INDEPENDENT PUBLICATION BY

RACONTEUR

RACONTEUR.NET | #0755 | 08/08/2021

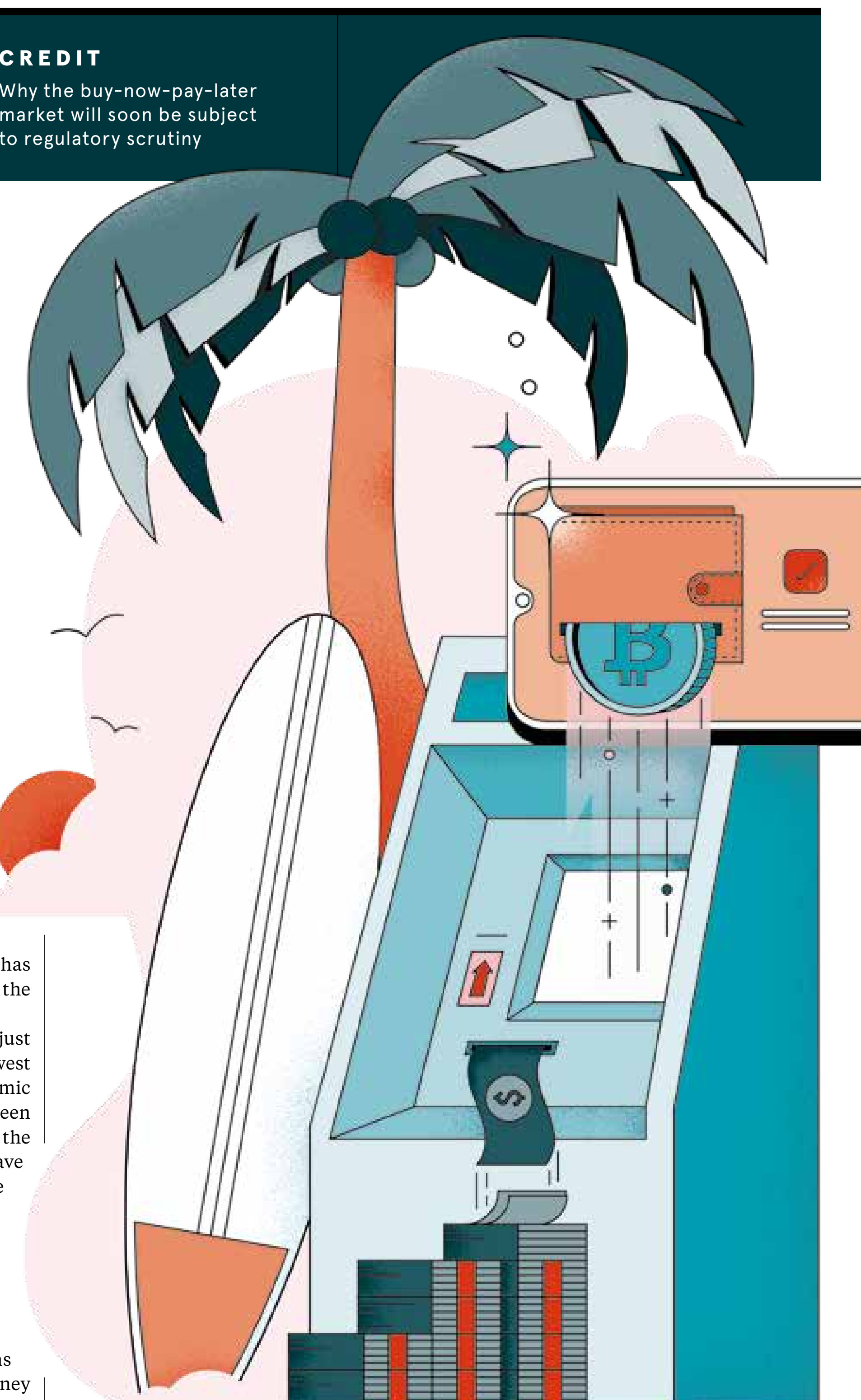
# FUTURE OF PAYMENTS



Distributed in THE SUNDAY TIMES

CRYPTOCURRENCY

## Bitcoin Beach: has El Salvador started a fiat crypto wave?



The Central American state's adoption of bitcoin as legal tender could catalyse the use of cryptocurrencies as a standard means of payment around the world

