**CLOUDWALK CASE – MAY 2022**

1. **Explain the money flow and the information flow in the acquirer market and the role of the main players.**

To acquire means to get something into possession or control. There is no “acquirer market” per se, it may refer to the acquisition “market” (which, again, is not something by itself, it’s mostly a way to talk about the world of acquisitions, not an usual expression) or the acquirer in the financial market.

In the acquisition market, we enter discussions about when a company obtains the rights to another one through a deal, be it agreed by both sides or not (in the latter, there is a whole new array of topics on hostile takeovers, poison pills, and so on).

For the financial market, main topic of this document, the flow of information begins at the checkout at a store (physical or online), where a merchant gets your card and start the process. When he uses a card machine, also referred to as point-of-sale or POS), it accesses a **Gateway**, which receives the input from the users (customer and merchant) and sends it to the **Acquirer**, who then sends it along to the **Card Network** (i.e. Mastercard). The **Card Network** has the information on which **Issuing Bank** supplied the customer with the card, so they move the information along for the latter to confirm that the customer, also know as **Cardholder**, has the funds or credit to cover the purchase value (and confirm card number and cvv on online transactions to guarantee this is not a fraudulent attempt). After the verification, the **Issuing Bank** returns a response to the **Acquirer** through the **Card Network** with what happened (success or fail and the reason why). Once the **Information Flow** is finished with a positive result for a payment, the **Money Flow** starts (for education purposes it’s simpler to go through each flow individually, but they actually happen simultaneously), where the **Issuing Bank** sends the funds to the merchant’s account. After this, if the customer had funds to finish the transaction, the money was moved from his account. In the case of credit purchases, the issuing bank is then responsible for the collection of debt, process which sometimes goes wrong and the bank occasionally sells the debt to a company who gets the rights to do the collection themselves, but this is another industry.

Now for the main players previously mentioned, the following is a brief explanation on the principal role of each one, but there are many more not covered here and also this is one example of information flow, it may differ by company or country (legislation). The **Acquirer**, also known as the merchant bank, is the financial institution who partners with a merchant (or a payment facilitator) to complete electronic payments transactions and deposit processes. The **Merchant** is simply the one who makes sales and then partners with a company to be able to provide payment methods to the customer. Also very simple, the **Cardholder** is a customer who goes to a bank to have access to more payment options (or sometimes to receive his salary). Without this, he can basically only pay for things in cash. This bank then creates an account for the customer and issues a debit card for him/her to use the funds on the account (and sometimes also a credit card for a fee). Because of this feature, it is called the **Issuing Bank** (or **Issuer**). To be able to issue a card, the **Issuing Bank** partners with a **Card Network**,who allows the bank to make transactions online with the card’s brand (also for a fee, of course). Finally, there is the **Gateway**, which is a system where the operations are made, who sends information between the other players.

1. **Explain the difference between acquirer, sub-acquirer and payment gateway and how the flow explained in question 1 changes for these players.**

The payment gateway controls the whole information flow of the transactions. It sends the appropriate data to each player involved. The acquirer receives some information and then sends another information to another player using the gateway. Finally, it receives the final value from the Card Network and finishes the purchase. The sub-acquirer enters the game as a middle man to help small or new businesses get their payment solutions with lower implementation costs and easier integration, but in exchange they charge higher fees per operation. The sub-acquirer makes the contract with the merchant, but it does not take the acquirer’s place in the flow, it only offers a service allowed by an acquirer and adding a bit more complexity to the process.

1. **Talk about how the supply chain fits into the ecosystem of means of payments.**

In the past, we sometimes needed a whole day to finish a deal. You began talking to a merchant and then had to go to the bank, return to the merchant. Nowadays, we can do this within an hour on our couch. We navigate on a website and then finish a purchase by doing a PIX or paying a bank slip on your phone. This easiness helps the merchant sell his goods, helps the customer be safer and more comfortable with his buys and most of all, helps the manufacturer with a more “just-in-time” proposal, avoiding stocking costs. This is a very beneficial approach for the entire industry, making it simpler and cheaper. And it is not on his full capacity yet. To this day there are people who work as assistants and have to go through repetitive processes every month to ask for the same product for their company. With the advance of technology and payment methods, we can easily automate a website to redo an order on your user page, redo a payment on your bank app.

1. **Based on the above points, please explain, how the agile delivery of the card machine would benefit everyone involved.**

Customers are now faced with many options for their convenience. Many options for where (or from who) to buy something and for how to pay, be it bank slip, credit/debit card, wire transfer, cash and even check. Having a business decline a customer because of payment choice, especially the lack of something so simple and available as a card machine is very dangerous for its survival. In the age of information, good customer service and payment convenience is not what sets you apart, is just the baseline. The presence of a more agile system or intermediate players to decomplicate the implementation of card machine payment options to the merchants it’s not just a simple quality-of-life improvement, it is a necessary feature for today’s business world.

Sources:

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