Accenture Payment Services

Cards Innovation
Card Issuing and Merchant Acquiring in the era of Everyday Payments

How digital is revolutionizing the cards issuing and acquiring ecosystem

High performance. Delivered.
Today’s banks and payments service providers have the opportunity to become central to their customers’ lifestyle purchases, in the same way that social media and providers like Amazon have become central to retail purchases. Or they can remain on the periphery, strictly limited to handling financing and fund transfers.

The need to choose between these two contrasting futures puts banks and payments service providers at a crossroads. Across their business, they face critical decisions that can set them on the path toward becoming an Everyday Bank—trusted, indispensable, and integral to consumers’ everyday activities—or a purely transactional provider. In Accenture’s view, those that choose the path of the Everyday Bank can expect to generate operating income 50 percent higher than those that do not.

A key pillar of these attributes is the ability to support and facilitate “polymorphic payments”—allowing individuals, merchants and corporates to perform digital transactions wherever, whenever and however they want, regardless of the underlying payment method, currency or channel used, and independently of where the value is held.

...heralds the advent of Everyday Payments...

As the Everyday Bank emerges over the next five years, it will be differentiated from today’s banks and banking service providers by its enhanced ability to leverage digital capabilities including mobile, analytics, interactive and cloud computing. It will complement these digital capabilities with a physical presence. And it will apply all its assets, expertise and relationships to position itself at the heart of its customers’ daily lives.

As the main daily point of interaction between customers and their bank, payments will be core to this positioning. As the Everyday Bank emerges, so too will the Everyday Payments Providers, including banks, card companies, ACHs, processors, payment gateways, acquirers and other entrants such as mobile operators and retailers. To optimize customers’ service experience, convenience and engagement at these interactions, the Everyday Payments Provider needs to embody four specific characteristics in the payments arena:

- It optimizes the payments experience across all customer touch points.
- It operates within—and connects across—a diverse ecosystem of customers and partners.
- It places high importance on payments, not least as a source of valuable, actionable customer data.
- It supports its customers across their everyday needs—from routine to once-in-a-lifetime—through real-time services, both financial and non-financial.

...bringing major implications for card issuing and merchant acquiring

This is Accenture’s vision for the future of banking and payments. And it brings with it disruptive and transformational implications for cards issuers and acquirers.

Across the payments ecosystem, parallel and accelerating changes impacting all participants—not just banks and payments service providers but also customers, retailers, loyalty schemes, device manufacturers, communications operators and more—are rapidly and radically reshaping the issuing and acquiring landscape.

To survive and succeed in such an environment, issuers and acquirers cannot afford to stand still. They need to respond in ways that will turn risks into opportunities, and which will enable them to identify and secure their role in the emerging payments ecosystem—while simultaneously embedding themselves at the heart of customers’ lives.

Everyday Issuing and Acquiring is the future of card payments. It’s time to embrace that future.
The rise of ecommerce ...

For many years, the card issuing and merchant acquiring industries have been meeting the respective needs of customers to access quick and convenient payment methods, and of retailers to accept debit and credit cards at point-of-sale (PoS) and for MOTO (mail order, telephone order), supported by the necessary equipment and banking facilities.

Change in these industries used to occur at a measured pace, with “zip-zap” machines giving way first to magnetic stripe card readers for electronically authorized transactions, and then—in many countries, but not initially the US—to EMV for chip & pin transactions. Also, while ecommerce has been on the rise since the late 1990s, it was originally a niche activity regarded as an adjunct to the core acquiring business.

...is changing the game for ever

No longer. Ecommerce and online retailing have now reached critical mass, and are firmly established as part of mainstream business and key growth drivers for payments. Smartphones and tablets are spearheading this retailing and behavioral revolution, with new technologies such as cloud, analytics and social media accelerating the change. These same technologies are enabling new ways of paying, and empowering new entrants to bring new payment propositions to market.

Even as these new digital opportunities open up, there is still a need to bridge the gap with legacy technologies, since traditional card payment methods continue to function well and remain the dominant method of non-cash payments in most markets. There is a huge installed base of cards in issue and merchant point-of-sale terminals to accept them. However, cards are inherently limited in their function and user experience, and were not designed with a digital environment in mind. As a result, cards are coming under intensifying pressure from several different directions.

