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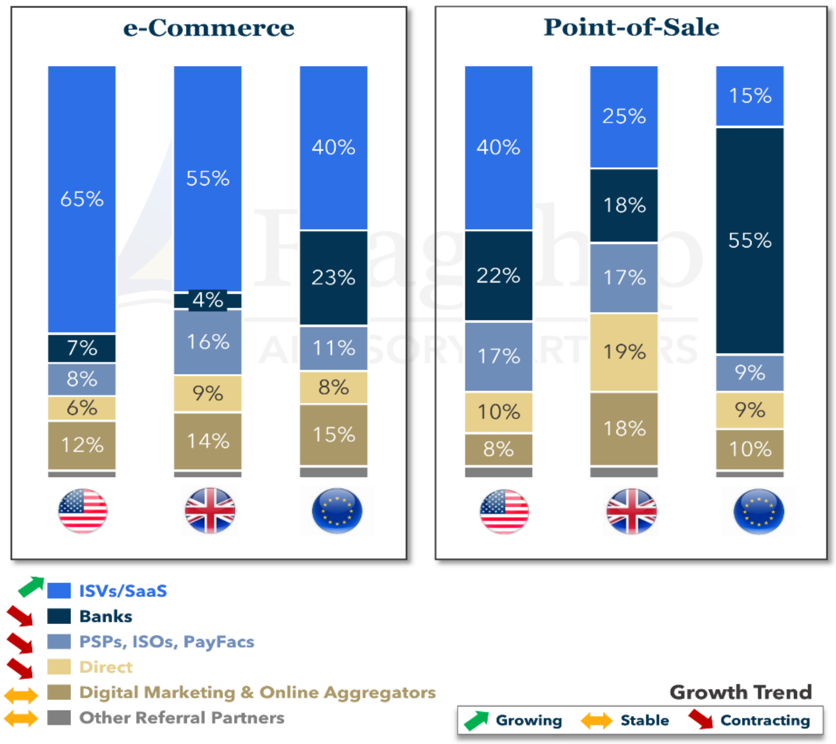
Banks Can Still Make a Comeback in Merchant Payment Acceptance

Introduction

Banks continue to lose market share in the distribution of new small business (SMBs) merchant acceptance but remain an important distribution channel for physical point-of-sale merchants (Flagship estimates c.20% in the US and UK and 55% in the EU as shown in figure 1). Although banks have predominately competed against PSPs for some time, ISVs and SaaS platforms have emerged as the more meaningful competitors. This is driven by the common SMB buying cycle in which they select their underlying SaaS platform prior to their banking relationship, and a strong propensity to use the default payment acceptance option that is bundled into the SaaS platform.

SaaS/ISVs are especially powerful distributors of e-commerce payment acceptance solutions where banks tend to be significantly weaker distributors due to the more technical nature of the sale (not to mention that most banks continue to underinvest in e-commerce capabilities, and as a result, their product often significantly lags PSPs and ISVs/SaaS).

Figure 1: Distribution of SMB Payments by Channel
(directional estimates; % of new merchants signed and active in 2023)



Source: Flagship Advisory Partners analysis
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Banks' Challenges in Excelling in Merchant Acceptance

Banks face numerous challenges when it comes to merchant acceptance (detailed in figure 2), and from an executive-level perspective, the key challenges we observe are:

- **Flawed operating model**: often a result of trying to rely too much on in-house operations, which distracts from higher-value distribution focus
- **Over-milking the cash cow**: failing to continually and sufficiently invest in technology, product, and distribution
- **Difficult to work with**: although appropriately focused on risk management, lawyers and risk departments can make banks challenging to work with
- **Lack of specialized focus**: success in merchant payments requires specialization which banks struggle to achieve when acquiring is just one of many products
- **Culture clash**: banks have a poor track-record for integrating fintech acquisitions driven by the challenges of migrating from a small/casual/tech-driven culture to the more bureaucratic culture of a bank

Figure 2: Bank Challenges in Merchant Acceptance
(non-exhaustive observations)

