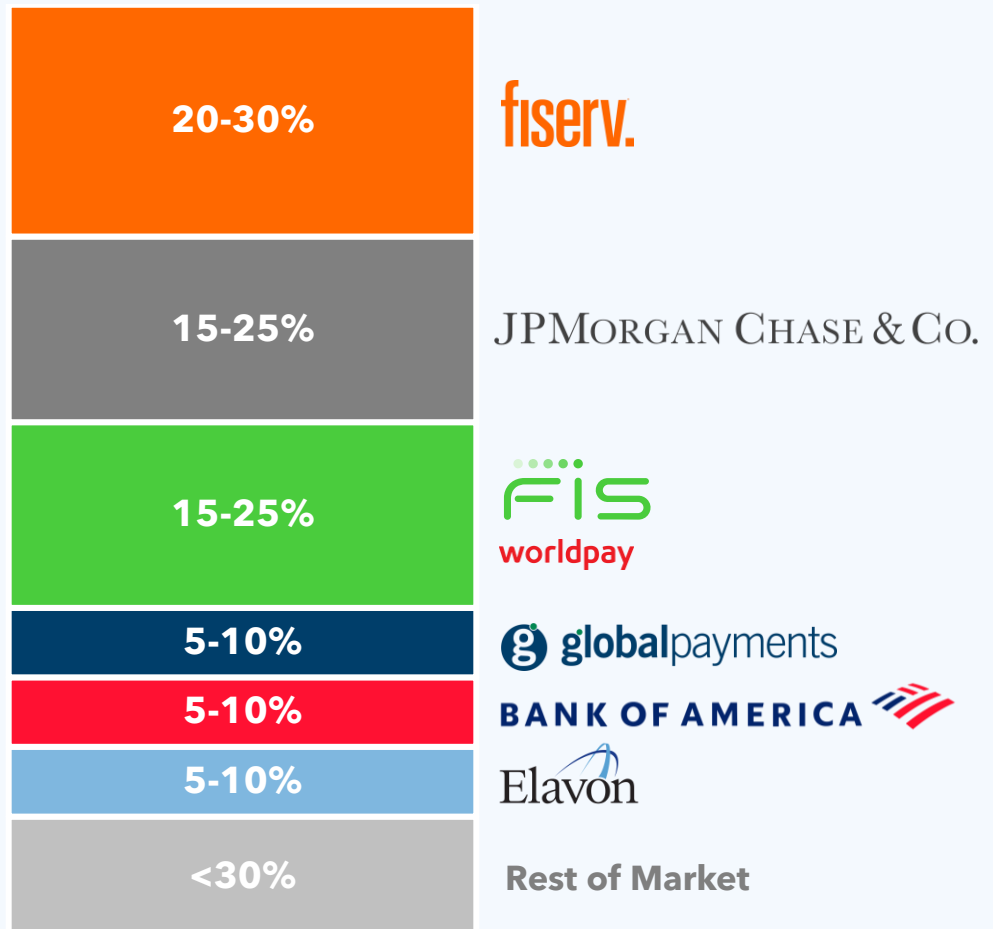# Evolution of US Acquiring Processing

Article Synopsis and Visuals Guide:

- The US acquiring processing market is dominated by a **select number of monolithic, legacy processors (visual #1)**

- The prolific M&A activity of legacy processors created **fragmented, complex platform environments (visual #2)**; however, the collection of platforms also resulted in processors with breadths of capabilities that are difficult to replicate

- Legacy processors' platform fragmentation and relatively dated technology have **created pain points for merchants and other industry stakeholders; cloud processing environments would rectify many of these pain points (visual #3)**

- While legacy processors are aware of how cloud acquiring processing would benefit some customers, several **barriers have prevented or slowed legacy processors' investment in cloud processing solutions (visual #4)**

- Cloud acquiring processing **investment is building momentum in the US;** incumbents and new entrants alike are modernizing acquiring processing **(visual #5)**