Seven key trends

Against this background, card issuers and merchant acquirers are facing seven key trends, causing them to revisit their business and operating models as a matter of urgency. While some of these trends have more impact on issuers and some have a greater effect on acquirers, they are all relevant to both sectors to some degree.

1. As well as growing rapidly, e-commerce and m-commerce are converging with in-store payments

The growth of e-commerce and m-commerce means acquiring is no longer about cards acceptance via siloed channels, but a multi-channel approach providing a consistent experience and service for both consumers and merchants. This requires a polymorphic payments capability as described above—one with the flexibility to support both card and non-card payments across multiple channels in a consistent, seamless way.

2. Omni-retailing and channel convergence are changing the way people shop

Consumers now initiate and complete a purchase using multiple channels in any order: searching, viewing, ordering, and paying for a single purchase can be done in independent steps on any channel—phone, internet, mobile device, physical store. This again requires a polymorphic capability, which allows payments processes to be tailored to the required omni-channel purchasing experience, rather than the other way round as has traditionally been the case—for example when an e-commerce checkout experience is dictated by the way card details are entered and verified.

3. Contactless volumes are seeing sustained hyper-growth rates

Rapid growth in contactless card payments—currently exceeding 200% a year in Europe—is the single biggest trend in payments in some markets, and is causing scalability and upgrade challenges for legacy processing platforms. Everyday Payment Providers need to help consumers “cross the chasm” from contact (swipe or insert) to contactless payments, and to use contactless cards as a stepping stone to contactless digital payments on mobile devices using e.g. NFC (Near Field Communication).
Jenny is buying something online...

At the checkout, she clicks on a single button on the website—or smartphone or tablet app—to make the payment using her credit or debit card. She has the option to enter her unique user ID (email ID) and a PIN/password into an option branded with the bank brand and schemes, such as Visa, MasterCard or American Express. However, her bank also has an app which automatically generates a one-time six character token code from her fingerprint on the smartphone screen which she finds easier to use, and enters this into the checkout field. There’s no need for her to key in the 16 digits of her card number, expiry date, address details, CVV or 3-D Secure password, but her credit or debit card is still used directly to make the payment. For Jenny, the experience is quick and easy.

John and Jenny are buying goods in a department store...

John chooses a new digital radio that he wants to buy, and takes it to the checkout. A BLE (Bluetooth Low Energy) beacon automatically activates his mobile wallet, meaning it’s open and ready to use when he pulls it out. The wallet displays a QR code which contains a tokenized (one-off, non-reusable) version of his card details. To help pay for the radio, he decides to redeem some reward points held in his mobile wallet, and his wallet automatically calculates the cash balance to pay with the card. The PoS terminal scans his QR code to initiate the payment and redemption of the reward points in a single transaction.

Meanwhile, Jenny is buying groceries at a self-checkout kiosk using her mobile banking app. The self-checkout displays a QR code, which identifies the merchant and the invoice amount. Using her phone camera, she captures the QR code. Her mobile banking app recognizes the merchant from the QR code, and sets up a payment for the invoice amount to the merchant. Jenny presses “pay” to initiate a real-time transfer from her bank account to the merchant, who receives a confirmation of successful payment instantly.

Jenny travels on the metro...

Jenny wears a wristband with contactless technology. She can travel anywhere on the metro wearing it, and does not need to even present it at the gates. On entering and exiting any metro station, her card is automatically deducted for the correct fare. If she wants to review her travel and transaction history at any time, she uses a mobile app that gives her real-time information on what she has paid, and even shows where she is on the metro at that moment.
4. Plastic cards are becoming “dematerialized”
As part of digital transformation, plastic cards are increasingly becoming “dematerialized”, “tokenized” and “hidden”—or held on-file—in digital wallets, retailer apps, social media, electricity meters or in the cloud to support a seamless purchase experience. As cards dematerialize, and as real-time payments grow, the distinction between ACH and card payment blurs. Over time the two will converge, giving rise to opportunities to innovate beyond cards.

5. mPoS capabilities are enabling the emergence of new, differentiated acquiring solutions and value-added services
Merchant acquiring is becoming more competitive and dynamic, with new technology-driven players entering the fray, targeting both micro-merchants who typically have not accepted cards previously, and large merchants who are starting to use mPOS solutions for sales assistants in their stores.

