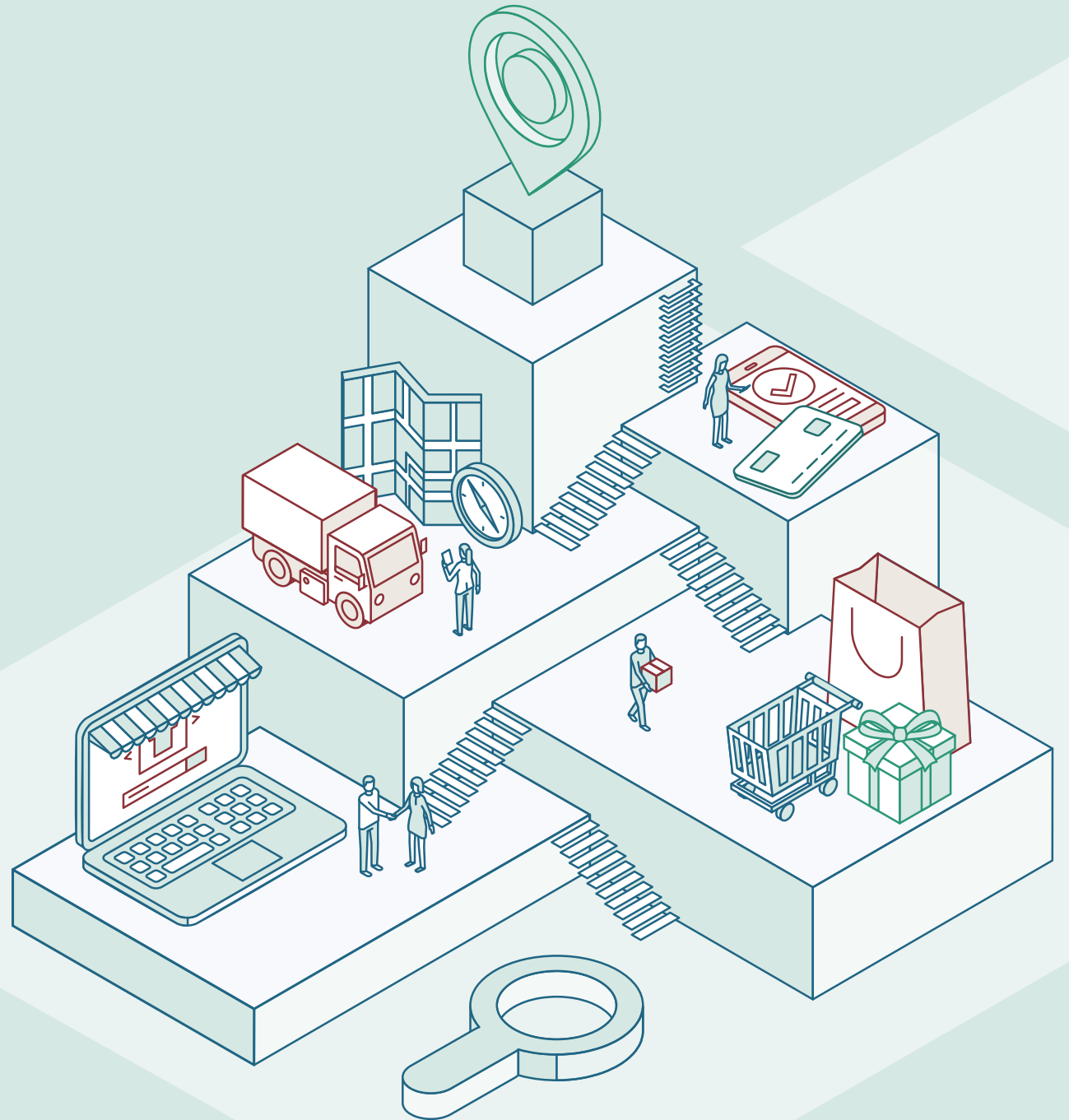


**BANKING  
CIRCLE**

INSIGHT REPORT  
**THE PERFECT  
PAYMENT PARTNER?  
WHAT MERCHANTS  
ARE LOOKING FOR  
FROM THEIR PSPs**



THE PAYMENTS BANK  
FOR THE NEW ECONOMY

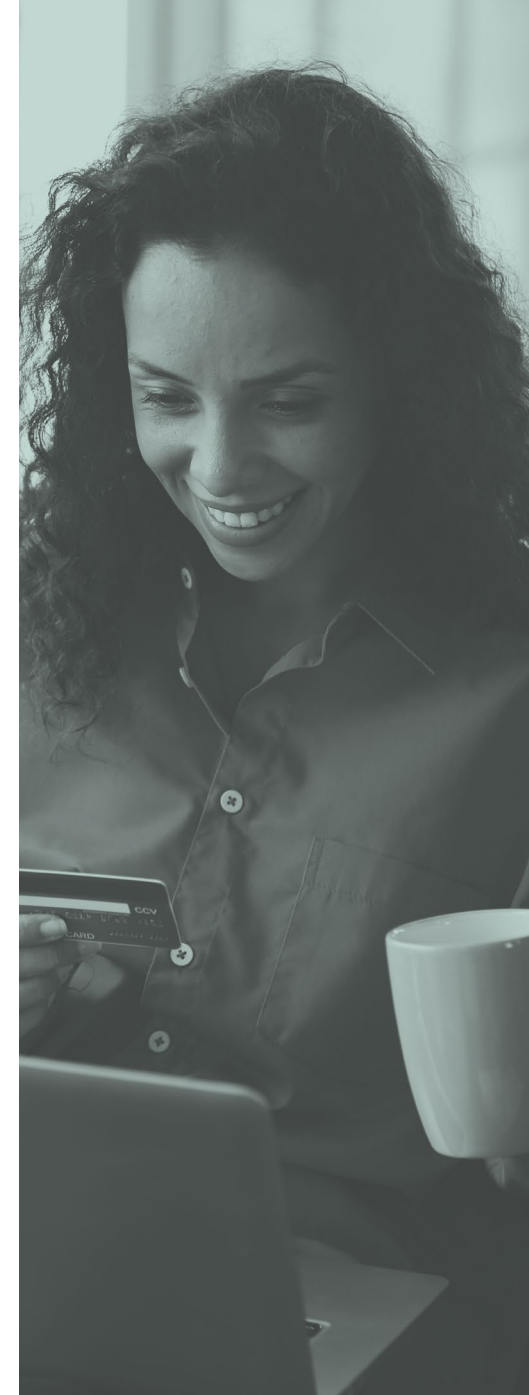
# Table of Contents

Executive Summary	3
Introduction	4
How merchants sell and get paid online	5
What matters to merchants – and how to deliver it	7
Building a proposition that works	9
Overcoming pain points	11
About this research	12
For further information	13



# Executive Summary

- As the digital revolution continues, online channels now matter to merchants as much as or more than physical shops. While marketplaces offer merchants Payment Service Provider (PSP) services, most work with multiple PSPs to manage risk, access specialist services and benefit from better pricing.
- Much work remains to deliver cross-border payments as well as domestic, and Open Banking is seen as an enabler of new domestic and cross-border services.
- The current suite of services provided by PSPs are appreciated, especially marketing support and discounts on POS terminals. However, more sophisticated services, from accepting new payment types to advice on handling VAT, are becoming more popular.
- Advice on regulatory compliance, especially outside home markets, is much sought-after. PSPs have an opportunity to add value for their clients and educate regulators regarding payment innovations.
- Merchants generally describe PSP onboarding as smooth, but blockers persist – including long timescales, too many information demands and financial guarantees. Merchants are switching PSPs frequently – causing headaches for PSPs in terms of revenue and new customer acquisition.
- When working with PSPs, merchants find transaction security a concern, as well as the ability to access customer support when needed and slow transaction settlement times.
- PSPs, banks and marketplaces should collaborate to build a better experience for consumers, moving away from their current “silo” mentality towards an understanding of the payment experience from start to finish from an end user point of view.