1 US ACQUIRING BACK-END PROCESSING PROVIDER LANDSCAPE
(2022 estimates*, select providers only)

The largest acquirers in the US typically have in-house processing capabilities: we estimate that roughly 70% of US card volume is processed in-house while the remaining 30% of volume is processed through an outsourced processing partner.
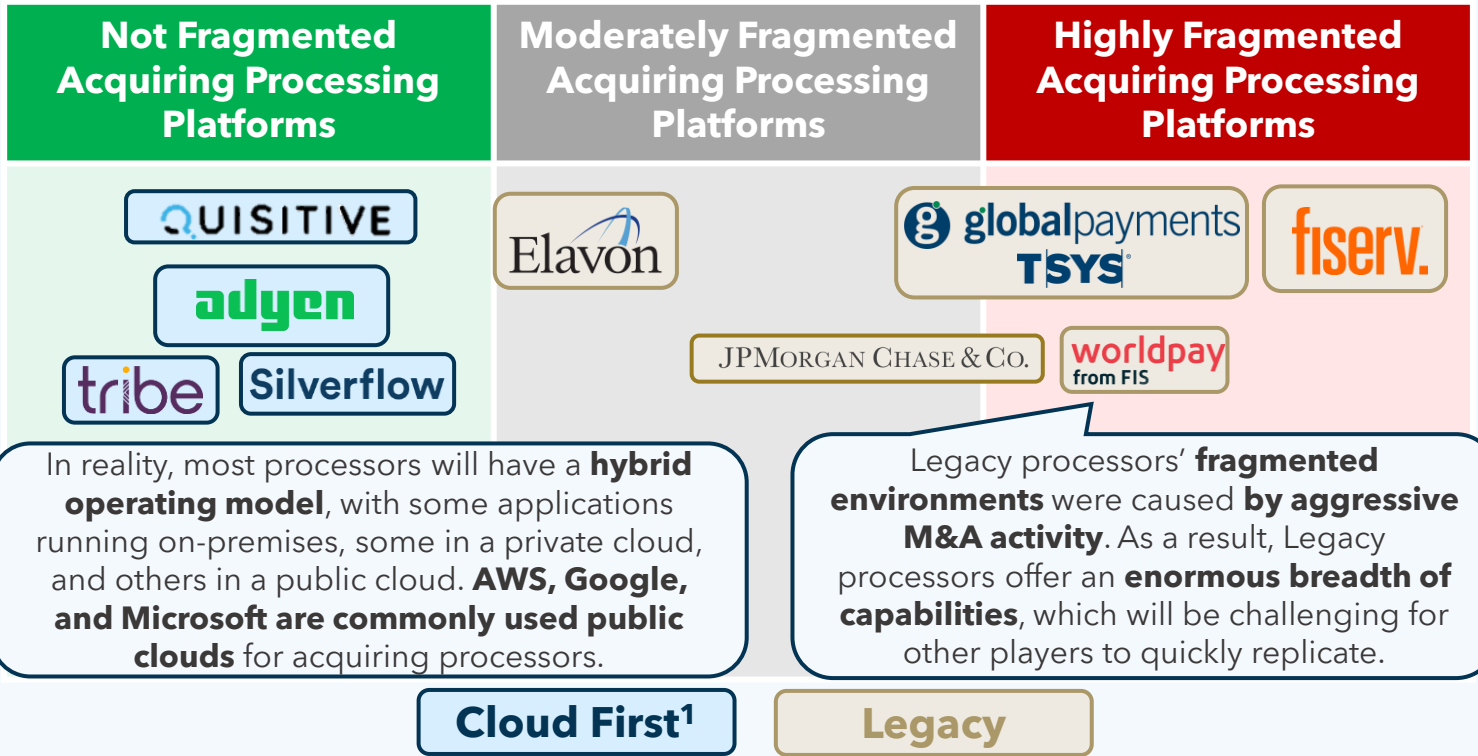
Est. Processed Volume Market Share*	Provider
20-30%	fiserv.
15-25%	JPMorgan Chase & Co.
15-25%	FIS worldpay
5-10%	globalpayments
5-10%	BANK OF AMERICA
5-10%	Elavon
<30%	Rest of Market

Est. Processed Volume Market Share*

Flagship
ADVISORY PARTNERS

Evolution of US Acquiring Processing

2 OVERVIEW OF ACQUIRING PROCESSING PLATFORMS
(non-exhaustive; select acquirers)

Not Fragmented Acquiring Processing Platforms	Moderately Fragmented Acquiring Processing Platforms	Highly Fragmented Acquiring Processing Platforms
QUISITIVE adyen tribe Silverflow	Elavon	globalpayments TSYS fiserv. JPMorgan Chase & Co. worldpay from FIS

In reality, most processors will have a **hybrid operating model**, with some applications running on-premises, some in a private cloud, and others in a public cloud. **AWS, Google, and Microsoft are commonly used public clouds** for acquiring processors.

Legacy processors' **fragmented environments** were caused **by aggressive M&A activity**. As a result, Legacy processors offer an **enormous breadth of capabilities**, which will be challenging for other players to quickly replicate.