6. Card revenues are diminishing due to regulatory pressures and are also under threat from non-card alternative payments
Interchange revenues have been under pressure from regulators for some time in markets across the world, with—for example—the European Commission proposing a cap on domestic and cross-border debit and credit card interchange in the EU, and caps already in place in countries such as Australia and in the US under the Durbin Amendment. Even though cards (in a dematerialized form) will be around for a long time to come, they face a potentially strong challenge from alternative account-to-account digital payment methods which will further threaten card revenues.

7. There is an ongoing burden of mandatory scheme changes and compliance requirements
Alongside the need to respond to the challenges involved in becoming a market leader in the digital landscape, banks and payments providers also need to streamline and industrialize their capabilities to keep pace with ongoing mandatory scheme changes and ensure compliance with regulatory and industry initiatives. One example is the migration to the EMV standard in the US.
John receives his new card...

Although John rarely uses his plastic card nowadays, his bank still renews it every four years. However, when John receives his new card, he realizes that all the apps where it is registered need to be updated with the new card expiry date and CVV code. John has no idea how many apps his card is registered with, but fortunately his bank provides a service that maintains a list of apps or websites where he has registered his card details. He opens his mobile banking app and selects the option to list all the places where his card is registered. Reviewing the list, he realizes there are some apps and websites he no longer uses, so he de-lists his card from these. For the rest, he initiates a “global edit” to update the latest card details in each.

John claims a refund...

John has bought some shoes online using a digital credit card in his mobile wallet. However, when the shoes arrive, they don’t fit properly. John decides it will be easier to take them back directly to the merchant, which had a physical store locally, and perhaps find another pair. At the store, he uses the electronic receipt in his mobile wallet as proof of purchase, and with a simple tap of his phone on the NFC PoS, his credit card is refunded as he hands the shoes back over the counter. He then begins trying on some other shoes at the store to see if he can find a pair that fits. When he does, he buys them using his mobile wallet.

Jenny accepts card payments using a mPOS for her small business...

Jenny runs a small business designing and installing kitchens. She visits a customer at her home with a design they have discussed on her tablet. After some adjustments, the customer agrees to the design and orders the new kitchen. When Jenny says she requires a deposit to take the order, the customer suggests paying using a mobile wallet that Jenny does not recognize.

In the past Jenny used to accept only Visa, MasterCard or cash. But now Jenny’s Payment Service Provider (PSP) accepts so many payment brands that she doesn’t remember them all. However, she doesn’t need to. Using an NFC reader, the customer taps her phone on Jenny’s tablet. The PSP confirms the payment method is acceptable, while also highlighting to Jenny the merchant service fee she will be charged, and suggesting a revised figure if Jenny wants to surcharge the customer for the fee. Keen to secure the business, Jenny ignores the suggestion and completes the transaction on her tablet.
Implications and actions for card issuers

While the migration to digital payments has more direct impacts on acquirers, it also brings major implications for issuers—especially when combined with parallel shifts in the consumer, technology, competitive and regulatory landscapes. As a result, issuers are now facing several challenges that they will need to address through changes to their strategies, business models, offerings and relationships.

Credit cards’ declining role as a lending product

The credit card’s traditional role as a lending product is under threat, as debit card transactions grow and credit cards’ attractiveness to consumers as a means of borrowing declines. For example, The UK Cards Association Annual Report 2014 states that in the UK—which has one of the highest adoption rates of credit cards outside of the US—about 40% of outstanding balances are paid off in full each month or at 0% interest; only an estimated 3.7% of cardholders pay the minimum payment for 12 consecutive months; and credit card outstanding now represent less than 4% of the UK’s total personal borrowing.

Consumers’ move away from borrowing on credit cards—possibly accelerated by individual deleveraging during the recent downturn, and a move to other forms of borrowing such as overdrafts—is putting downward pressure on card issuers’ interest income, and fueling a gradual decline in the volume and value of credit card transactions. Meanwhile, debit cards are showing strong growth in terms of both the number of cards in issue and also the volume and value of transactions, as cardholders continue to move away from cash.

Against this background, issuers still stand to derive revenues from interchange fees, but these are also under pressure from regulators. So they need to identify and target new ways of generating revenues and reducing or sharing costs, such as partnerships with retailers and other participants in the payments ecosystem.