- This will involve integrating new payment types and prioritising faster settlement and better support services. While Open Banking will no doubt help PSPs deliver these services, banks, PSPs and marketplaces should be looking for new partnership opportunities to develop and promote these services – especially in a cross-border environment.



# Introduction

Digitalisation is removing the barriers to financial services that support society across all geographies, but financial exclusion remains the undoing of equity and fairness. Merchants who sell to consumers internationally – whether through their own websites, or via marketplaces such as Amazon and eBay – still face financial exclusion as they are unable to access payment solutions that make it easy for them to serve different geographies by accepting a wide range of currencies and payment methods.

As SMEs continue their digital transformation, their partner banks and PSPs are struggling to tackle issues such as the cost and speed of cross-border payments, high fees and the delivery of lower-risk transactions. The

lumbering and inflexible legacy technologies that underpin today's correspondent banking network also make it difficult for payments businesses and FinTechs to react quickly and effectively to market opportunities.

This report considers the opportunities that exist for PSPs and marketplaces to deliver innovations that create customer value and enhance their competitive edge.

We commissioned a survey of more than 900 small and medium-sized businesses in the UK, Germany and the Netherlands (businesses with up to 250 employees) to discover how they engage with marketplaces – and what PSPs and banks could be doing to serve them better. We complemented this research by

adding to the mix in-depth interviews with five international PSPs operating in Europe, using their views to expand upon the findings of our quantitative study.

As a technology-led Payments Bank, Banking Circle connects international clearing systems through its super-correspondent banking network. This enables Banking Circle clients to offer their customers access to cross-border payments and banking services that work with, not against, the digital economy.

We welcome discussion of the points raised in this report, and look forward to working with you as we overcome today's blockers to realising the promise of digitalisation, delivering a fairer and more inclusive economic future for all.



