



Visa Consulting & Analytics (VCA)

# Risk management in the acquiring business







# Merchant landscape changes bring acquirer risk management strategies to the forefront

Traditionally banks have focused their risk management capabilities and expertise on the card issuing side of the payments ecosystem, which after much investment and innovation, has evolved dramatically in recent years. Unfortunately the acquiring side of the payment ecosystem hasn't received the same level of attention and investment.

However, changes in consumer behavior and new entrants to the market have compelled acquiring banks to revisit their existing business models and enhance their risk management practices. Acquiring risk management should be an important strategic priority to enable sustainable acquiring business growth.

In this paper, Visa Consulting & Analytics (VCA), outlines the major trends in the acquiring risk management landscape and discusses the strategic implications for each of these trends.

# Current trends in acquiring risk management and their strategic implications on acquiring banks

As consumers shifted their shopping experiences towards digital channels, acquiring merchants shifted priorities to enable better online shopping experiences. As a result, several key trends have been identified in acquiring risk management:

## **Trend #1:** Unprecedented growth of e-commerce merchants

E-commerce has grown at a staggering rate. In 2021 e-commerce sales reached approx. 4.9 trillion dollars worldwide and is predicted to grow over 50 percent in the next three years to about 7.4 trillion dollars by 2025.<sup>1</sup> These figures are also reflected in Visa data which shows us that 45 percent of consumers state that online shopping is a necessity and 78 percent of consumers have changed their payment method due to security concerns.<sup>2</sup>

This rise in e-commerce has led to additional risk exposure in the payments ecosystem. Acquiring banks are trying to meet the needs of different merchants at differing levels of digital maturity while remaining relevant and trying to innovate in the space.



1. Statista.com, Retail e-commerce sales worldwide from 2014-2025 <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>

2. Visa Back to Business Study, June 2020, <https://usa.visa.com/dam/VCOM/global/run-your-business/documents/visa-back-to-business-study.pdf>

## Trend #2: Reinventing business and operating models

Merchants of all sizes are placing new expectations on acquiring banks, which include: demands for processing payments (beyond basic authorization services) in real time, simplified pricing structures, and frictionless experiences. Additionally, both merchants and consumers are challenging acquiring banks to keep up with the omni-channel customer journey that has become the norm. According to research from Salesforce, 73 percent of shoppers use multiple channels during their checkout journey.<sup>3</sup>

Acquiring banks are also facing challenges from tech savvy fintechs who have transformed the acquiring value chain, redefining the merchant journey and offering flexible pricing structures. These new players are pursuing open platforms and rationalizing back-office processes. As a result, traditional acquirers have been compelled to re-evaluate their value proposition for merchant services and challenged with new risks to solve for.

Many of these new players can pivot and adapt to new markets in a more agile way than the existing acquiring banks. Yet, acquiring banks are also looking at ways to innovate. They are reassessing existing silos between issuing and acquiring businesses and trying to find synergies to drive higher engagement and cost savings.

Implementing these changes, however, will require investment in payment technology to develop robust and forward-thinking risk management capabilities.

Acquiring banks are focusing on advanced real time fraud detection and prevention systems to address the challenges they are facing. Acquirers like Worldpay are strategically migrating to more secure credentials like tokens and authentication protocols like EMV3DS, which make transactions safe and secure and subsequently reduce their operational costs.

Similarly, acquiring banks should leverage merchant risk insights from data using Artificial Intelligence (AI) models to add value and offer new services like chargeback protections. Some newer entrants are already doing this work like Riskified who offer full chargeback protection to merchants.<sup>4</sup>

As margins compress, implementing these new technologies and capabilities, including tokenization and risk scoring, allows the acquiring banks to reposition themselves to be able to capture new revenues streams.