Rising transaction volumes

Transaction volumes are increasing due to the e-commerce revolution and rising usage of contactless cards, which are displacing cash for low-value transactions. For example, as per eMarketer estimates, worldwide B2C e-commerce sales will increase by 20.1% in 2014 to reach $1.500 trillion, underlining the important role played by the cards payment industry as a key enabler of e-commerce. These trends mean issuers’ card processing platforms need to be sufficiently robust and scalable to cope with the rise in transaction volumes and the growing demand for lower transaction processing response times.

Adapting to the multichannel environment

The move to an omni-channel environment for purchases and payment transactions means card issuers need to explore new distribution models, looking beyond traditional methods such as direct mailings, which are expensive and no longer as effective as they used to be. The best option may be to switch to more cost-effective alternatives such as the internet. Collaborative approaches can also prove valuable, such as partnering with retailers to roll out co-branded cards, sharing the costs of customer acquisition. If issuers fail to respond effectively with strategies such as these, they risk losing out to competitors that use new and innovative distribution networks to retain and attract customers.

Keeping pace with customers’ changing needs

As customers’ behaviors and needs evolve, issuers are responding by providing cards that are customized for different purposes, including offering features such as cash-back, air miles, or foreign transactions without incurring additional fees. However, the challenge for issuers is that customers’ needs are dynamic and change over time at different stages of their lives—for example when they move from being a student to fully employed adult, and then on to home ownership and parenthood.

It is difficult for issuers to anticipate and track these changing needs, and to respond with appropriate card features and offers. Here data analytics can play a major role, enabling issuers to spot patterns and events that indicate customers are moving to new life stages and priorities. These insights can also help issuers to partner with their customers, building long-term relationships to help them navigate along their lifetime journey.

A key challenge in designing a card product is to make it relevant—for example, a consumer may have three different cards, but doesn’t need or want travel insurance on each. Analytics and partnerships can help identify relevant needs and provide choice for consumers.

Issuers also have opportunities to leverage customer behavior data across different channels. Today’s customers often begin a transaction via one channel but want to complete it via another. Quite rightly, they expect a consistent and well-informed response at each touchpoint. For example, if a customer calls in to discuss an issue with their card, it will help if the customer service center is aware that they have recently looked for a small-value personal loan on the bank’s website. The customer service representative might even be able to suggest a solution using the credit card.
A further imperative to enable a superior customer service experience in the multi-channel environment is that communications messages and service must be consistent, with seamless levels of service and identical offers provided to the same customer via different channels. Issuers that can achieve this stand a better chance of capitalizing on the generally higher customer engagement that results from using mobile apps. Again, data analytics can help to achieve this.

**Innovating for digital**

As advances such as dematerialization of cards accelerate, digital is becoming a strong force shaping the needs and expectations of customers. This impact extends to the payment experience in digital interactions and how customers expect to pay. Card networks and issuers cannot simply dematerialize cards and migrate them to digital, and expect customers to be content. Instead they must reinvent cards to be relevant in the digital world.

For example, the effort traditionally involved in using a card online—including entering a long string of digits, start and expiry dates, CVV codes and so on—is unacceptable to many consumers. So alternative solutions, such as a single button to enter an email ID/user ID (or mobile phone number) and PIN, or even a thumb print (for example Apple Pay), are necessary both for online and mobile apps.

Increasingly, consumers are registering their cards on-file in mobile apps (and online websites) in order to authorize payments automatically when purchasing through apps such as Apple iTunes. As cards-on-file proliferate, consumers will want to keep track of where they have registered them, and have a mechanism to centralize updates—for example a card renewal or replacement—without having to visit every app and website. Card networks and issuers should start providing these types of new services. Additionally, as cards “disappear” through mechanisms such as cards-on-file, card networks and issuers will need to reinvent their branding approach to keep their brands visible to the consumer.

A further area for digital innovation is giving the consumer more control and relevant context. Examples include allowing users to see balances and available funds when making purchases, and to set up their own controls such as switching their cards on and off, restricting geographically where they can be used, or setting an additional approval step for mobile transactions above a specified limit.

**Addressing fraud risks**

The rapid rise of e-commerce and m-commerce is bringing with it new challenges around fraudulent transactions in card-not-present (CNP) situations, and a need for issuers to develop new strategies to mitigate the resulting risks. According to the European Central Bank’s (ECB’s) Third Card Fraud Report, published in February 2014, CNP now accounts for 60% of the total value of fraud using cards in the Single Euro Payments Area (SEPA).