# How merchants sell and get paid online

In today's economy, Europe's SME merchants overwhelmingly market their wares online. Just 34.1% of the 900 merchants surveyed said that they now rely on permanent physical outlets for sales, with almost half of European smaller firms using marketplaces (48.6%), their website (45.9%) and social media (39.1%) as sales channels. The proportion of businesses using marketplaces is highest in Germany (54.8%), while the UK has the highest number of businesses using social media as a sales channel at 39.1%.

While the majority of merchants focus on their domestic markets – in particular the UK, where 84% of merchants say they sell domestically – this focus is by no means exclusive, with nearly half (49.2%) of all merchants selling to Central Europe and around one in five selling to the Middle East and North and South America. The implication of this finding is that merchants are going to need access to competitive cross-border services, regulatory advice and foreign exchange from their PSP. As James Booth, VP of Partnerships EMEA at leading

digital payments infrastructure provider PPRO, notes: "There may be a shared vision of how marketplaces, merchants and banks can work together – but we're only half-way there. To improve customer experiences, payment services have to work as well across borders as they do locally."

The vast majority (85%) of businesses have access to a PSP via their marketplace partners – though some 61.8% say they use two or three PSPs. As their main reasons for using different

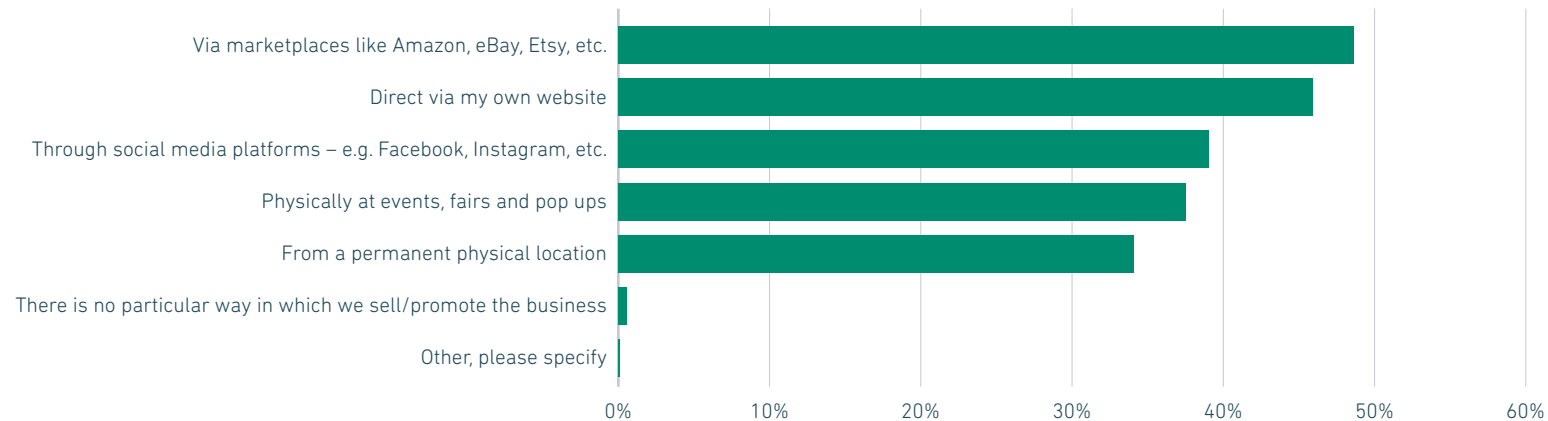
PSPs, merchants cite: ability to access different geographies (36.6%), specialist services (36.1%), transactions in different currencies (35.9%) and to protect themselves against service failure or manage risk (31.9%). The smallest businesses, with turnover of less than £100,000 are most likely to use more PSPs to access foreign markets, while larger businesses with a turnover of £100 to £500 million will use more PSPs to access different benefits.

## KEY TAKE-AWAYS:

- Online channels, from marketplaces to social media, now matter to merchants as much as or more than physical shops.
- Most merchants can work with a PSP provided by their marketplace partner, but many work with multiple PSPs to manage risk, access specialist services and benefit from better pricing.
- Work remains to be done in delivering cross-border services that are as strong as domestic payments, with Open Banking set to enable this process in Europe and elsewhere.

## Digital sales channels are vital for Europe's SMEs

How, if any way in particular, do you sell/promote your business?



