SWITCH TO ISSUER VS SWITCH TO ACQUIRER

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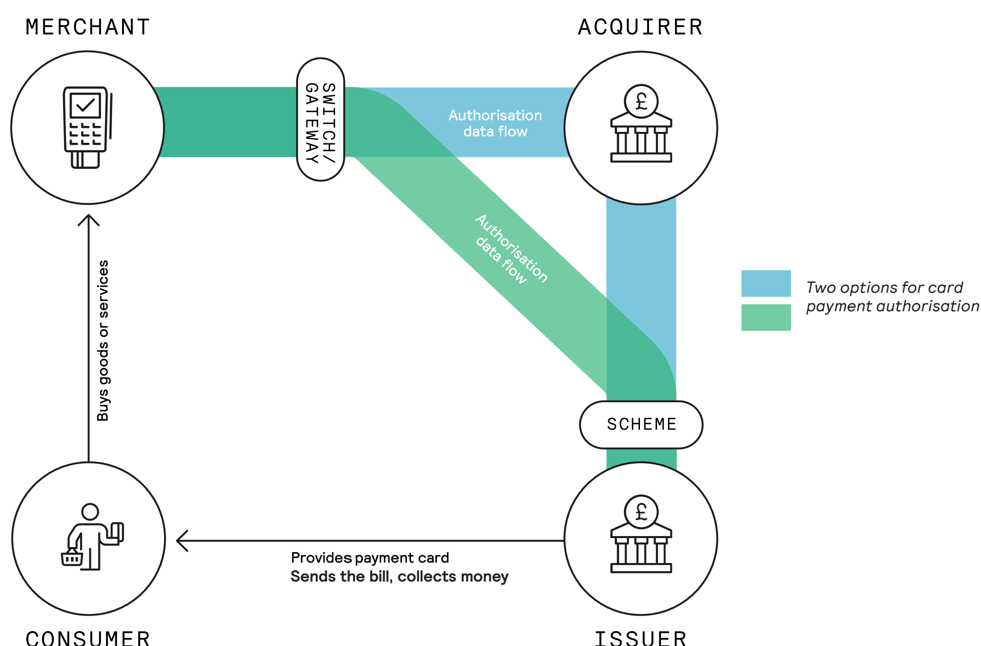
#FintechFactsheet

A fact sheet for acquirers

Switch to Issuer versus Acquirer refers to the way a switch or gateway routes a transaction for authorisation. Simplistically, whether that transaction is routed to the issuer directly, or through the acquirer first.

Switch to acquirer is the more common and traditional model, however in some countries both exist. For acquirers now thinking about changing, this fact sheet explains the differences and some potential considerations.

