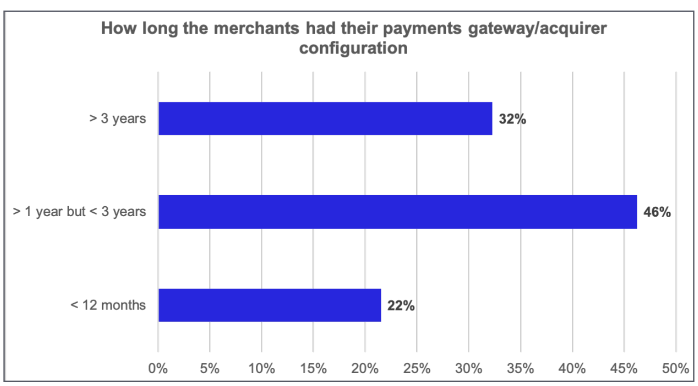


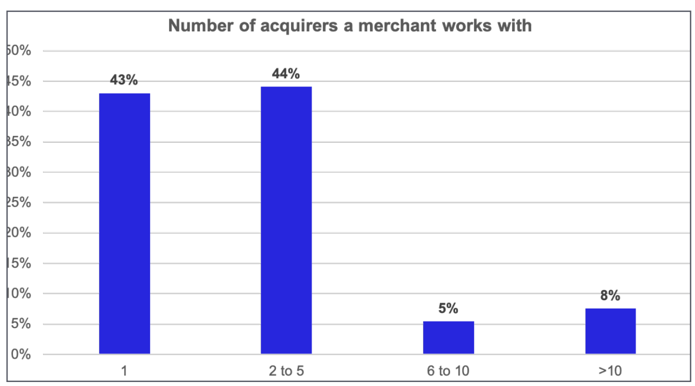


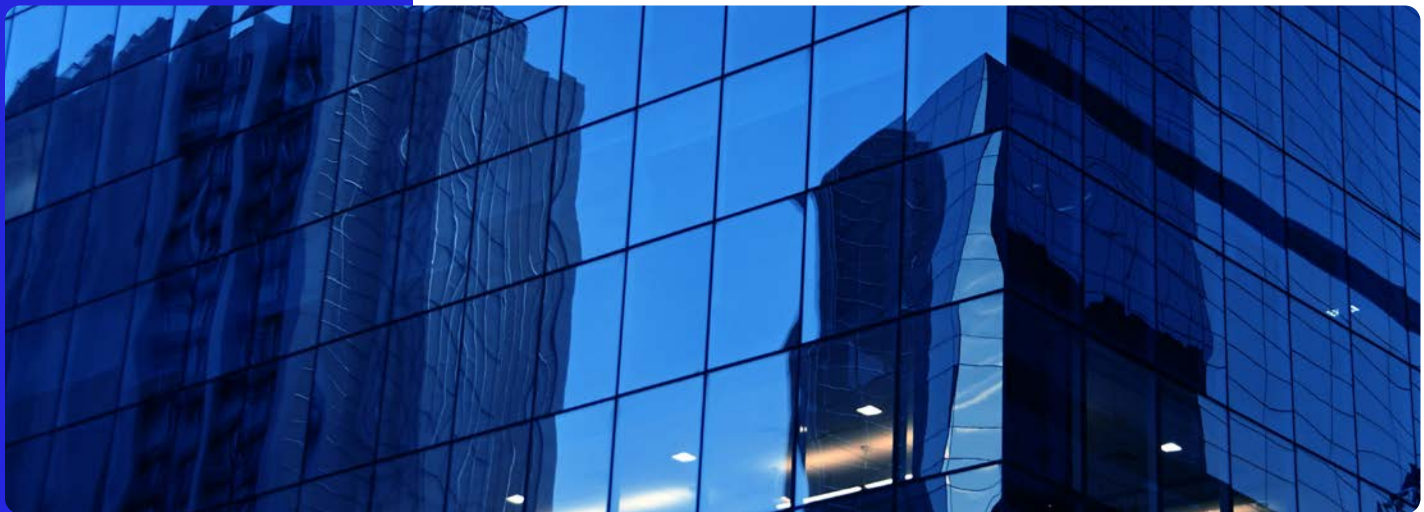












ACI Worldwide is a global software company that provides mission-critical real-time payment solutions to corporations. Customers use our proven, scalable and secure solutions to process and manage digital payments, enable omni-commerce payments, present and process bill payments, and manage fraud and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

LEARN MORE
aciworldwide.com
@ACI_Worldwide
contact@aciworldwide.com

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

ATL1037 01-21

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 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.

To learn more, please contact merchantpayments@aciworldwide.com

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