Credit: Censuswide/Banking Circle

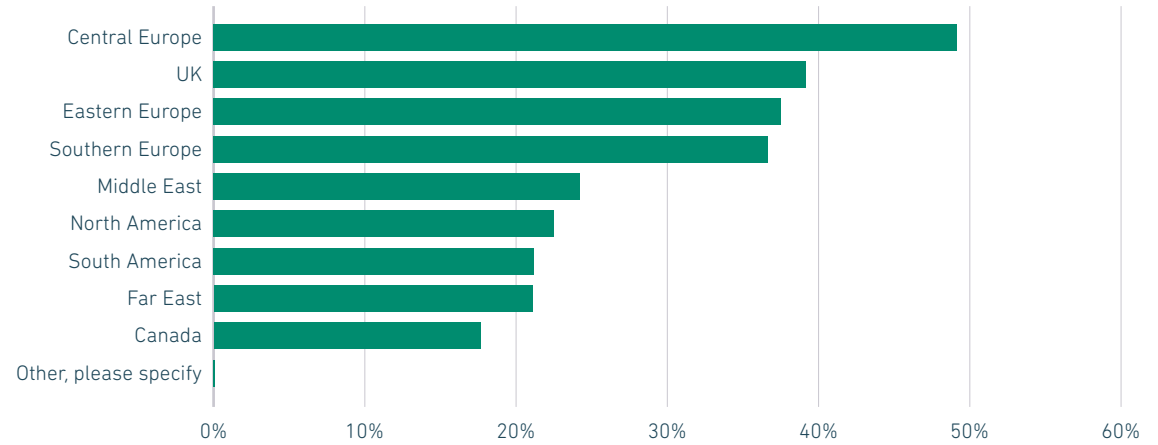
As we'll see from other findings later in this study, these results point to a gulf between the services PSPs provide to larger firms – which are more likely to be competitively priced and include a wider range of options – compared to the more limited range enjoyed by smaller companies in Europe. A challenge for PSPs and banks, then, is to deliver a wider range of services to more SMEs of different sizes. As Brandon Spear, CEO at payments enabler TreviPay, puts it: "The next stage in the evolution of digital commerce is going to see network effects amplified to the benefit of end consumers. What this means, in practice, is

lowering the cost of acquiring and onboarding new merchants and making payments easier for everyone to use."

Ola Oyetayo, CEO & Co-Founder of Verto, a cross-border PSP specialising in links between European and African markets, argues that the advent of Open Banking in Europe and other geographies will help this process: "Open Banking is going to make it easier for marketplaces, PSPs and banks to collaborate to improve the end-user experience by opening API architectures and enabling all parties to benefit from new payment rails."

## Merchants sell at home – and abroad

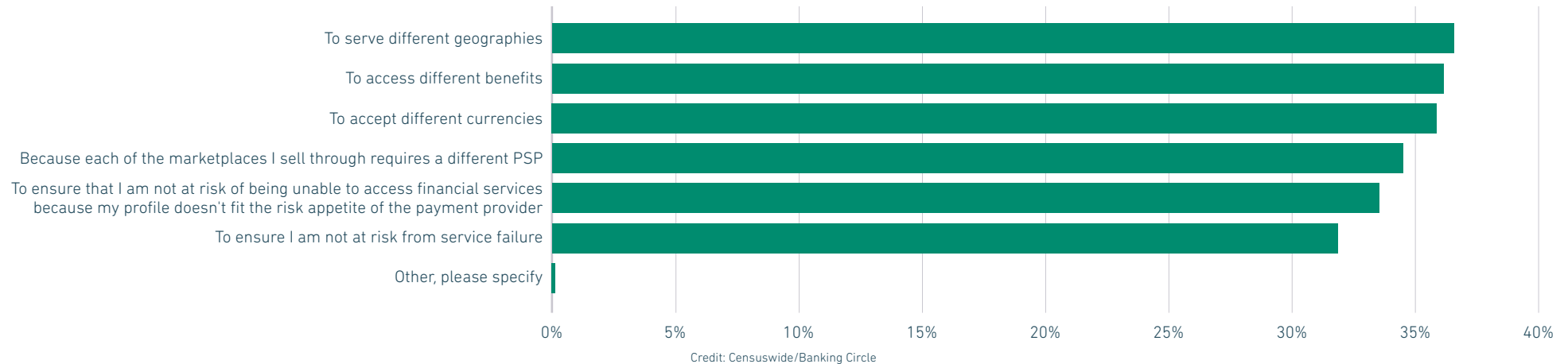
What geographies do you sell to?



Credit: Censuswide/Banking Circle

## Why merchants work with multiple PSPs

You previously noted that you have more than one payment service provider, please provide the reasons for this, if any.



Credit: Censuswide/Banking Circle

# What matters to merchants – and how to deliver it

The vast majority of merchants in our survey found onboarding with a new PSP easy, with 68.8% describing the process as either “very easy”, or, “somewhat easy.” Tellingly, large businesses surveyed – with turnovers between £50 and £500 million – found onboarding easiest. However, that’s not to say the process is without challenge, with merchants across Europe citing the amount of information PSPs require (49.1%), financial guarantees demanded (49%) and the time taken to onboard (45.4%) as significant stumbling blocks. TreviPay’s Brandon Spear says that such challenges are no surprise, noting that, “As things stand, there are too many onerous hoops for merchants to jump through, with too many paper-based processes that should be digitalised.”