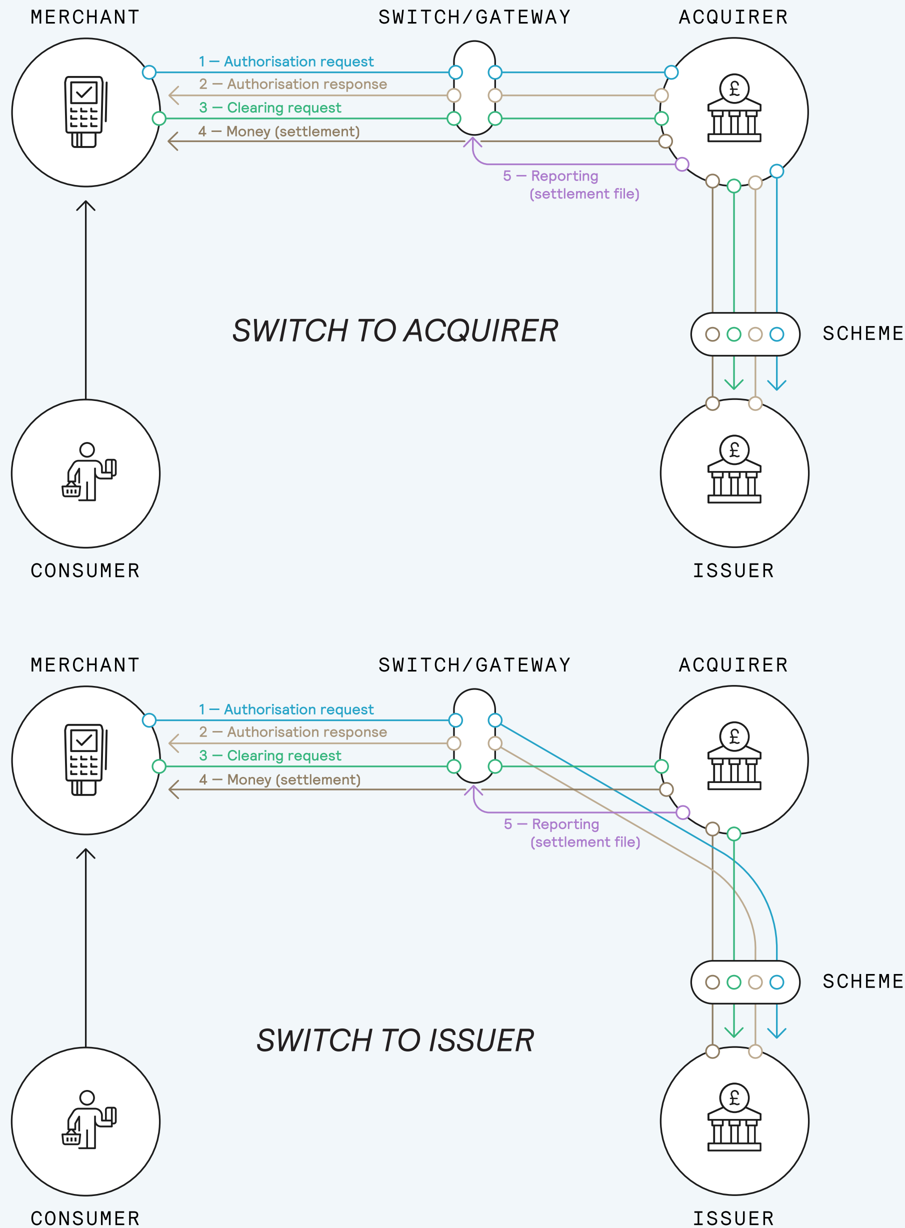
Here we look at the two alternative approaches to authorisation, which are invisible to consumers yet with significant implications for acquirers and their customers.



For an acquirer, there are pros and cons

	PROS	CONS
SWITCH TO ACQUIRER	• Revenue upside from selling value-added services to merchants (e.g. real time fraud monitoring, trusted beneficiary lists, transactional risk exemptions). • Ability to perform stand-in processing. • Ability to monitor & manage merchant fraud.	• Maintaining an authorisation switch is an expensive and resource heavy undertaking, with regular card scheme mandates to meet. In many older acquirers, this ties up key developers that could otherwise work on new services and products.
SWITCH TO ISSUER	• Lower cost and complexity for the acquirer. • Reliability and compliance change burden outsourced to the schemes.	• Limited or no access to real-time transaction data and flows, heavily constraining the ability to build value adding services like risk management or authentication.

In detail



Detailed considerations for an acquirer

COMPONENT	SWITCH TO ACQUIRER	SWITCH TO ISSUER
Compliance	Significant resource required to meet scheme requirements (especially in older, more complex environments).	Compliance, reliability and uptime outsourced to the schemes.
Cost and merchant pricing	Higher cost as acquirer maintains switch. Authorisation data, risk management, transactional risk exemptions are part of the mix that informs enterprise merchant processing pricing.	Ability to pass on the savings of not managing an authorisation switch (or increase margin). Scheme fees levied by the schemes may be adversely affected by lower authoriation volumes, pushing up per transaction costs and lowering margin.
Revenue Potential	Merchant value-added services possible as acquirer is part of data flow.	Takes the acquirer out of the authorisation data flow hence limits potential for revenue upside from value-added services.
Risk management	Acquirers can add rules to monitor for merchant fraud. Acquirers could theoretically also monitor for cardholder fraud (as well as the gateway doing this) if they wanted to ensure they didn't breach PSD II / scheme rules on chargeback caps.	Takes the acquirer out of the authorisation data flow hence limiting ability of adding risk rules. It is simpler for acquirer, and removes the headache of complex 3DS and risk engine implementations.
Performance	Potential for acquirers to perform stand-in processing, if authorisation message can't be received from the issuer.	Fewer steps in authorisation chain, potentially improving timing.