Demystifying 3-Party and 4-Party Card Acquiring Models

Guide

PXP FINANCIAL

INTRODUCTION

In the ever-changing world of electronic payments, navigating through different card acquiring models is crucial for merchants.

Two main models of the card paymentsare **the 3-party and 4-party acquiring setup.**

As they both encompass unique structures and functionalities, let’s delve into their key differences to gain more clarity on how they operate and their implications for different stakeholders.

UNDERSTANDING ACQUIRING MODELS

Before we differentiate between the models, let's understand the concept of an acquiring model. It essentially refers to the - ***structure and parties involved in executing a card payment transaction.***

This model prescribes how transactions are managed, where funds flow, and the responsibilities held by each party involved.

3-PARTY ACQUIRING MODEL

Renowned companies like American Express or Diners Club International® / Discover® Global Network which consists of three main participants:

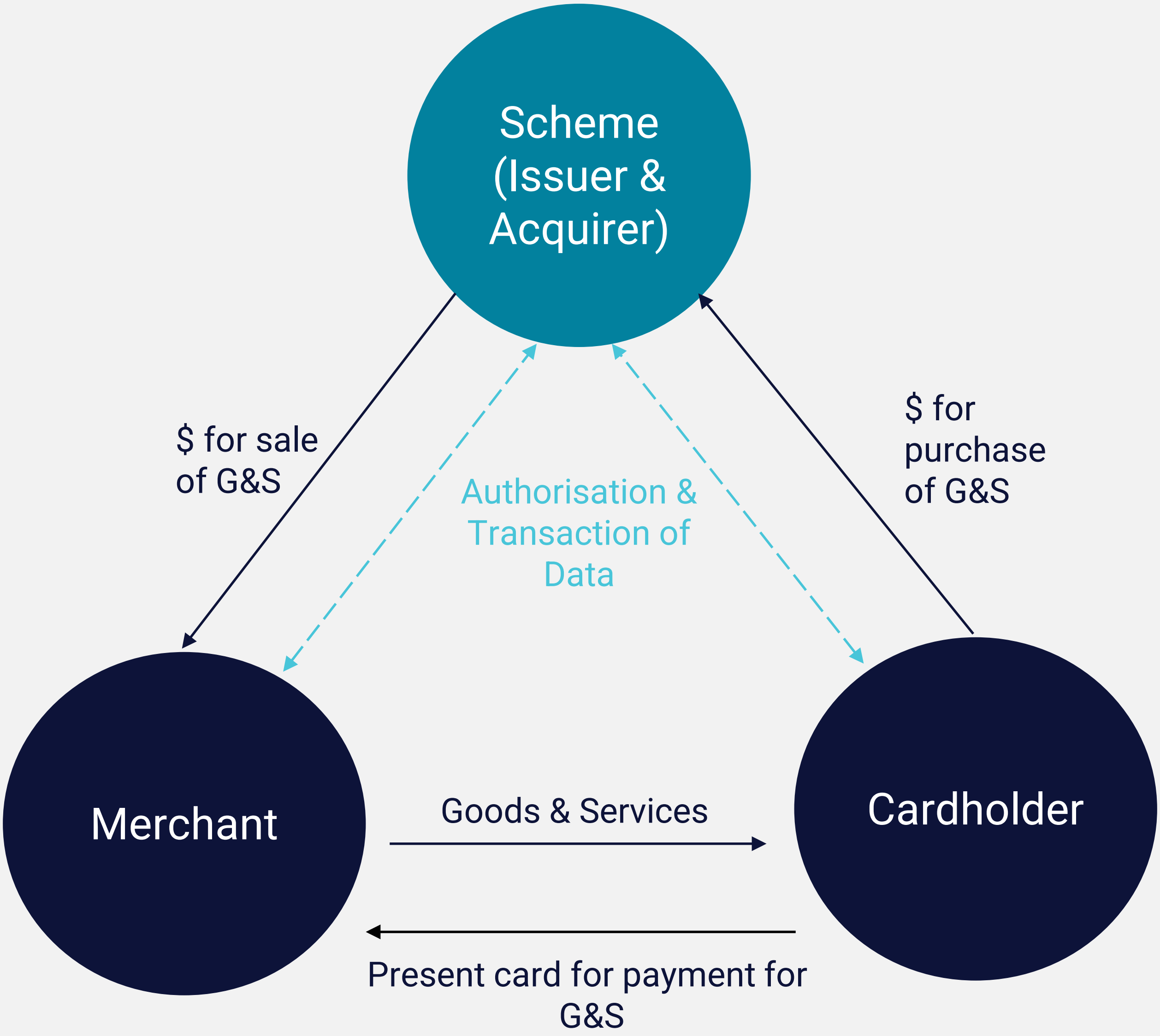
1 **The Merchant**

2 **The Consumer**

3 **The Acquiring Bank OR Payment Processor**

The acquiring bank or processor not only facilitates the merchant's ability to accept payments but also issues cards to consumers.

3-PARTY ACQUIRING MODEL



KEY FEATURES

- **Simplified Relationships**
  With fewer parties, relationships become more straightforward.

- **Direct Control**
  The acquiring bank has control over both the merchant and cardholder ends of a transaction, potentially leading to faster dispute resolution.