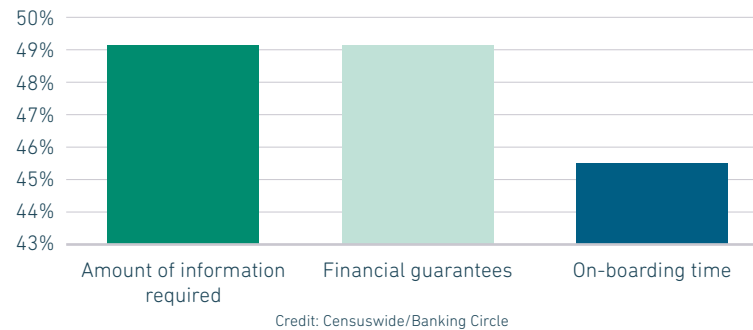
British businesses were most likely to find the financial guarantees required onerous, with 62% citing this as a challenge, while German SMEs said the amount of information required (53.3%) was problematic and Dutch businesses said the time taken to onboard (54.7%) caused the greatest difficulty. Despite these onboarding challenges,

some two-thirds of merchants find they need to switch PSP once every two to three years, with almost one in four (24.2%) switching PSPs annually.

The largest firms in our survey were most likely to switch PSP most frequently, with 46.1% of those with turnovers of more than £500 million switching every year, and 36.8% every two to three years. These findings support and amplify findings from ACI Worldwide and others, that around a quarter of merchants switch

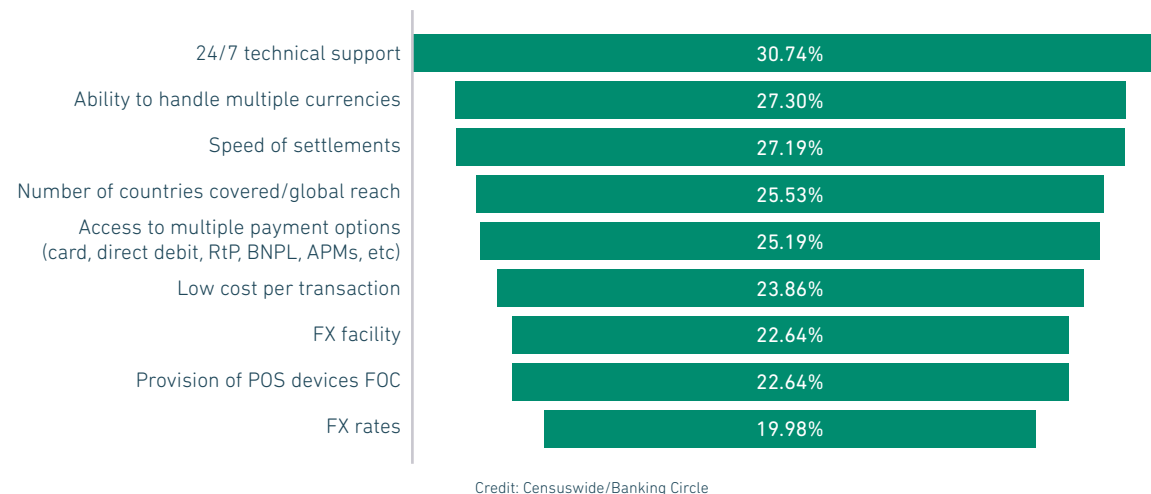
## PSPs: Problems persist with onboarding

What aspects, if any in particular, make the process of setting up PSP relationships for your business somewhat or very difficult?



## Merchant services – the factors that matter

What, if anything, are the most important criteria for you in choosing a payment service provider?



## KEY TAKE-AWAYS:

- While onboarding with a new PSP is generally seen as smooth, blockers persist – including information demands, financial underwriting, and the time taken to onboard.
- Most merchants switch between PSPs frequently, which can disadvantage PSPs in terms of revenue predictability and the cost of new customer acquisition.
- Continuous technical support, multi-currency and foreign exchange services are most frequently sought-after services: PSPs spoken to for this study believe Open Banking will help deliver these services more effectively.

PSP every year. Such “merchant churn” makes revenue streams unpredictable for PSPs and also increases the cost of customer acquisition – it’s therefore in the interests of all parties to improve services across the payment cycle.

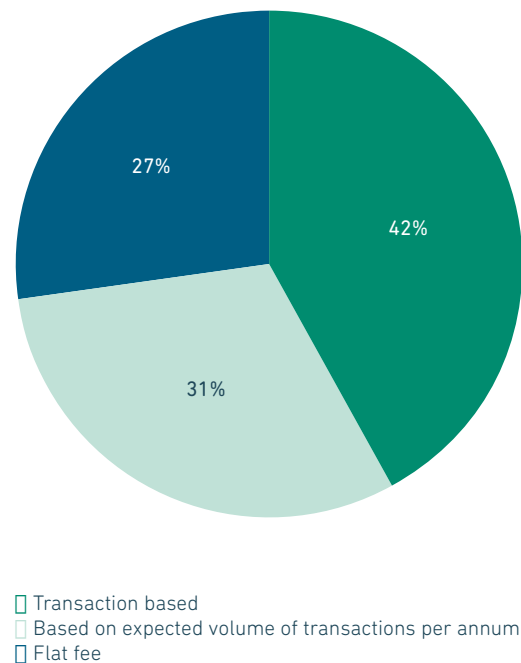
The ability to access technical support 24/7/365 was most frequently cited as important by SMEs, followed by multi-currency services (27.3%) and faster settlement (27.2%). For small firms, the capacity to access non-domestic markets was the most important service (42.1%), alongside settlement times (36.8%), while larger firms were looking for help with the cost of POS devices (31%) – a finding that points to larger firms being more likely to have extensive retail outlet chains. The experts we interviewed for this study believe that Open Banking holds promise when it comes to more effectively delivering a wider range of