**Ben Edwards**

El Zonte is a small coastal town about an hour's drive south from El Salvador's capital, San Salvador. The palm-fringed Pacific resort has long been known to surfers, but more recently it has found fame in the cryptocurrency community. In 2019, it started an experiment to run the local economy on bitcoin. El Zonte never before had a bank, but now it has an ATM where people can buy crypto with US dollars (the nation's official currency since 2001), earning the town the nickname Bitcoin Beach.

In June 2021, El Salvador's president, Nayib Bukele, announced that bitcoin would be adopted as legal tender nationwide, making his government the first in the world to designate a cryptocurrency as a primary means of payment.

John Wu is president of Ava Labs, developer of the Avalanche blockchain platform. He believes that El Salvador's adoption of bitcoin is "extremely significant. It shows that governments really believe that this is something that can be widely adopted and is secure enough to be used as legal tender. From a philosophical perspective, it moves the whole cryptocurrency space into utility, as opposed to something that people simply speculate on."

Bukele's decision is rooted in the fact that El Salvador hasn't had its own currency for two decades, having dropped the colón for the dollar in 2001. About 70% of the country's citizens are unbanked, with many relying on dollars sent back from relatives abroad. The total remitted this way each year is equivalent to 22% of El Salvador's annual GDP, according to Deutsche Bank.

"This is an interesting experiment," says Frances Coppola, an independent economist, blogger and author. "Given that 70% of the nation's economy runs on physical dollars that can only be obtained from outside the country, introducing something that is more accessible online could make life a little easier for people in El Salvador. Moving to a digital means of payment is a step forward, although I'm not convinced that they are going about it in the right way."

> **Superior cryptos will come in and push bitcoin out of the picture completely**

One problem with the government's decision is that it compels merchants to accept bitcoin whether they want to or not.

"It's not legal tender; it's forced tender," says Steve Hanke, a professor of applied economics at the Johns Hopkins University in Baltimore and an expert on troubled currencies. To Hanke, who helped El Salvador to draft parts of the legislation that replaced the colón with the dollar, it's unclear why the government is abandoning a system that has served the country relatively well over the past 20 years.

"Inflation in El Salvador has been just over 2% a year on average. That's the lowest in Latin America," he says. "Its economic growth and GDP per capita have also been higher than those of most countries in the region. Exports are strong too, so you have to ask why they would want to change something that isn't broken."

Moreover, there are disadvantages to using bitcoin as a means of payment. First, it is notoriously volatile – its value has fallen by about half from its peak in April 2021, for instance.

Coppola notes that many Salvadorans are very poor and/or dependent on money sent from abroad. "If these remittances come through in bitcoin and its price drops by 30%, say, they'll have lost a substantial amount," she says. "To be fair, they have an equal chance of gaining on the price movements. But such volatility is bad news for people seeking a secure way to save and a reliable means of payment."

Another snag is that bitcoin attracts high transaction costs.

"There isn't a reliable means for conducting low-value transactions in bitcoin at the moment, so using it is expensive," notes Coppola, who adds that networks such as Lightning, which allow for faster and cheaper payments, remain relatively unproven.

Despite all the caveats surrounding El Salvador's adoption of bitcoin, Hanke still believes in the potential of cryptocurrencies to transform how people use money.

"This is the future of payments, although superior cryptos will come in and push bitcoin out of the picture completely," he says.

Wu believes that El Salvador has been too impatient in adopting bitcoin. The government should, he argues, have held out for the emergence of a cryptocurrency that's more suited to payments.

"It's as though El Salvador saw what Yahoo could do, but couldn't wait for Google to turn up," he says. "Its reason for choosing bitcoin is that it's the largest and most liquid crypto. But part of being a legal tender is being a payment system – and, unfortunately, bitcoin is still far away from being a good payment system. It's still good as a store of value, but in the long run it is not going to be the right solution for payments."