Given that consumers are on a journey towards mobile devices becoming the dominant payment method, the payments security processes on mobile devices and operating systems need to be strengthened. New players in the payments ecosystem—such as the mobile network operators—also need to play a role in improving mobile security, alongside to the traditional players. In the meantime, issuers need to prepare for some loss of revenue due to fraud.

To date, the industry’s responses to increased fraud risks have included plans for EMV adoption in the US and China—although this is likely to take five to ten years, given the cost and systems implications. Issuers also need to examine the potential for new advanced fraud management software platforms, taking a risk-based rather than rules-based approach to fraud, potentially by using specialist third-party vendors in preference to building bespoke systems in-house. Efforts to help issuers take the right steps include the ECB’s publication on its website of recommendations for the security of internet payments.

Going forward, issuers have the opportunity to take fraud prevention to a whole new level by innovating and using technology effectively. One area of progress could be to put more control in consumers’ own hands, by using analytics to enable a more intelligent approach to fraud management including using location data as an input, or by using tokenization and end-to-end encryption to secure transaction and card data.

**Revenue implications of mobile wallets**

While digital and mobile wallets represent a big advance for consumers, their growing usage means issuers facing a potential loss of revenue. While the revenue is currently shared between the traditional players in the cards ecosystem—issuers, schemes and acquirers—the rise of mobile wallets will see the mobile networks, software vendors and others start to seek a share of the profits. Apple Pay, for example, charges a transaction fee to participating card issuers.

To manage the impact on their revenues, issuers will need to forge partnerships with the digital or mobile wallet providers, in order to ensure their cards are supported as mass-adoption of the wallets picks up. More positively, rising usage of mobile/digital wallets also creates opportunities for issuers to send offers direct to customers.
The journey to contactless payments

Mass adoption and usage of contactless payment cards—as already seen, for example, on buses and trains run by Transport for London (TfL) in the UK—will be a key enabler for the industry to move towards mass-adoption of Near-Field Communication (NFC) enabled mobile payments. As confidence in NFC increases among consumers and merchants, the result is that issuers and other stakeholders such as mobile operators will be able to invest with greater certainty in NFC-enabled platforms and offerings.

The emergence of host card emulation (HCE) as an alternative to SIM-based hosting of card credentials on mobile phones, removes banks’ dependency on working with mobile operators on NFC payments. This will free them up to innovate and launch independently their own contactless mobile payment propositions and reduce the need to share revenues.

The impact of interchange regulations

Accenture estimates that the changes currently proposed—and in some cases already implemented—in interchange regulations will see the fee per card for UK issuers fall by 30% and 68% respectively for debit and credit cards. To offset these lost revenues, issuers need to find ways to increase their share of customers’ wallets.

Once again, a useful tool for achieving this will be data analytics, which can be leveraged to create more appealing and targeted offers and marketing campaigns. Partnering with merchants to produce co-branded cards can also help to increase issuers’ revenues by driving increased customer loyalty and higher customer acquisition rates, while additionally enabling the costs of customer acquisition to be shared with the merchants.

Consumers are also impacted by caps on interchange. Experiences from countries such as Australia and Spain suggest that consumers were made worse off as a result of the regulation of interchange fees as cardholder fees and credit card interest rates increased. In Europe, differences in timing of proposed interchange reductions provide a short window of opportunity for merchants to seek merchant acquirers across borders instead of domestically. If merchant acquirers take advantage of this opportunity, it could significantly reshape the merchant acquiring landscape.

In–house or third–party processing?

As the new world of mobile, multichannel digital payments takes shape, a key decision for issuers is whether to keep their cards processing in–house or outsource it to third–party processors. In recent years, cards processing as a whole has become increasingly complex because of the increased focus on functions such as fraud management and regulatory compliance, in addition to the traditional core functions of transaction processing, settlement and reconciliation.

Given this rising complexity, issuers face the challenge of choosing between the in–house or outsourced models—whether partial or full—depending on their overall business strategy. There are pros and cons on each side. On the one hand, in–house processing provides the benefit of readier access to valuable customer transaction data and greater cross-selling opportunities. On the other, outsourcing to third party processors can lead to lower processing costs, while also providing access to proven value-added services in areas like fraud management and business intelligence. Using third–party processors can also help issuers who are planning geographical expansion speed up their time to market. Such factors mean the choice—and balance—between in–house and outsourced processing will vary from issuer to issuer.
From an acquiring perspective, the implications of the move to digital are more profound than for card issuing. In a polymorphic payments environment, acquiring will need to operate across all the various available mechanisms. It follows that acquirers will have to expand from a card acquirer role to a much broader polymorphic role.