Technical Complexity and Support	▪ Does not fit into the bank "factory" approach of shared IT and operations for multiple products ▪ Bankers can generate leads but can't answer questions, close sales, or do servicing effectively
Difficult to serve customer needs	▪ Banks find it difficult for their channels to offer more than 1-2 versions of a product, but acquiring must serve very divers customer needs
Risk aversion and small in size	▪ Most banks are risk-averse and, therefore are not able to capture higher margins from riskier merchants ▪ Many banks are not large enough to generate economies of scale in acquiring
Low lifetime value	▪ Merchant acquiring has a lower lifetime value than other core products and therefore is not worth focusing on
Under-investment in product	▪ Many banks under-invest in acquiring because the direct economics do not justify significant investments ▪ This leads to a viscous circle: under-investment in product leads to lack of competitiveness, which further decreases the rationale for investment
Low incentives for bankers, leading to low sales	▪ Most banks award bankers incentives based on LTV ▪ As acquiring has lower LTV, incentives are lower, which leads bankers to de-prioritize acquiring ▪ Acquiring is a complex sale, reducing bankers' willingness to invest time into sales
Limited space in marketing calendar	▪ Overall bank marketing campaign calendars will typically include prioritization based on LTV ▪ As a result, acquiring has low prioritization and receives few slots for outbound campaigns
Unattractive promotional offers	▪ Relatively lower LTV leaves little room to fund promotional offers that are necessary to overcome natural customer inertia and switch from their current acquirer to the bank

Source: Flagship Advisory Partners analysis

The root cause of many of these challenges is that as a product, payment acceptance is minor in the broader scheme of a bank's P&L that demands specialization and continuous investment into product and go-to-market strategies. It is often difficult for banks to internally justify the "real estate" and resources necessary to be truly successful in payment acceptance.

Bank Merchant Acceptance Propositions

Flagship recently researched how select top U.S. and European banks position payment acceptance in their broader transactional banking product set on their websites. Key observations include:

- U.S. banks have generally clear propositions for SMB and corporate payment acceptance, with most offering similar packages and price points for SMBs *(figure 3A)*
- European banks have less clear and harder to find propositions, and generally do not release pricing on their website *(figure 3B)*
- Payment acceptance is clearly not a priority product, with most banks requiring ca. 3 menu clicks to reach the payment acceptance product page from the home page *(figure 3C and 3D)*
- U.S. banks use relatively generic key selling points in positioning their acceptance products, with security, fraud prevention, and quick funding commonly mentioned *(figure 3C)*
- European banks take a somewhat more product feature-driven approach, and are somewhat more specific in their key selling points although with wide variance *(figure 3D)*

Figure 3A: Banks Merchant Acceptance Product Proposition (as advertised on their website)

		Products			Pricing		
Top Banks	**Segments**	Physical POS	Remote	Other*	Card Present	Manual Key Entry	e-Commerce
JPMorgan Chase & Co.	Business	✓	✓	✓	2.6%+10c +Terminal	3.5%+10c	2.9%+25c
	Commercial	✓	✓	✓	Price not shown on the website		
Bank of America	Small Business	✓	✓	✗	2.65%+10 c +Terminal	3.5%+15c	2.99%+30 c
	Businesses & Institutions	✓	✓	✓	Price not shown on the website		
Wells Fargo	Small Business	✓	✓	✓	Terminal (one time) + monthly service fee + transaction fee*		
citibank	Small Business	✓	✓	✓	Price not shown on the website		
usbank	Business	✓	✓	✓	2.6%+10c +Terminal	3.5%+15c	2.9%+30c
	Corporate & Commercial	✓	✓	✓	Price not shown on the website		
PNC	Small Business	✓	✓	✗	2.6%+10c +Terminal	3.45%+15 c	2.9%+20c
	Corporate & Institutional	✓	✓	✗	Price not shown on the website		
Truist	Small Business	✓	✓	✓	Price not shown on the website		
	Commercial, Corporate & Institutional	✓	✓	✗	Price not shown on the website		
Capital One	Business	✓	✓	✓	2.6%+10c	Not shown	2.9%+30c
Goldman Sachs							
TD Bank	Small Business	✓	✓	✓	Price not shown on the website		

✓ Provided ✗ Not Provided

*Other includes, for example, Tap to Pay on iPhone, digital wallet, accepting payments on the phone.
Notes: Wells Fargo pricing decreases for larger total monthly processing volume
Source: Flagship Advisory Partners analysis
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Figure 3B: Banks Merchant Acceptance Product Proposition (as advertised on their website)