3. Salesforce.com, Omnichannel Retail and Beyond: Delivering Superior Customer Experiences.

4. Riskified.com <https://www.riskified.com/>



### **Trend #3:** Payment facilitators are becoming key players

Payments providers like PayPal, Square and Stripe have changed the relationships between players in the merchant acquiring space. Their growth has been phenomenal, and they are on track to process over four trillion US dollars worldwide in 2025.<sup>5</sup>

In order to maintain a reliable, secure and trusted payment ecosystem, a balance should be achieved between the merchant services that the payment facilitators provide which is enabling growth for the acquiring banks and the need for acquiring risk management control.

### **Trend #4:** Shifts in payment preferences

The growth in mobile and contactless payments means merchants and acquirers need to keep up with the pace of change in consumer behavior and adopt new technologies to meet consumer demand, or risk losing out to new market entrants who have more convenient, safer and secure payment methods that enable better customer experiences.



5. Insider Intelligence.com, Payment facilitators: How these providers are eating the payments value chain, June 2021 <https://www.insiderintelligence.com/content/payment-facilitators>

## Trend #5: Change in fraudsters approach

While there is no denying that digital payments has brought a number of benefits for both consumers and merchants, it has also led to an increase in cybercrime. Fraud has moved to target card not present transactions. VisaNet data shows us that globally fraud levels over the last 18 months have seen significant increases in card not present transactions.<sup>6</sup> This has resulted in the acceleration of secure technologies such as EMV3DS and Tokenization.

To combat this, acquiring banks should place more emphasis on closing the gaps in near-real time controls and monitoring, as well as having greater control over merchant underwriting, onboarding and monitoring. This will help reduce merchant driven fraudulent activities.



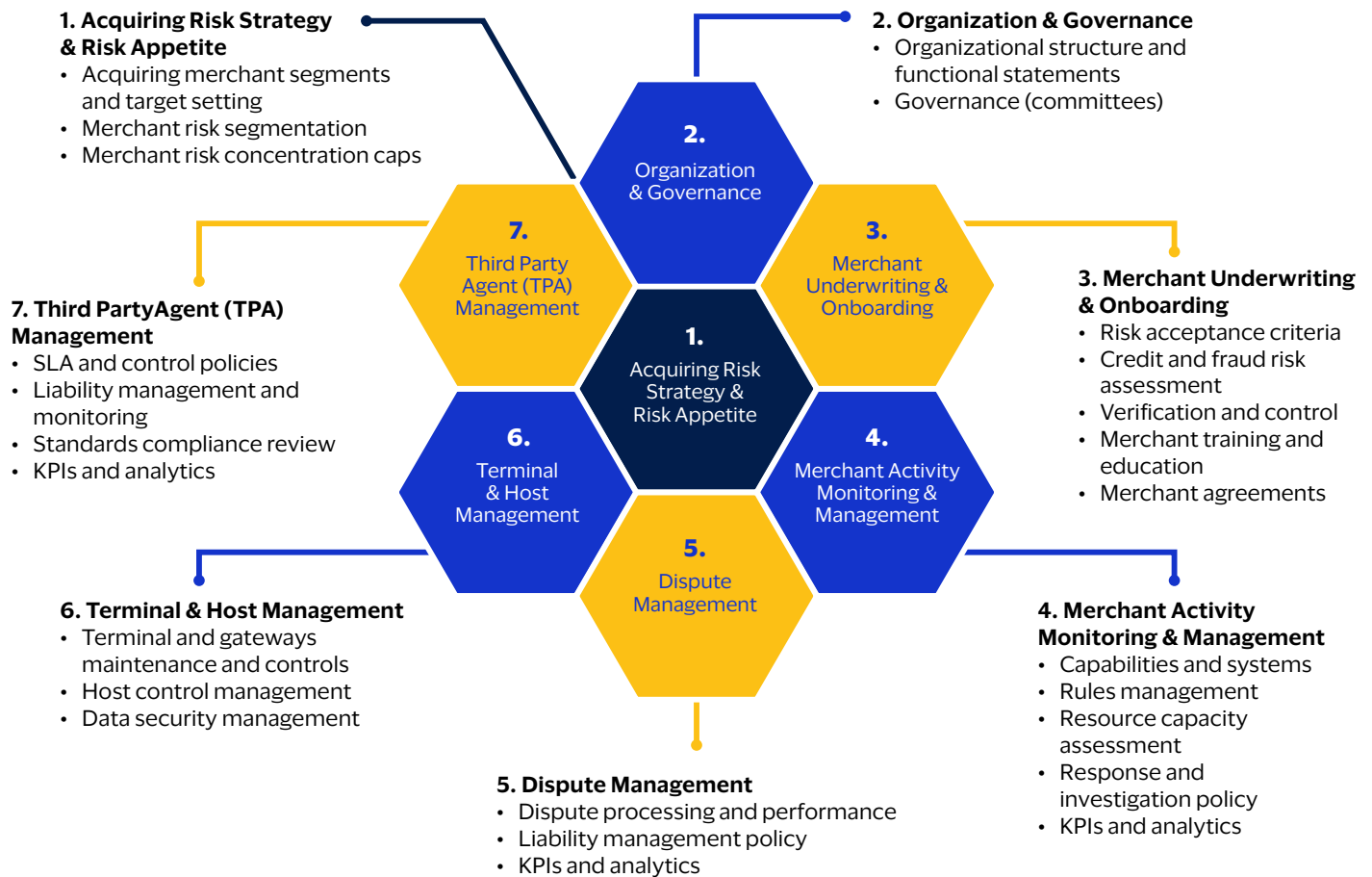
6. Visanet data, 3Q'20-4Q'22 from Apr 2023 version; 3Q'19-2Q'20 from Jan 2022 version