payments services for merchants. Brian Hanrahan, CEO of account-to-account specialist PSP Nuapay says that “By providing an overlay which enables marketplaces and merchants to connect directly with thousands of banks across Europe, Open Banking promises to revolutionise cross-border transactions for all parties in the value chain.”

When it comes to paying for PSP services, the most frequently occurring fee structure is “per transaction” (41.9%), followed by expected volume-based pricing (31.3%) and a flat fee structure (26.8%). Smaller firms were most likely to be offered pricing based on the volume of transactions they expect to place with a PSP, while the largest firms (with a turnover of £500 million or more) are offered transaction-based pricing (30.8%), a flat fee (30.8%) or, most frequently, volume-based pricing (38.5%).

### Charging structures vary by merchant size

How does your primary payment service provider mainly charge?



Credit: Censuswide/Banking Circle





# Building a proposition that works

Among the merchants surveyed for this report, marketing support (33.6%) was a popular service provided by PSPs, alongside the capacity to handle direct debit payments from consumer accounts (31.4%) and discounts on POS devices (30.8%). In the UK more than in other markets, merchants appreciated assistance with managing VAT obligations in the UK and EU, reflecting the influence of Brexit on trading conditions, while German merchants were more likely

to appreciate assistance with marketing services (37.7%) than other Europeans.

In the Netherlands, the capacity to process account-to-account (A2A) payments (34%) was most appreciated – a finding that reflects the strong performance of that country’s iDEAL bank-to-bank payments system. Nadine Prescher, Head of Operations and Risk at Deutsche Payment, says that A2A payments are set to become more popular with

merchants in the years ahead: “Consumers want to access A2A payments, but finding availability is tough. As A2A grows in popularity, more merchants are going to be looking to integrate this payment type.”

Smaller companies found marketing support (38.9%) and especially support with request to pay (R2P) solutions (50%) the most helpful services. This reflects a wider need for small firms to get paid quickly, as R2P software

will frequently feature automatic invoicing and reminders, cutting down on the administrative burden for such companies. As PPRO’s James Booth puts it, “PSPs have a huge opportunity in the next three to five years to orchestrate some of these emerging, popular service areas such as instant settlement and A2A transactions – both domestically and across borders.”

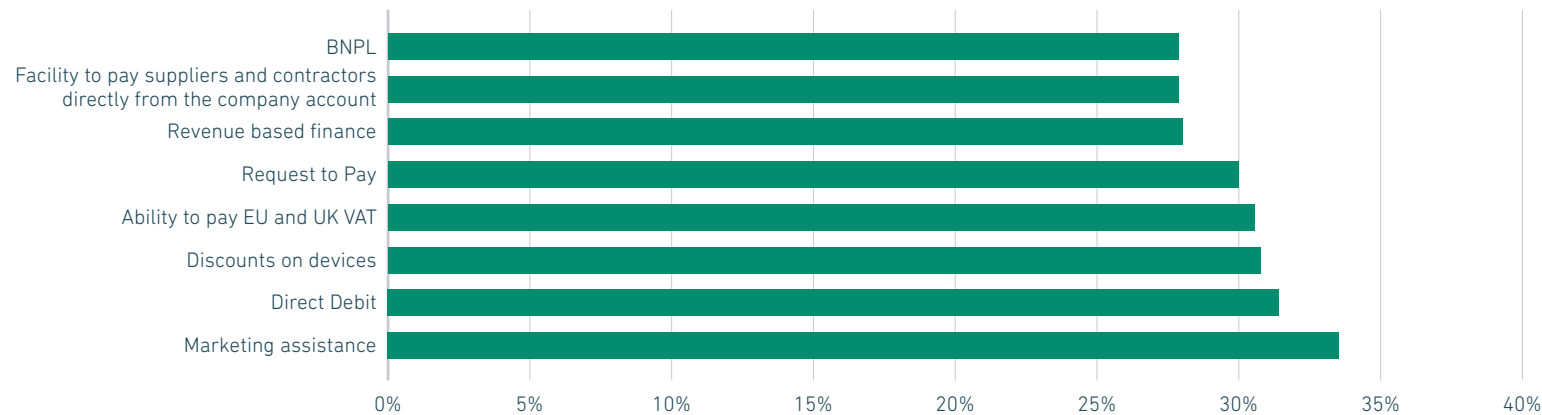
Nine in ten merchants surveyed said their PSPs offered them regulatory support – though not

## KEY TAKE-AWAYS:

- Marketing support and discounts on POS terminals are popular services provided by PSPs. However, more sophisticated services, from accepting new payment types to advice on handling VAT, are becoming more popular.
- Advice on regulatory compliance, especially outside the merchant’s home market, is much sought-after. PSPs have an opportunity to add value for their clients and educate regulators regarding payment innovations.