Top Banks	Segments	Physical POS	Remote	Other*	Pricing
HSBC	Partnership with globalpayments				
Barclays	Business	✓	✓	✓	Online: Price is not shown on the website POS: 1.6% per trx + POS rental fee
Barclays	Corporate	✓	✓	✓	Price is not shown on the website
Lloyds Bank	Business	✓	✓	✓	Price is not shown on the website For online: monthly fee + pence-per-trx fee
BNP Paribas	Business	✓	✓	✓	POS: 1.6-1.9% + POS fee (€49-95) Online: monthly fee (€18-30 HT) + trx. fee (€0.15-0.36 HT)
Crédit Agricole	Small Merchant	✓	✓	✓	Transaction-based pricing (fixed and variable parts) Monthly subscription and commissioning fees
Crédit Agricole	Large Merchant	✓	✓	✓	
Groupe BPCE	Merchants	✓	✓	✓	Online: 1.1%-2.9% + €0.25 per trx. + monthly subscription €10-30 POS: 1.1%-2.9% + €0.10 per trx + monthly subscription €10-30
Intesa Sanpaolo	Business	✓	✓	✓	Price depends on the specific use case
UniCredit	Businesses	✓	✓	✓	Price depends on the specific use case
Banco BPM	Businesses	✓	✓	✓	POS: Terminal price + monthly fee + % trx. Fee Online: Initial cost + Monthly fee + Trx cost + Acquiring fee
Santander	Companies	✓	✓	✓	Price is not shown on the website
BBVA	Freelancers Enterprises	✓	✓	✗	Price is not shown on the website Depends on annual sales
CaixaBank	Enterprises	✓	✓	✗	Price is not shown on the website
Deutsche Bank	Corporates	✓	✓	✓	Price is not shown on the website
DZ Bank					
Commerzbank	Corporate clients	✓	✓	✗	Price is not shown on the website

✓ Provided ✗ Not Provided

*Other includes, for example, Tap to Pay on iPhone, digital wallet, accepting payments on the phone
Note: Payplug pricing was used for Groupe BPCE
Source: Flagship Advisory Partners analysis
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Figure 3C: Banks Merchant Acceptance Product Proposition Selling Points
(as advertised on their website)

Top Banks	Segments	Proposition on Website (# clicks)	Adv. Selling Points
JPMorgan Chase & Co.	Business	3	Flexible payment acceptance; Fast funding, no hidden fees; Trusted security
	Commercial	3	End-to-end and trustworthy solutions; Security; Integration
Bank of America	Small Business	3	Personalized payment solutions; Straightforward rates; Security; Service and support 24/7
	Businesses & Institutions	3	Enable commerce; Minimize fraud; Improve UX; Maximize reporting and reconciliation processes
Wells Fargo	Small Business	3	Next-business-day funding; Tailored POS solutions; Straightforward pricing
citibank	Small Business	5	Accept major means of payment; Next-business-day funding; Manage security
usbank	Business	3	24/7 support; Everyday funding; Safe & secure payments
	Corporate & Commercial	3	Optimize payment processing; Everyday funding; Prevent fraud
PNC	Small Business	2	End-to-end security; 24/7/365 support; Next-business day funding
	Corporate & Institutional	4	End-to-end paym. processing solutions; 24/7/365 support; Next-business-day funding; Encryption & tokenization
Truist	Small Business	2	Customized without complexity; Smooth experience; Real-time fraud monitoring
	Commercial, Corporate & Institutional	3	Convenient payment options; Comprehensive solutions; Consistent security and compliance; Quick reporting and data insights
Capital One	Business	2	Mobile options; industry-leading e-comm platform; Next-day funding; Fraud protection; Data insights
Goldman Sachs			
TD Bank	Small Business	3	Tailored solutions; Next-business-day deposits

Qualitative View: Mark 1 to 5

1 — 5

Source: Flagship Advisory Partners analysis
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Figure 3D: Banks Merchant Acceptance Product Proposition Selling Points
(as advertised on their website)

Top Banks	Segments	Proposition on Website (# clicks)	Adv. Selling Points
HSBC	Partnership with globalpayments		
Barclays	Business	3	Dependable customer service; Industry-leading platform and network reliability; Transparent and competitive rates; Proactive fraud monitoring
	Corporate	3	
Lloyds Bank	Business	4	Up to 99% uptime; Secure data processing; Specialist UK-based support team
BNP Paribas	Business	2	POS terminals with trx monitoring, ERC integr. and VAS; Support team always at disposal; Optimized checkout process
Crédit Agricole	Small Merchant	4	Installation by phone or on-site; Update or replace HW and/or SW; Payment guarantee; Remote collection; Support and maintenance
	Large Merchant	4	
Groupe BPCE	Merchants	1	Optimized acceptance rate; Data at the heart of the system; Simplicity and traceability
Intesa Sanpaolo	Business	3	Accept card and wallet payments; Value-added-services; 24/7 Nexi customer service
UniCredit	Businesses	2	Innovation; Security; Accepting payments everywhere
Banco BPM	Businesses	3	POS: Cashless; 30% tax bonus; Advance platforms Online: Easy; International; MOTO service
Santander	Companies	3	Understandable and transparent fees; 24/7 support; manage day-to-day ops via mobile; DCC Multicurrency Service; Installment paym.
BBVA	Freelancers Enterprises	2	Maintenance in less than 48 hours; Automatic POS updates; Specialized 24-hour care
CaixaBank	Enterprises	3	Adaptable and easy solutions; Wide acceptance of paym methods; secure, fast and easy paym.; Next-day funding
Deutsche Bank	Corporates	4	One-stop-shop; Broad product offering and tailor-made solutions; VAS; Data security; Cost optimization
DZ Bank			
Commerzbank	Corporate clients	3	Swift, secure, and convenient way to pay; Less costs for cash; Reduced theft and fraud risk; Attractive packages and pricing models.

