Acquiring – description of the business models

I. **Diagram: Four party scheme transaction**

II. **What are Acquirers?**

Acquirers, also known as Merchant Acquirers, basically collect card based payments which have been accepted from Retailers. They aggregate and separate those payments and then send them to Card Issuers, normally via the respective Card Scheme (e.g. Visa/MasterCard) networks, known as ‘interchange’. These payments are debited to the Card Issuing bank and ultimately the cardholder. The Issuing Bank then sends a credit for all their daily payments back via the Schemes to the Acquirer who completes the cycle by funding the Retailer’s nominated bank account. This cycle can be completed in as little as 12 hours but is typically 3 or 4 days depending on individual contracted arrangements.

The above ‘settlement’ flow reflects the contractual relationship within the four-party scheme model in that:

1. The cardholder contracts with an Issuing Bank
2. The Issuing Bank contracts with a Card Scheme
3. The Card Scheme contracts with a merchant Acquirer
4. The Merchant Acquirer contracts with a Retailer
5. *There is a relationship (and it could be contractual) between the Cardholder and Retailer governed by appropriate National or EU Consumer Laws*

In this linear structure it is clear therefore that there is no contractual relationship between i) the Card Issuer and Retailer or ii) between the Merchant Acquirer and Cardholder. Neither is there a contractual relationship between Issuer and Acquirer but they are both inextricably bound by uniform Card Scheme rules.
III. What do Acquirers do?

There are various models but Merchant Acquiring activities would reflect a typical merchant life cycle in the following way:

- **Recruitment**
  - Conduct the Retailer needs analysis, complete sales negotiation/terms and conditions/pricing

- **Underwriting**
  Merchant Acquiring can carry significant credit and fraud related risks so all new Merchant applications are carefully assessed to include:-
  - The nature and delivery timescales of goods or services sold
  - Calculation of any potential credit exposures with a proportionate financial assessment of business performance and leadership
  - Fraud database checks
  - Anti-Money laundering checks

- **Terminal deployment/ Card acceptance capability**
  - Point of sale terminal purchase, leasing or rental options
  - Establish an internet payment gateway if the Retailer wishes to trade via a web site

- **Support and service** all retailer enquiries, typically in respect of terminal problems, financial reconciliation issues, change of address/bank and generally try to make payment acceptance as easy and convenient as possible.

- **Chargebacks**
  The Retailer may be unfortunate to experience a Cardholder dispute and have a payment returned by the Issuing Bank for which, under Card Scheme rules, the Retailer MAY be liable. It is the Acquirers responsibility to review and check the transaction detail and cardholder claim in conjunction with the Retailer and Card Scheme rules and if possible reject and represent the chargeback. If there is no available defence the Retailer will be liable and the chargeback will be debited from the nominated bank account.

- **Account closure**
  Retailers close their card processing account for various reasons including switching processing to a competitor for a better deal, cease trading e.g. retirement, or going into liquidation/bankruptcy/bust. In the latter circumstance, the Acquirer may well be unable to collect fees and chargebacks which are in the system (maybe as a result of a cardholder paying for goods/services which he/she never received), in which case the Acquirer has to absorb the loss. This scenario reflects the ‘credit exposures’ alluded to in the underwriting section above.
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Merchant acquirers

IV. Other Acquirer responsibilities

Merchant Acquirers are usually a direct party to contracts with the Card Schemes, although there can be ‘sponsorship’ arrangements via other entities, usually banks. However, no matter what the relationship, Acquirers are bound, with the Card Issuers to observe the respective Card Scheme rules in order to maintain membership.

Merchant Acquirer/Retailer contracts therefore tend to reflect the Card Scheme rules, which ensure that the integrity and global operating nature of the major payments systems are preserved. All the major Card Schemes have programmes that measure and monitor Acquirer performance in key areas such as fraud and chargeback volumes and if parameters are breached, the Acquirer can be fined under Card Scheme rules. Constant and ongoing monitoring of the Merchant Acquiring portfolio is therefore essential to mitigate financial penalties and reputational damage.

One other important function that the Acquirer undertakes is to ensure that its processing platform is compliant with Card Scheme rules, mainly to ensure that all necessary information is conveyed through the authorisation and settlement systems accurately to ensure optimum transaction authorisation and maximum Cardholder convenience. System accuracy also ensures that Issuers are reimbursed for each transaction with the correct ‘interchange fee’, where the payment type attracts such fees.