## Merchants want specialist services

What added value support services does your current primary payment service provider offer for your business and/or for you to offer to your customers, if any?

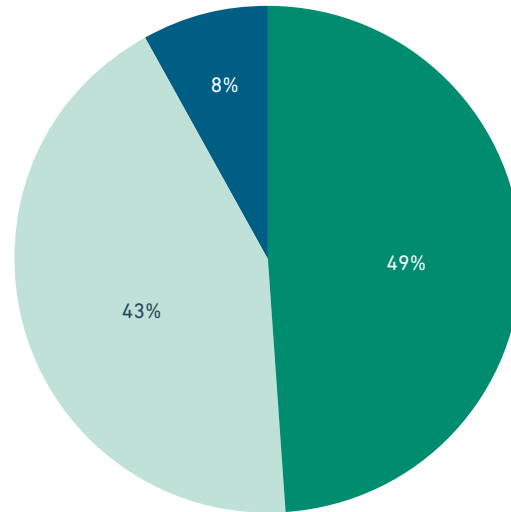


Credit: Censuswide/Banking Circle

all benefit from this support in all regions, with 43.1% saying this advice applied to their home market only. Looking at cross-border regulatory advice, the UK and the Netherlands scored highest in this area, with more than half (54.3%) of merchants in each country saying they benefitted from advice relating to regulatory compliance outside their home market. Verto's Ola Oyetayo says that, looking ahead, help with regulation is going to be important, especially in the cross-border arena: "Being compliant with local regulations is vital to gaining and maintaining consumer trust. In payments, innovation tends to stand far ahead of regulation, and there's an opportunity for PSPs to work with regulators, educating them about payment innovations."

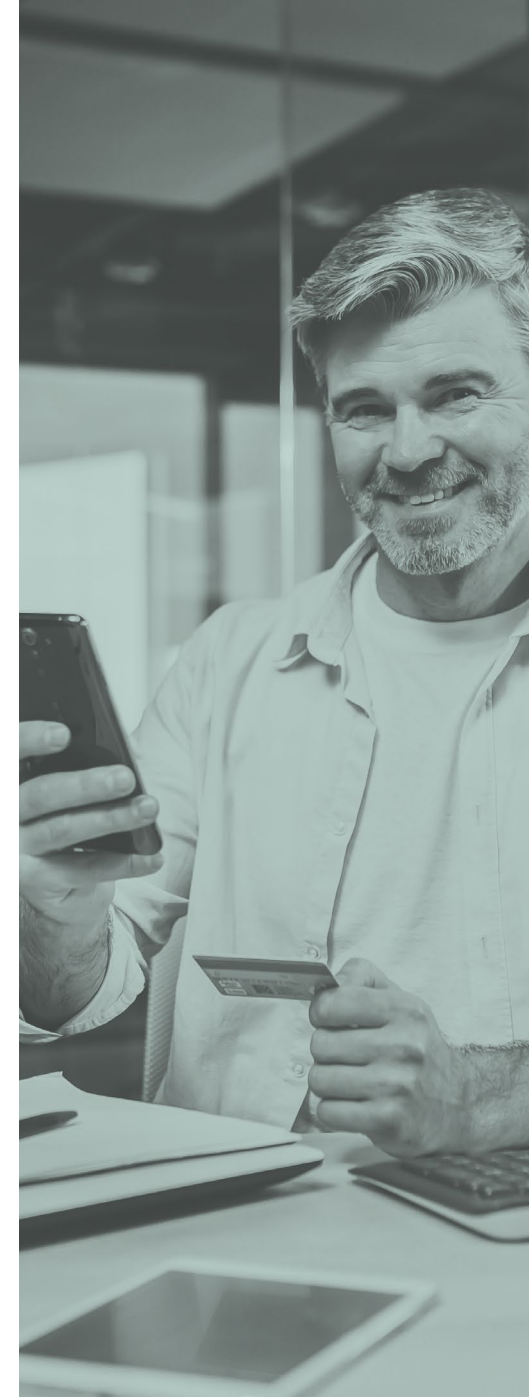
### Regulatory support needs to go global

Does your current primary payment service provider offer support regarding regulation in the countries in which you operate?



- Yes, for all countries
- Yes, for some countries
- No

Credit: Censuwide/Banking Circle



# Overcoming pain points

Our survey finds that Europe's SME merchants are most concerned about risk and transaction security, with one in three (33%) citing this as a major pain point in working with PSPs, rising to 35.2% in Germany, where it is cited as a major challenge by the highest number of merchants. Other frequently mentioned difficulties include access to support services, mentioned by 31% of all merchants as a major pain point, and transaction settlement times, cited by 29.5% of merchants.