Qualitative View: Mark 1 to 5

1 — 5

Source: Flagship Advisory Partners analysis
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Why Banks Should Market Payment Acceptance

Despite these findings, fundamentally, there are strong quantitative and qualitative rationale for banks to market and focus on payment acceptance (figure 4) including:

- Quantitatively higher customer lifetime value;
- Higher deposit balances;
- Stronger overall transactional banking proposition and customer experience; and,
- Generates monetizable transactional data.

Figure 4: Reasons for Banks to Market Payments Acceptance (non-exhaustive observations)

QUANTITATIVE
Attractive non-interest income stream
Acquiring merchants have **higher deposits**
Acquiring **increases stickiness** and lowers attrition rate
In combination, customers with acquiring have **higher Life-Time Value** (LTV)
Acquiring businesses carry **higher valuation** multiples than banks

QUALITATIVE
Necessary product for a transactional bank and can be used **as an acquisition tool**
Required to defend primacy of current account relationships against competitors
Supports deposits and cash management
Supports digital positioning (as customers need to accept payments via digital channels)
Bundles well with other products
Scales and automates well
Opportunities to cross-sell (e.g., short-term lending, FX and DCC, value-added services)
Transactional data can be monetized

Source: Flagship Advisory Partners analysis
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The recipe for banks to improve their distribution of payment acceptance is clear, as we describe in figure 5 below:

- Align stakeholders on the "why";
- Bundle acceptance into the broader transactional banking proposition;
- Focus on sales force tactics, measurement, and incentives;
- Master the basics of managing existing merchants;
- Do not underestimate the power of a clear, attractive web page and digital marketing basics;
- Execute basic acquisition campaigns via bank channels; and,
- Test and learn based on campaign results.

Figure 5: Banks Best Practices to Succeed in Merchant Acceptance (non-exhaustive observations)

Internal Alignment & organization	▪ Internal alignment with sales ▪ Dedicated team to support the physical sales force (bankers) in selling payment acceptance ▪ Separate stand-alone team for Key Accounts
Product & Bundling	▪ Easy to understand product (for salespeople and merchants) ▪ Simple pricing and competitive features ▪ Easy application and onboarding ▪ Seek opportunities to bundle (e.g., 'free' as part of premium account, lower monthly fees if purchased with current account, promote with factoring, etc.)
Sales Training & Incentives	▪ Prepare 'initial' training programs for small groups, focusing on product, process and sales ▪ Ongoing training programs ▪ Alternatives to $ commissions: points, prizes, contests ▪ Avoid miss-selling by training, assess needs and add controls ▪ Apply tech tools for selling
Managing Existing Merchants	▪ Communicate new products and features ▪ Track performance (LTV, volumes, etc.) ▪ Easy merchant upgrades ▪ Apply tech tools for maintaining customer base (automatic triggers, offers, etc.)
Marketing & Web Page	▪ Website product page should have 3-5 key selling points, simple pricing, structured bundle comparison and Q&A ▪ Draft marketing/ campaign objectives, draft key selling points, run tests, implement winning concepts/design, and distribute ▪ Campaigns should be promoted on main web page
Campaign Planning & Execution	▪ Planning: Plan timing in advance, create clear value prop and offer, define target groups, evaluate appropriate channels ▪ Execution: Promote campaign via bank online website (banners, pop-ups), branches (contest for bankers) and/or outbound direct marketing (emails, SMS, notifications etc.) to target groups
Measuring Performance	▪ Analyze trends and opportunities ▪ Supplement with frontline insights ▪ Standard reporting package ▪ Send sales performance reports and results to sales managers ▪ A/B test products, pricing and campaigns, continuously

Source: Flagship Advisory Partners analysis
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However, it is often difficult for banks to execute on these opportunities, and many have chosen to change their operating model from in-house to various forms of partnerships with PSPs. While no partnerships are perfect, they can create a stronger combined business by combining complementary strengths (figure 6).