Wu adds that, for cryptocurrencies to be widely adopted as a payment mechanism, their transaction times need to be faster. At present with bitcoin, it takes too long to confirm a payment. In addition, crypto payment systems need to be able to accommodate a far larger number of users.

There are several emerging platforms, including Avalanche, that are trying to solve the speed, scale and cost problem. Which cryptocurrency will win that race is open to debate, but it may not be a private cryptocurrency at all.

While other dollarised emerging-market economies will be watching El Salvador's experiment closely, countries such as China, the US and the UK and currency blocs such as the eurozone are all at various stages of developing or considering their own cryptos in the form of central-bank digital currencies (CBDCs).

"People often ask: 'Would a power such as the US ever adopt an externally produced cryptocurrency?' The answer to that is a resounding 'no'," Coppola says. "But the likelihood that it would issue its own cryptocurrency is quite high."

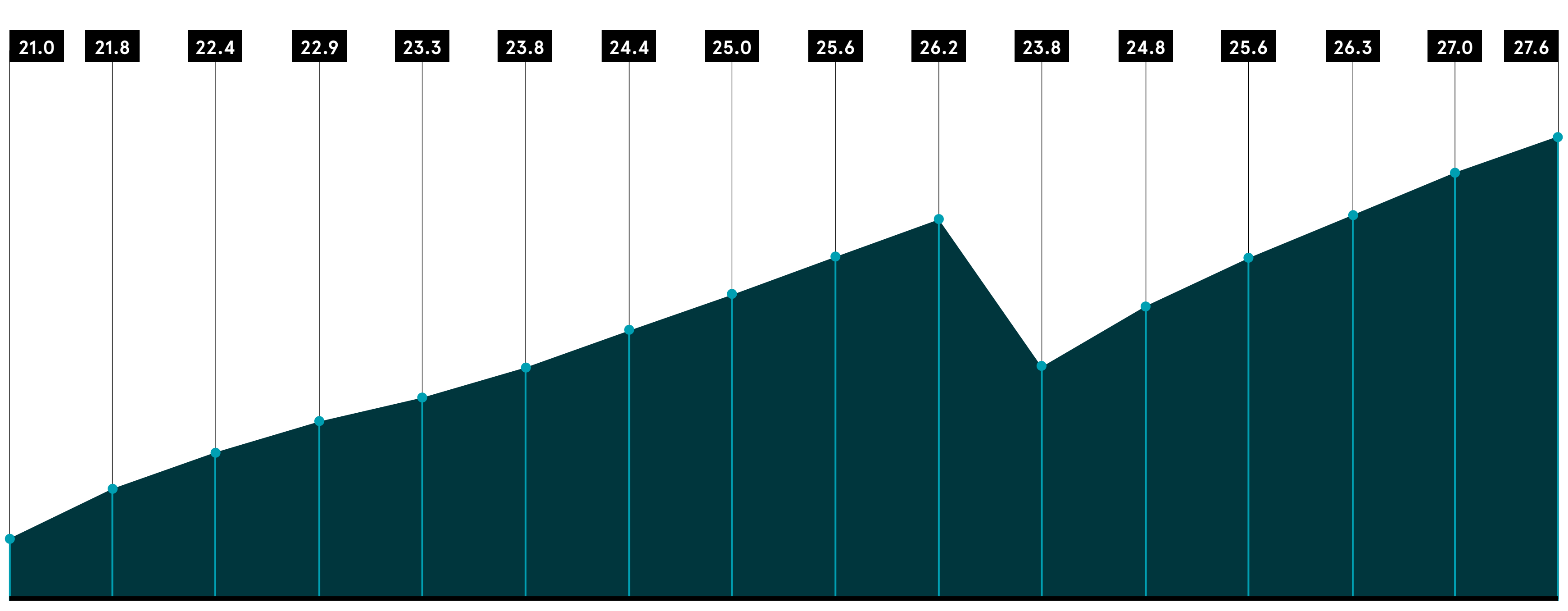
The issuance of CBDCs is unlikely to be greeted with enthusiasm among existing crypto users, given that using these would remove their anonymity.