If transaction security is the biggest concern for German merchants, then their UK counterparts say accessing support with POS devices (27%) is their biggest challenge, while Dutch merchants claim poor access to multi-currency transactions (26.7%) is their biggest challenge. These findings provide evidence of a general disconnect between what merchants are looking for, and what banks and PSPs offer. As Nadine Prescher from Deutsche Payments puts it, "There are quite often still silos in the payments process, with banks, PSPs and marketplaces still not 100% aligned in their approach.

Creating a smoother customer experience from end to end is going to be crucial to success for intermediaries of all kinds."

## Onboarding and customer support lacking

Interestingly, onboarding is posited as a major issue by the largest (46.1%) and smallest (36.8%) categories of merchant, albeit for very different reasons,

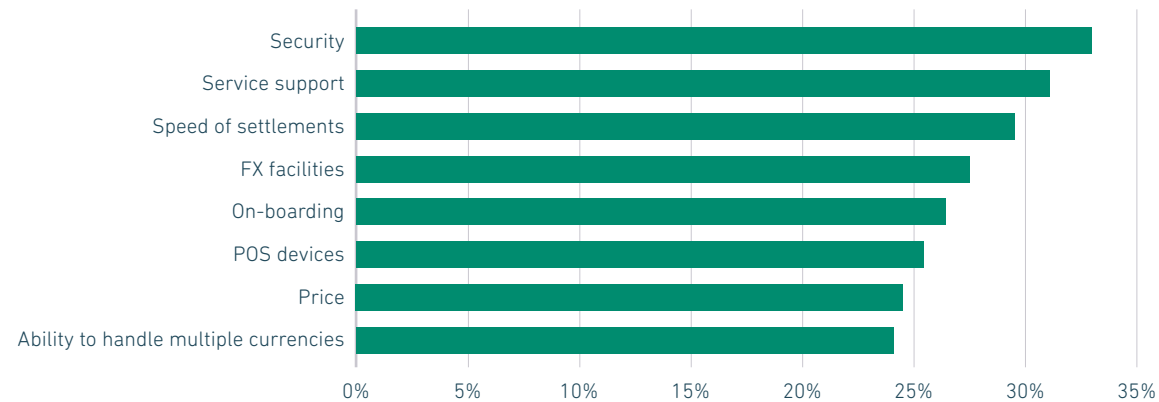
with smaller merchants no doubt finding those difficulties with financial guarantees and information requests cited earlier. Larger merchants, meanwhile, are just as likely to find their own internal processes a challenge.

By employee count, the largest companies (up to 250 employees) are most likely to struggle with access to support services (34.1%), and also find settlement speeds difficult. Across the board, large (53.8%) and small (42%) companies cite the cost

per transaction of working with PSPs to be problematic. For Nuapay's Brian Hanrahan, cost is less motivational compared with advantages such as faster settlement and better experiences: "Immediate settlement is important for merchants and for the end consumer. Meanwhile, providing services like foreign exchange, reduced risk of chargebacks and better mobile transactions are all going to matter more than cost, which is a secondary motivation compared to delivering better services."

### Pain points persist: security paramount

What, if anything, are the biggest pain points when dealing with your PSP?



Credit: Censuswide/Banking Circle

### KEY TAKE-AWAYS:

- Merchants are most worried about transaction security when working with PSPs, as well as the ability to access customer support when needed, and slow settlement times.
- PSPs, banks and marketplaces should collaborate to build a better experience for consumers, moving away from their current "silo" mentality towards an understanding of the payment experience from start to finish.
- This will involve integrating new payment types and prioritising faster settlement and better support services.

## About the research:

In September 2022, Censuswide interviewed more than 900 merchants with up to 250 employees, based in the UK, Germany and the Netherlands. Payments Cards and Mobile LLP conducted five in-depth interviews with C-suite officers from leading European and international PSPs in September and October 2022.

The following senior executives were interviewed for this report:

**James Booth**

Head of Partnerships, PPRO

**Brian Hanrahan**

CEO, Nuapay

**Ola Oyetayo**

Founder and CEO, Verto

**Nadine Prescher**

Head of Operations and Risk, Deutsche Payment

**Brandon Spear**

CEO, TreviPay





## For further information:

Banking Circle is a fully licenced next generation Payments Bank that is designed to meet the global banking and payments needs of Payments businesses, Banks and Marketplaces. Through our API, we deliver fast, low cost global payments and banking services by connecting to the world's clearing systems – enabling our clients to move liquidity in real-time for all major currencies securely and compliantly. Our solutions are powering the payments propositions of more than 250 regulated businesses, enabling them to gain the geographic reach and access to the markets in which their customers want to trade. We process over 10% of Europe's B2C e-commerce flows and in 2021 alone, we processed over 250 billion Euros in payments volumes.

[www.bankingcircle.com](http://www.bankingcircle.com)