# Building best in class risk management capabilities is key for all acquirers

This post-pandemic context has made a complex and competitive sector even more challenging. However, despite the challenges, significant opportunity remains for acquirers to carve out a differentiating, value-creating role by enhancing their acquiring risk management capabilities. Visa, utilizing global acquiring best practices, has developed a comprehensive framework to help develop the necessary acquiring risk capabilities. Below are some key areas that all acquirers should review in light of best practices:

## Acquiring Risk Management Framework: Acquiring Risk Advisory

Visa offers a comprehensive end-to-end review of acquiring risk policies and processes







# What lies ahead for acquiring risk management?

Going forward, acquirers should deal with changing customer requirements in a highly competitive, regulated environment, rife with new entrants, rapidly evolving consumer preferences, emerging payment types, increasingly complex value chains and new payment use cases. As such, acquirers are repositioning themselves as merchant service providers (as opposed to only acquiring payment processors) and should provide best-in-class acquiring risk solutions for payments-related needs such as fraud and dispute risk management, technology solutions and data analytics.

As more transactions are shifting online, there will be increased card not present e-commerce fraud and disputes as online payments become prime targets for cybercrime attacks. Regulators have imposed mandates for strong customer authentication (SCA) to manage fraud associated with card not present fraud. For example, the widespread requirement for SCA in Europe is already showing its ability to decrease card not present fraud. Payment networks have also introduced EMV3DS as a payment security protocol to reduce card not present fraud. To succeed, acquirers should have best-in-class acquiring risk management policies and processes enabling them to gain market share.

Acquirers should also look to invest in technology solutions and deploy advanced machine learning and artificial intelligence tools to help combat emerging fraud. They should consider advanced merchant underwriting, onboarding, and monitoring tools to mitigate financial, regulatory, and potential reputational risks. There will also be increased demand for acquirers to leverage data analytics, fraud monitoring rules, risk modeling, and other fraud prevention tools and techniques to identify merchant risk factors.

Visa's deep knowledge combined with leading data and analytics means we are ideally placed to support and guide acquirers to deliver a best-in-class acquiring risk management strategy and to help grow these capabilities in their organization.







- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

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