Whereas merchant acquirers may traditionally have offered merchants the choice of accepting Visa and/or MasterCard and/or other brands (including non-card alternative payments), in a polymorphic environment there are so many brands that this approach is no longer practical. Instead, merchants will want to accept as many brands as their customers use, and will expect their merchant acquirer to accept any payment method presented to the merchant. If the merchant acquirer meets this requirement, then the merchant no longer needs to worry about what to accept and not accept. However, the acquirer may want to incentivize or allow the merchant to display payment brands in a prominent position to encourage customers to use them. Additionally, the merchant will want to see what the fee is for each payment at the time of the transaction and have the option to surcharge the customer if necessary.

Combined with the trends described above, this shift poses challenges in several areas for merchant acquirers, as they rethink and reposition their businesses for the digital age.

### Intensifying competition

As new players join the payments ecosystem, merchant acquiring is becoming increasingly competitive and dynamic. A particular impact is that merchant acquirers have to compete harder to provide value-added services to merchants. New entrants such as Square and iZettle are forming relationships directly with merchants and developing PoS innovations. In doing so, they are expanding the marketplace into new segments that traditional merchant acquirers should now look to address.

Some Payment Service Providers (PSPs), previously regarded as suppliers of online gateway services to merchant acquirers, are now providing merchant acquiring services directly to merchants. E-commerce is a lucrative and fast-growing market for PSPs and new payment networks, partly due to the fees they charge for their gateways, and partly due to the shift to ecommerce from in-store purchases. As a result they are in a strong position to invest in new capability and exploit this growth.

At the same time, card issuers are also forming direct relationships with merchants for merchant-funded rewards programs and digital propositions, loosening the ties between merchant acquirers and merchants for the provision of added value merchant services.

### Changes to strategy and operating model

Scale counts in payments, and—in general—the value of a payment or merchant acquiring network increases in proportion to its size and reach. This means merchant acquirers have an opportunity—and arguably an imperative—to expand both in terms of digital channels and geographical coverage.

It’s clear that acquirers today need an effective and workable strategy for embedding themselves in the digital ecosystems supporting ecommerce. However, a key consideration is whether to invest in the mature physical PoS business as well. The question here is whether the combination of a physical PoS business and a digital—internet, mobile, TV—business is critical to support the trend towards channel convergence and omni-retailing. In the past, some banks have divested their merchant acquiring businesses due to the low-margin and resource-intensive nature of the capabilities needed to provide physical PoS services. However as PoS innovations gain traction and high-margin ecommerce acquiring expands, many of these banks are evaluating whether they should re-enter merchant acquiring.

In terms of geographical expansion, the main considerations include whether to exploit the borderless reach of digital channels and support merchants as they expand across borders, and/or whether to acquire portfolios of merchants in new geographies.
Additional services

Acquiring is no longer just about card acceptance. Non-card payments and emerging payments need to be integral aspects of any acceptance offering. Merchants want one acquirer relationship for all payment types and channels, whether face-to-face or online, while face-to-face payment acceptance also needs to accommodate non-card payments, including online bank-enabled payments (OBeP) such as iDeal in the Netherlands and Sofort in Germany.

Digital wallets are likely to be an essential part of alternative payments, regardless of the success or otherwise of NFC. With the move to alternative payments comes the challenge of maintaining service levels consumers have come to expect from cards—specifically in terms of consumer protection and the ability to address disputes and chargebacks. These capabilities are supported comprehensively by the card schemes and in card business processes, but are often less robust or even overlooked in alternative payment mechanisms. The result can be a poor consumer experience in the event of a query or dispute.

Economic shifts

The regulatory pressure on interchange directly affects card issuers. However, as existing revenue pools shrink it is also likely to put indirect pressure on merchant acquirer revenues, both by slowing (or even reversing) the growth of issued cards and transactions, and also by creating incentives for the non-card alternatives now staking a claim for acquirers’ revenue pools.

With alternative payment mechanisms that bypass card networks, merchants may still pay transaction fees to the alternative payment provider, but merchant acquirers risk losing transactions and revenue. For bank-owned merchant acquirers this development may see a shift in revenue to the retail bank if the bank offers non-card alternative payments, but for independent acquirers it is a direct risk to their business.