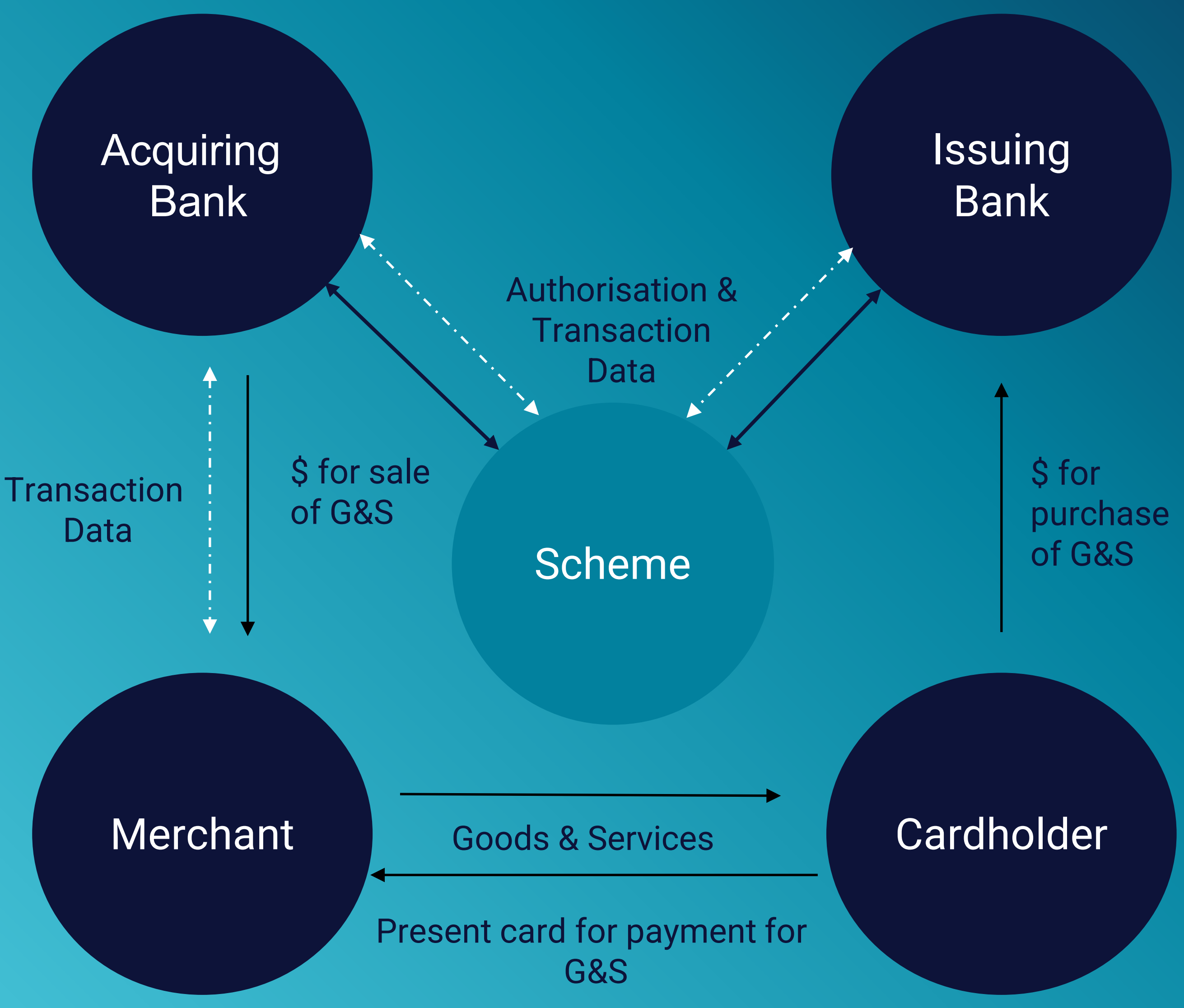
- **Integrated Services**
  Services are often more integrated, leading to a streamlined experience for merchants and consumers.

- **Limited Network**
  The network acceptance might not be as widespread as that offered by the 4-party model.

- **Revenue Model**
  In the payments provider doesn’t need to share revenue with anyone else; it retains the entire transaction fee, which is not the case in 4-party model.

An extra entity is introduced into the payment process in the 4-party model. This model includes the merchant, the consumer, the acquiring bank or processor, and an additional issuing bank.

4-PARTY ACQUIRING MODEL



KEY FEATURES

1 **Broader Network**: The separation of issuing and acquiring functions leads to a larger network of merchants and cardholders.

2 **Greater Complexity**: Having an extra party can add layers to the transaction process and increase complexity.

3 **Interbank Settlements:** Settlements happen between the acquiring and issuing banks, necessitating robust interbank relationships.

4 **Wider Card Distribution**: As issuing is managed by separate entities, there's typically a broader distribution of payment cards.

KEY DIFFERENCES

1

Number of Parties Involved:
The most fundamental difference lies in the number of parties. The 3-party model merges acquiring and issuing, while the 4-party model separates them.

2

Network Size and Acceptance
Typically, the 4-party model has a larger network due to the involvement of multiple issuers.

3

Complexity in Relationships and Settlements
The 4-party model involves more intricate interbank relationships and settlements.

4

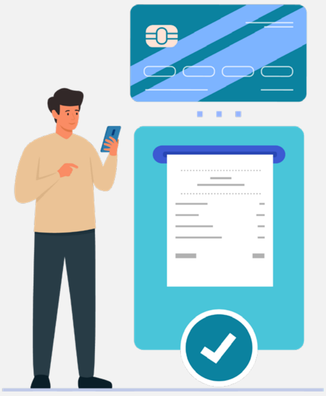
Control and Integration
The 3-party model provides more control and integration for the entity acting as both the acquirer and issuer.

FINAL THOUGHTS

For merchants, choosing between a 3-party or 4-party acquiring model can impact factors like fees, acceptance, and customer reach.

The 3-party model might offer more straightforward dealings but could limit customer reach due to a comparably smaller cardholder base.

On the other hand, the 4-party model could offer broader customer reach but with potentially more complex fee structures and relationships. As the industry evolves, it’s crucial to engage with a payment partner who can advise on the best card payment mix that matches the preferences of your target audience.



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