"The problem with CBDCs is that they go against the ethos of why cryptocurrencies became globally popular in the first place," Wu says. "A CBDC such as the digital yuan in China makes it easier for a government to intrude upon the individual." ●

### EL SALVADOR'S ECONOMY IS FORECAST FOR GROWTH

Actual and forecast GDP ($bn)

International Monetary Fund, World Bank, 2020




### Contributors

**Peter Archer**
A bestselling author, writer and editor. Formerly a staffer at the Press Association.

**Fiona Bond**
A journalist specialising in business and both corporate and personal finance.

**Alison Coleman**
A writer and editor working as a senior contributor at *Forbes*.

**Marianne Curphey**
An award-winning financial writer, blogger and columnist.

**Ben Edwards**
A freelance journalist specialising in finance, business, law and technology.

**Sam Forsdick**
Raconteur's staff writer, with a particular interest in technology and the future of work.

**Christine Horton**
A long-term contributor to specialist IT titles, covering the impact of technology on business.

**Jim McClelland**
A futurist, speaker and writer specialising in the built environment and corporate social responsibility.

**Chris Stokel-Walker**
A journalist and author specialising in technology and culture.

raconteur reports

Publishing manager
**Helen Glynn**

Managing editor
**Sarah Vizard**

Deputy editor
**Francesca Cassidy**

Sub-editor
**Neil Cole**

Head of production
**Justyna O'Connell**

Design
**Pip Burrows**
**Sara Gelfgren**
**Kellie Jerrard**
**Colm McDermott**
**Jack Woolrich**
**Sean Wyatt-Livesley**

Illustration
**Samuele Motta**
**Nita Saroglou**

Art director
**Joanna Bird**

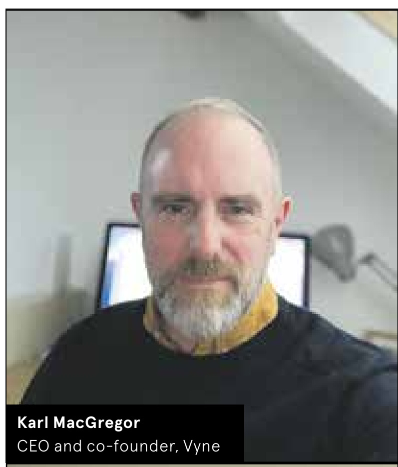
Design director
**Tim Whitlock**



/raconteur.net
@raconteur
@raconteur_london

raconteur.net /future-payments-2021

Commercial feature


Karl MacGregor
CEO and co-founder, Vyne


Adam Calladine
Head of products, Kinetic


Benjamin Canova
Global payment manager, worldwide omnichannel luxury retailer


Andy Sale
Head of partnerships and alliances, CellPoint Digital


Russell Curzon
Vice-president and head of sales, UK and Europe, Nium

# A new dawn for payments

As the payments landscape enters a period of significant change, five experts from across the payments ecosystem convene to discuss the key challenges facing merchants

**Q How has the payments landscape evolved in recent years?**

**RC** It has undergone tremendous transformation, with digital payments becoming the new normal. The pandemic has accelerated digital adoption further, with consumers becoming used to the benefits and convenience brought about by digital payments. The key barrier facing merchants is that global payments have been complex and disconnected, making it harder and more expensive to manage online payments. Various intermediaries are needed to process international transfers across currencies, and changing regulations mean rising card acceptance fees are also absorbed by merchants.

**KM** User experience and the desire to convert more online store browsers into paying ongoing customers is driving a lot of innovation in alternative payment methods. Consumers have incredible experiences on their mobile phones when consuming digital content and now expect the same when it comes to purchasing goods and services, which is increasing focus on the payment event and how that can be made super slick as well. Along with huge online growth during the pandemic, we also saw consumers adopt the use of QR codes when shopping, something already popular in markets like China and Japan.