Figure 6: Common Strengths & Weaknesses of Banks vs. Merchant Payment Specialists

PAYMENTS ORIENTATION	BANKS	SPECIALISTS
Focus	Low	High
Strong Brand	Wide brand recognition	Often lower brand recognition
Marketing Budget and Sophistication	Limited marketing, typically one campaign per year via branches	Comparatively large marketing budget, diversity of tactics, sophisticated methodologies
Investment Budget	Bare minimum	Large annual investments
Talent (management, sales, technical)	Limited	Attracts top talent
Sophisticated Products	Basic products only	Many product versions to enable better targeting
Complimentary Products	Can offer complementary products such as deposits, FX and ACH	Offer many value-added services, but usually only closely tied to acquiring
Pricing Sophistication	Limited, often fall back on low prices to compensate for lack of product	Sophisticated pricing methodologies to maximize products
Distribution Channels	Primarily branches, which creates broad, low-cost distribution	Partners, digital, direct sales
Sales Aggressiveness	Primarily reactive sales to walk-ins	Aggressive, outbound sales
Technology	Legacy, limited functionality	Proprietary, high investment, high functionality
Operational Scale and Automation	Sub-scale, no/low automation	Scaled, highly automated
Risk Management	Limited capabilities, therefore avoid risk and do not achieve higher margins	Specialized risk management to enable broader customer segments and price higher for the risk

Strengths **Weaknesses**

Source: Flagship Advisory Partners analysis

The most common form of partnership we observe today is a Contractual Alliance, also called a Revenue-Sharing Alliance in North America. In this arrangement, the bank acts as the primary distributor with the PSP providing the product and operations. However, as we illustrate in figure 7 below, there are other types of operating model options.

Figure 7: Overview of Bank Operating Models for Merchant Acquiring
(represents the common structure; several variants exist)

	Referral Rel.	Contractual Alliance	Equity JV	Bank Owned
Legal Form	Simple referral/sales intermediary ("Agent Bank")	Contractual partnership (Revenue Sharing Alliance; RSA)	Legal entity joint venture	Part of the bank (can be a separate subsidiary)
Bank Compensation	Fee per new contract (sometimes revenue share)	Percentage of net revenue (revenue share)	Dividends proportional to ownership shares	100% of profits
Ownership	100% **PSP**	100% **PSP**	50%+ **PSP** / 50%- **Bank**	100% **Bank**
Operational Control	**PSP**	**PSP**	**PSP**	**Bank**
Bank Involvement	**Low/none**	**Medium/ High**	**High**	**High**
License Used	**PSP**	**PSP** (typically)	**PSP** or **Bank**	**Bank**
Brand	**PSP**	**Bank** brand licensed to **PSP**	**Bank** or new brand	**Bank**
Sales	**Bank**	**Bank**; **PSP** often funds dedicated sales support	**Bank**; JV often funds dedicated sales support	**Bank**
Products	**PSP**	**PSP**	**PSP**	**Bank** (some products outsourced)
Pricing	**PSP**	**PSP**	**PSP**	**Bank**
Risk & AML	**PSP**	**PSP**	**PSP**	**Bank**
Processing	**PSP**	**PSP**	**PSP**	**Bank** or **PSP**
Servicing & Ops	**PSP**	**PSP**	**PSP** or **Bank**	**Bank**

Source: Flagship Advisory Partners analysis

Conclusions

Regardless of the operating model chosen, we continue to believe that there are sizable opportunities for banks in payment acceptance and that most banks have the capabilities to capture these, provided they choose the right operating model for their needs and are able to muster the internal alignment to execute well. To summarize, our take on key opportunities include:

- **Brand, trust, distribution**: bank brands are still among the most trusted in the market
- **One-stop-shop**: banks have the advantage of being able to offer a one-stop shop for banking and payments
- **Cards + A2A payments hub**: merchants want, but generally lack, a single comprehensive dashboard for all their transactions
- **B2B verticals**: banks are positioned to succeed in B2B verticals where A2A payments, check services (in North America), and commercial card issuing are important parts of the overall value proposition
- **Float**: banks have built-in models for monetizing the float benefits of merchant acquiring

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