Cloud First[1]   **Legacy**

Note: Gateways included in assessment; 1 Defined as materially cloud-enabled platforms that include both front- and back-end systems built for the cloud
© Flagship Advisory Partners May 2023

3 COMMON MERCHANT SERVICES PAIN POINTS ADDRESSED BY CLOUD PROCESSING
(as of May 2023; based on public domain)

1 **Faster Deployment/Speed-to-Market** e.g., standing up processing for partners, and onboarding and operationalizing processing for merchants

2 **Easy Integration** environments/processes for clients, partners, and other systems with which clients require interoperability

3 **Real-Time Access to Transactional Data** to streamline internal merchant operations and facilitate real-time triggers (e.g., personalized loyalty offers, real-time fraud notifications)

4 **Scalability** across geographies, payment environments (e.g., e-comm vs. POS), and new merchant outlets

5 **Flexibility/Configurability** to easily and independently update and personalize tools (e.g., merchant reporting, pricing/residuals, and risk management) to suit specific needs

6 **Future-Proofed** e.g., modularized architecture supporting easy rollout of future upgrades, customizations and products such as new tender types

7 **Optimized Transactions** (e.g., avoiding failed authorizations and downgrades) via interchange optimization and direct connection to networks

Source: Flagship Advisory Partners market analysis
© Flagship Advisory Partners May 2023

Flagship
ADVISORY PARTNERS

4 DETERRENTS TO PROCESSORS MIGRATING TO THE CLOUD
(as of May 2023; based on public domain)

INVESTMENT
- Migrating an existing platform and converting clients would require a significant investment of time and effort
- The business case becomes difficult for large diversified organizations with many competing interests

PLATFORM COMPLEXITY
- For many acquiring processors, the complexity of migrating to a new platform is compounded based on the quantity of platforms they are operating concurrently
- Monolithic platforms are more difficult to update than modularized platforms

CLIENT RESISTANCE
- With the burden of re-integrating falling heavily on the clients, conversions often precipitate attrition
- As the full benefits of modernization are not uniformly realized by the entire portfolio, many merchants would likely resist change given the integration cost

EXISTING FEATURES
- Through the years, incumbent processors have built up robust tools, features, and integrations
- Rebuilding a comparable cloud-native platform with client customizations, etc. is a massive undertaking

OPERATIONAL RISK
- Migrating to the cloud has operational risks, and poor execution can result in financial losses and/or damage client relationships
- Moving to the cloud also often requires a re-architecting of technology – adding further operational risk

Source: Flagship Advisory Partners market analysis
© Flagship Advisory Partners May 2023

5 OBSERVED CLOUD MODERNIZATION EFFORTS
(as of May 2023; based on public domain)

PROVIDER	TYPE	COMMENTARY
globalpayments TSYS	PSP Incumbent	• TSYS' PRIME in the cloud solution offers multi-product issuing and multi-channel acquiring services • Global Payments and Google partnered in 2021 to provide cloud-based offerings and functionalities
BANK OF AMERICA	Bank Incumbent	• Following its separation from Fiserv, Bank of America is investing in a cloud-enabled platform
JPMorgan Chase & Co.	Bank Incumbent	• JPMorgan is developing a next-generation acquiring platform as announced in its September 2022 acquisition of the cloud-native payments company Renovite
adyen	Cloud-First[1] PSP	• Was a pioneer in building a singular cloud-based platform that is modular in nature
QUISITIVE	Cloud-First[1] PSP	• Developing a cloud-based processing platform as well as customer analytics platform • Slated for limited release in 2023 and general release in 2024 • One of the only cloud-first processors with an end-to-end US VISANET processor certification
Silverflow	Cloud-First[1] Processor	• Offers cloud-based processing platform with a value proposition of accelerated technical rollout timelines
tribe	Cloud-First[1] Processor	• Offers both cloud-based acquiring processing as well as issuing processing
RS2	Cloud-First[1] Processor	• Offers both issuing and acquiring processing in the US • Has modernized its platform to be cloud enabled

Notes: 1Defined as materially cloud-enabled platforms that include both front- and back-end systems built for the cloud
Source: Flagship Advisory Partners market analysis   © Flagship Advisory Partners May 2023
Authors: Scott DeHaven Scott@FlagshipAP.com, Peter Taylor Peter@FlagshipAP.com , and Brittany Logan Brittany@FlagshipAP.com

Flagship
ADVISORY PARTNERS