Evolution of Payments on the World Wide Web:
Current trends and future challenges

Collecting services – the new one-stop payment solutions
As the e-commerce economy continues its rapid expansion, the traditional notion that a merchant needs an acquirer or bank as well as a payment service provider is being challenged. Some financial entities are now also collecting funds as well as processing payments, allowing them to provide a single point of contact for payments, also known as a 'bundled offer'. The key players in this emerging market are Global Collect, Adyen and Ogone.

These bundled offers are more cost-effective for merchants and are proving quite lucrative for the payment service providers who make significant additional revenue by 'acquiring' the funds themselves. And the benefits don't stop there. Collecting services make it much easier for merchants to expand into new markets as well as increasing conversions in their home markets through offering more payment methods. This is perhaps why some acquirers and banks are seizing new opportunities in this development market by becoming financial partners to this new breed of 'collectors'.

Alternative payments on the increase
Another trend which is making the headlines is the rise of alternative payments – that is, alternatives to traditional credit cards. As you might expect, adoption and usage varies from country to country. While 80% of the online payments in France and the UK are made with payment cards, Germany makes almost 40% of its online payments via direct debits and the Netherlands does almost 60% via online banking. Another alternative method of payment gaining traction in Scandinavia, Germany and Austria is payment on invoice, where goods are paid for after they have been delivered.

Experts predict that by 2020, 60% of global online payments will be done via alternative payment methods. This is due in large part to the fact that such payment methods are usually considered more convenient for users – not to mention safer too as they don't have to enter their card details. Another factor accounting for their rise in popularity is that they're cheaper for merchants to accept than card transactions.

In Europe, there are also several projects underway to enhance and facilitate usage of credit transfers and direct debits as online payment methods, such as the MyBank initiative in Italy. The new Payment Service Directive (PSD2), expected to be enforced later in 2014, will formalise the status of payment-initiating Payment Service Providers as regulated entities authorised to initiate payment transactions (typically credit transfers) on behalf of the account owner.

Everyone's getting into e-Wallets

Even the traditional credit card markets like France and the UK are experiencing more and more alternative payment method usage. This is also true with e-wallets. After 20 years of Paypal's global dominance, other key payment players are also launching activities in the e-wallet market. Card providers are all creating their own versions: Visa with V.me, Mastercard with Masterpass, and Amex is due to launch their own e-wallet shortly. Some banks are even trying to enter this space. In France, BNP Paribas, Société Générale and La Banque Postale launched the Paylib e-wallet. Other regional players are also launching products such as Kwixo from FIA-NET or Buyster from Atos.

E-wallets promise great benefits for both users and merchants. For users, the experience of paying for goods and services online is transformed by functionality such as 'one click' payments. For merchants, this leads to dramatically improved conversion rates. Remember, in the online world, only 2% of current website visitors eventually buy. In the retail environment, that ratio is more like 20%.

Another merchant benefit of e-wallets is they make it easy to gather business intelligence to be used for up-selling, cross-selling and creating loyalty rewarding schemes, such as offering users self-serve terminals to pay, receiving and redeeming vouchers etc. However, given the large number of e-wallets currently in the market, we are expecting to see in the short to mid-term a consolidation or stopping activities of some e-wallet solutions.

Consumers are cross-channel experts

Cross-channel payment solutions are another big trend we'll be hearing a lot about over the coming months. The frontier between the physical world (card-present) and the online world (card-not-present) is being constantly eroded. Consumers increasingly expect to be able to purchase from their mobile or tablet, get their goods delivered at home or to their nearest store (click and collect), receive refunds if required via their web account or through their smartphone or tablet (web-to-store, or store-to-web).

In addition to consumer expectations, larger merchants are seeking to simplify the ways they manage their channels because a siloed approach can be highly costly in term of organisation, resources, financial impacts, reconciliation and accounting. Payment service providers who can offer merchants one contract, on one platform with one reconciliation tool for managing all key channels (web, mobile and POS) will see their sales soar.

How to sell more and stay secure

Security is perhaps the strongest threat in the e-payment world. Yet this can be turned into an opportunity and a competitive advantage if merchants manage to effectively control and monitor their security. With the continued growth in e-commerce and ever-evolving fraud patterns, most e-commerce businesses need robust fraud prevention strategies in order to protect themselves from cyber attacks and maintain and secure their sales.

Buyer authentication is the first level of protection for retailers. In the e-payment world, 3-D Secure is the most popular tool to authenticate the buyer. 3-D Secure is a feature enabling to verify buyer authenticity by initiating a redirection to the website of bank or credit card issuer. The full authentication allows the merchant to benefit from a liability shift transfer to the acquirer or bank. In other words, in case of a fraud, the cost lies with the acquirer, not the merchant. The authentication method is implemented by the issuer and thus will vary from bank to bank. It can be made via a unique code or via SMS or via interactive code. The maturity of 3-D Secure varies among the countries. For instance, while 60% of Belgian transactions use it, only 18% of the French transactions do. Perhaps unsurprisingly, France has the highest rate of attempted fraud in Europe.

Has 3-D Secure had its day?

One difficulty with the exponential increase of mobile payments is the incompatibility of 3-D Secure with the mobile experience. For example, for the acquirers who send the authorisation codes to their customers, the user experience is poor as the buyer has to quit the payment page to receive the authorising SMS. As you might expect, this has a crucial impact on mobile conversion rates for merchants – and is undoubtedly the main reason why many of them have deactivated 3-D Secure.

In this new landscape of mobile payments, e-wallets are clearly a preferable alternative to 3-D Secure, especially as the payment is guaranteed with some of them. Increasingly, merchants have opted for a 3-D Secure 'on demand' which is usually linked to specific criteria configuration (basket amount, IP address, issuing country, result of the anti-fraud scoring tool etc.)

New tools, advanced protection

Of course, 3-D Secure is not the only tool in the box. More and more merchants are now adopting anti-fraud tools such as scoring modules which allow them to define and tailor criterias unique to the activity, sector, risk profile, the geography, the time of purchase etc. As the fraudsters get more creative, so do the anti-fraud tools providers to ensure their services stay ahead of the curve – an ongoing task for such fraud prevention specialists such as Cybersource, Retail Decision, FIA-NET and Ogone.

Some of the latest weapons in the arsenal of these fraud experts include device fingerprinting which allows merchants to identify and block the device from which a fraudulent transaction has been generated. Other tools currently under investigation include face scanning technologies. As with all fraud prevention tools, the aim is to block as many fraudulent transactions as possible while ensuring genuine, honest buyers are not blocked by mistake. It's a delicate balance that's never easy to achieve.

When it comes to fraud prevention, the e-payment regulatory environment also has a strong impact on the global players. They have to adapt their technology and processes to each and every market. One of the most consistently challenging areas is customer data protection. Practices can be commonplace in some countries yet totally forbidden in others. For instance, certain jurisdictions do not allow the sharing of customer fraud data, such as black lists, profiles, behavior etc. For merchants who sell cross-border, this highlights the importance of choosing a fraud prevention specialist with international capabilities who can guide them on creating a fraud prevention policy that's tailored to the markets and sectors they serve.