At the moment, non-card volumes are very low and the risk is relatively small, but this may well change—a prospect that underlines the need for merchant acquirers to offer alternative payment mechanisms and get into the value chain early. Strategically, merchant acquirers should consider how they can connect into a proliferating set of payment networks beyond the traditional card networks.

Technology re-platforming

As the payments landscape reshapes, merchant acquirers face significant technology challenges. Legacy technologies supporting PoS and MOTO merchant acquiring have rarely worked well with ecommerce technology and online gateways, leading to inconsistencies in the merchant experience and service across channels. Addressing these inconsistencies is becoming an urgent imperative given the rapid growth in online commerce and the emergence of omni-retailing and channel convergence.

The key requirements for a merchant acquiring platform include:

• Connectivity to a wide range of payment methods, to enable a polymorphic payments service for merchants.
• Incorporating modern technology such as cloud, social media, mobility and analytics to stay relevant to the growth in digital commerce and flexible to the demand and opportunities it generates.
• Providing tokenization services—for tokens generated at gateways and POS, and for tokens generated by payment networks.
• Providing APIs that merchants can embed in their online stores, mobile apps, POS terminals and even in devices for the “internet of things” for example, smart meters used by utilities; through exposing their processing systems to provide payment functions, as well as through acting as a broker for APIs provided by payment networks, for functions such as token services, electronic id, and fraud checks.
• Supporting high transaction volumes across all channels, including handling very high peak volumes from digital business models (e.g. event ticket sales).
• Enabling payment capture/point of interaction from a range of devices and form factors (including mPoS-type devices), all seamlessly integrated, allowing consumers to start a transaction on one channel and complete it via another.
• Addressing many of the shortfalls with legacy acquiring platforms, including areas like dynamic pricing, merchant outlet management tracking & billing, and even integrated functions such as inventory management and product profitability reporting that are especially important and relevant to small businesses and micro merchants.
• Maintaining PCI DSS compliance, and architecting to reduce ongoing compliance overheads.
• Enabling the rollout of EMV (e.g. in the US) and contactless (NFC).
• Upgrading from the “classic” Base24 switch (for those that use the "classic" Base24 switch (for those that use the ubiquitous authorization software).

A further challenge is the shortage of package software providers serving the market with full end-to-end merchant acquiring solutions.
How does your approach to cross-border transactions, new channels, device proliferation, digital commerce, analytics, mobility, social media and cloud fit together within a coherent and holistic strategy?

Do you have a strategy to support omni-channel retailing and channel convergence, and capabilities to support a seamless consumer and merchant experience across all channels, including the ability to provide services in a fragmented, polymorphic landscape with proliferating new ways to pay?

As the emerging digital ecosystem takes shape, what is your sourcing and partner approach with payments service providers, merchants, non-card payment networks, new entrants and other participants?
Accenture's approach to transformation in card issuing and merchant acquiring has three elements.

**Strategy, target operating model design and business case definition**

Accenture helps issuers and acquirers both to identify the end-state they are aiming to achieve and also to chart the path to get there (such as replacement of specific legacy systems or access to advanced analytics capabilities). A recent example was when Accenture worked closely with an acquirer to identify its cross-border strategy to expand geographically and define the appropriate target operating model and IT architecture. We helped the client do this by analyzing the gaps, recommending plans to reach the target state, and finally defining the business requirements for a new technology platform to support the new operating model.

**Architecture**

Through our cards reference architecture model and High Performance Banking process model we can assist issuers and acquirers in defining their business requirements and architecting and designing their IT systems. This includes architecting low latency, high capacity and resilient internet and mobile payment gateways for digital commerce for different operating and business models e.g. cross-border, direct-to-merchant or white-labelled; and it includes architecting and simplifying switches to support payments over digital channels.

**Industrialized delivery and testing capabilities**

Accenture has proven delivery capabilities across many geographies and regulatory environments. Through our Global Delivery Network we can build, test and maintain issuing and acquiring systems, and real-time switches. For example, we run the core acquiring systems for one of the world’s largest merchant acquirers, and we are helping a number of issuers and acquirers to implement capabilities to launch mobile and digital propositions.
Contact us

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2 http://www.theukcardsassociation.org.uk/wm_documents/UK%20Cards%20Annual%20Report%202014%20interactive.pdf

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5 http://www.ecb.europa.eu/pub/pdf/other/

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