PAYMENTS PROCESSING

Acceptance processing: the 'messy middle' of payments

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The mass of alternatives, requirements and cost makes the space between the customer, the merchant, the tender type provider and the currency amazingly complex

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There are about 180 different national currencies in the world, not counting the over 10,000 cryptocurrencies currently active according to coinmarketcap.com. While central bank digital currencies are just getting started, we expect that there will be several coming online in the next few years. Add to that the tender types that consumers use to pay for things, like credit and debit cards, mobile wallets using tokenised cards (Apple Pay, Google Pay), digital wallets (Alipay, PayPal, WeChat Pay), biometric payments (Amazon One), mobile money (M-Pesa) and account-to-account payments – and the possible combinations of currency and tender types get complicated really quickly. Within single markets, like the UK or Japan, it's a lot simpler, but some merchants need to be able to accept tourist payments, so even in the simplest use case, payments can be complex.

An entire industry has evolved to manage the process of accepting, authenticating and authorising payments on behalf of merchants. Traditionally this role was filled by payments processors who focus on card payment processing, offering the ability to handle high transaction volumes quickly and securely. Traditional processors are still essential players in the ecosystem and they're adapting to the new complexity of the market to the degree that they can. But when a merchant is offering goods and services across the globe, both online and in-store, payment acceptance is a daunting challenge that requires much more than card processing.

To accept payments across different markets, merchants need to accept not only their own local currency but also the local payment methods elsewhere, like iDeal in the

Netherlands or Pix in Brazil. In many markets, local acquirers and processors can offer lower cost transactions, and merchants are often encouraged or required to use a local processor for their own fiat currency.

Beyond payment acceptance, there's an entire layer of value-added services that can help make transaction processing safer and more efficient, as well as providing a wealth of data about customers' purchasing behaviour. Large merchants can have entire teams dedicated to managing the complexity of accepting payments in the markets served by that merchant. Internal systems are often needed to integrate transactions with legacy POS systems and online shopping carts and wallets, as well as integrating payment information into the organisation's CRM and business management platforms.

This mass of alternatives, requirements and cost makes the space between the customer, the merchant, the tender type provider and the currency amazingly complex; it's the 'messy middle' of the payment ecosystem.

The messy middle drives technology renaissance

Technology has evolved to create new ways of managing the payment acceptance process. The advent of cloud-based services potentially eliminates the need for having physical computing hardware in different regions and markets. Application Programming Interfaces (APIs) create a simple connection from the processing ecosystem into a merchant's systems, which limits the programming needs and the internal support required for payment acceptance. And with new technology, new players and ultimately entirely new categories of processors have emerged. Payment service providers (PSPs) and payment facilitators (PayFacs) provide merchants with a simple and

efficient method to support online payments. A new category of processor, the payment orchestrator, comprises providers who offer merchants a connection to an array of different payment functions through APIs. With payment orchestration, the merchant can choose from several different local and global processors, cross-border payment managers and security and information services so that they can manage their entire payment operation through a single service provider.

The messy middle of payment acceptance has become the crucible within which new approaches to payment processing are forged. It's driving a renaissance in the use of technology to manage the extreme complexity of the space and at the same time to simplify payment acceptance at the moment of purchase. Going forward, the payments ecosystem will only become more complex, the reach of merchants will continue to expand globally, and customers will continue to expect that their purchase experience will be simple, fast, and to the degree possible, invisible.

Companies that intend to participate and prosper in the payment acceptance space need to be prepared for:

- More complexity – No form of payment goes away. Everything is additive, and new forms of payment continue to emerge. While cryptocurrency currently has limited usage, it is likely that one or two will emerge as viable payment alternatives that need to be supported by some merchants. Central bank digital currencies will be a mandated payment alternative in some markets, and new digital wallets will continue to proliferate. Buy now, pay later (BNPL) has also earned a position as a legitimate payment alternative.

- New channels – SaaS businesses servicing specific verticals such as restaurants (Toast, Lightspeed) or gyms are offering embedded payments to their small business clients. Embedded payments are also increasingly important to online merchants and marketplaces as they minimise friction and accelerate purchases. The metaverse is still evolving, and there is limited value for consumers or merchants outside of gaming metaverses such as Roblox at this time, but new interfaces like Apple's new VR goggles will ultimately drive the space to scale. SoftPOS is also emerging, providing merchants with the opportunity to use a conventional off-the-shelf smartphone as a POS terminal.

- New technology – Low- and no-code programming is becoming commonplace, simplifying the installation of new capabilities and applications. Providers such as Stripe supply just a few lines of code that can be easily integrated into a merchant's website, for example creating a customised checkout page with all payment methods the business needs. Headless commerce is delinking the payment processing function from the customer-facing payment acceptance tool, a shopping cart or embedded transaction. And AI chatbots have the potential to embed additional artificial intelligence throughout the payments process flow.

The messy middle has every probability of becoming even messier over the next few years, and every player in the payments acceptance ecosystem, from the merchant to the card issuer or payment provider, needs to move to more flexible, adaptable platforms that can quickly incorporate new functionality and capabilities as they emerge. ◼

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