



## Sucesful Portfolio Acquiring

You know the saying that goes, if I had \$5.00 for every time? Well if I had \$5 for every time someone having card acquisition issues said why don't we just buy a bank and solve this mess, I might not be able to retire, but I could eat awfully well for a year.

The question is, 'is buying a bank really all it takes?' Well it depends, but realistically probably not.

As the acquirer just how much control do you have over the success of portfolio acquisition transactions?

At the very core of the card system on an issuing level is the understanding that while Issuers become members of the schemes and are certified by them, local regulations are the over-riding ruling factor. In practicality this means Issuers are looking at the risk of overseas transactions, the use of DCC (Dynamic Currency Conversion,) the volatility of their currency and always the cost in terms of scheme fees for transactions outside of their domestic environment.

These concerns are part of the practical everyday life of an Issuer something no acquirer has control of, nor necessarily complete information about.

Aside from these commercial and regulatory thought processes there are the technical aspects of the Issuing Processor, what information they receive, how that information is technically received and assessed and what risk/fraud detection systems may be present at the Issuing Processor.

For instance a system may see a transaction for the same amount and same merchant ID come in for the 3rd time in a day and chose to reject that transaction. These kinds of declines are not necessarily transparent to the consumer and certainly there are no rules the merchant can refer to, to identify which Issuers would react in any given ways. Although there are overriding scheme mandates about messaging, what can and will be accepted, this again varies according to local regulatory factors and the Issuer's view of risk.

It is always worth remembering as an acquirer you will likely have minimal, if any interaction with the thousands of Issuers with consumers making purchases through your systems. There is even less information on each of the Issuing Processors and the fraud systems inherent in this pairing. While there are mandated scheme requirements regarding declined transactions, how informative those responses are still leaves considerable leeway for confusion, plus there are country and regional differences to consider as well.

It's worth remembering just what impact on the acquirer the regional and country differences in regulations can have in terms of Interchange. While it is fine to suggest that commercially these can be passed on with acquirer fees, is it really that simple. Think of the complexity in administration and reconciliations. I hear murmurs of blended rates in the background. However, if you are offering a blended rate of 2% and it turns out that your latest merchant has a very high level of corporate inter-regional credit cards going through with a 2.25% interchange an 'oops' might not cover the down side of this relationship. So as the acquirer how much really is within your control? What are the commercial challenges of becoming an acquirer?

Probably most underrated is the overall cost of assuming the risk of becoming an acquirer. It is entirely possible now to go for the relevant regulatory status within the EU for example and become an acquirer without becoming a deposit taking bank. However, while getting the regulatory status may not be as expensive overall as buying a bank and the costs of purchasing scheme membership, setting up with an acquiring processor will be the same.

The catch is that as a small newly-purchased bank, or a newly-regulated entity in the EU, you represent a greater risk to the schemes, after all if something were to happen, who would be left footing the bill? So, within the business plans of a successful acquirer processing millions in transactions each month, there needs to be a funding line taking into account the amount of money that will be tied up in security with the schemes.

Now comes the interesting piece: costs of the transactions. As a fairly new entity, or as an entity just launching into their business plan, volumes will be smaller, the smaller the volumes the higher the price of the transaction. Remember, an authorization is a transaction so even the declines will cost you something. Plus, as you are probably outsourcing your acquiring processing while your volumes are ramping up, your costs will be relatively high per transaction.

Don't forget that the biggest cost could be the interchange fees, and depending on where your transactions are coming from, this could represent a challenge in offering competitive pricing. If all the transactions flowing through your systems are from another region, then interchange will likely be higher. So what am I saying? Really, is it cost effective, worthwhile and profitable to become an acquirer? As the acquirer do you truly control enough to make a definitive difference for your business? How deep are your pockets?

What are the alternatives? Find a large, flexible acquirer or number of acquirers in the right countries and regions. Build a good working relationship, get close and understand the technology platforms they are working with and the information they can provide you with. Understand the customer/merchant base you are dealing with. If the overall solution is totally reliant on cards, what can be done to minimize that reliance? Still determined? Then start with a questions list:

1. Where are my merchants?
2. Where are their consumers?
3. How much of the business is debit card based?
4. How much of the business is credit card based?
5. How much will be corporate cards?
6. Do I have to offer a balanced level of issuing as well as acquiring in my chosen country of membership?
7. What are my predicted volumes domestically, regionally and internationally?
8. What are the risks I run with my projected merchant base?
9. What level of fraud protection systems do we have in place?

Last but definitely not least: how much money do we have?