**Q What role is regulation playing and how is this impacting the ecommerce sector?**

**KM** Regulation is a significant driver of change and has been a huge area of both pain and opportunity over the last five years, particularly with respect to PSD2. For ecommerce businesses, PSD2 is a massive pain point because it's introducing things like two-factor authentication and secure customer authentication for credit card transactions, which breaks the user experience. For us, it has provided an opportunity to create a faster, simpler and fairer payment method that solves some of the inefficiencies that exist around credit and debit cards, which you could argue are a bad fit for consumer expectations today.

**AC** In the higher education sector, within student accommodation PSD2 is a problem. We see infrequent payment schedules – three instalments a year, rather than monthly rent – and PSD2 introduces a lot more challenges for recurring card payments of this type. Direct debits are also very admin heavy. We've already seen with our Irish customers, since PSD2 came into force there in January, a much higher decline rate on those recurring transactions because there is not a recognisable pattern on the payment. Payment is a huge drop-off point in the booking process anyway, particularly in the student accommodation sector because it's usually mum and dad paying. Our customers are knocking on our door saying we need to do something.

**Q How is open banking helping to remove the middlemen in payments, enabling a more direct experience?**

**KM** Open banking gives us the tools to build a solution that simplifies the flow and reduces a lot of the risk. It gives us the ability to create a push payment. A consumer buying something from a website or in a store can go to their bank account in one click or scan of a QR code and push the money directly to the merchant. That moves everybody out of the middle, supported by a technology solution like Vyne which wraps it up with all the features and functionality that a business needs to make it viable. Consumers get greater transparency and reduced risk because a bad actor can't steal their card details. For merchants, there's no chargeback risk, the costs are much lower and they only have to deal with one party.

**AS** They also get paid right away, which is particularly important for sectors like travel where the risk that's built into card payments means businesses are sometimes having to wait weeks or even months to get their money. There are some horror stories during the pandemic of very reputable travel businesses that have been either switched off altogether by their card acquirers because they don't fit a new revised risk profile or have had very stringent terms and conditions forced onto them, including holding onto all money until a flight has flown. It has a dramatic effect on their cash flow.

**BC** With instant payments, no personal data is handled, so that's another risk eliminated. It's also cheaper, there is no friction for the customer and we have the funds immediately. It makes a lot of sense. In the past year, Apple Pay has increased, PayPal has exploded and the instalment payment enablers are getting stronger and stronger. We started using new alternative payment methods in specific countries and, within two days, 20% of all of our business within these countries was going through it. There are benefits across the full chain so it's very easy to get validation here.

> **"For merchants, there's no chargeback risk, the costs are much lower and they only have to deal with one party**

**Q Does instant payments, powered by open banking, signal the end of credit cards?**

**AS** I don't think cards will be replaced entirely but the move towards non-card-based payment methods is inexorable. One size does not fit all payments. Whether that's a type of payment or an individual payment provider, the days of supporting a global business with just one provider and just supporting cards are well and truly gone. You need to have the flexibility to contract with who you want, get paid where you want to get paid in whatever currency you want, and support the payment methods that your customers really want.

**AC** Cards were invented before the internet and it's important to remember they have been adapted to use online. I don't think they're the best solution for online payments anymore. The customers we speak to want to offer a much wider choice of payment. It's not just fraud that stops card payments, it's the number of people in the mix. You're going through the gateway, the acquirers, the issuing bank, and then you've got the 3D Secure element in an iFrame in the middle. I spend a long time on the phone, on behalf of customers, trying to work out where it broke down and I get sent round in circles from the bank to the acquirer to the 3D secure provider. In the end the answer is always to just tell them to try again, which I don't think is acceptable in this day and age.

**BC** We don't need the customer to type in their credit card credentials. We don't need the customer to have to go to their smartphone to enter a code or anything. We don't need authentication drop-offs. We don't need a lot of dropouts due to fraud checks or due to issuer declines. We don't want to have chargebacks either, we just want a direct relationship with a customer, handling any incidents directly, and if we can have nobody in the middle then that's a bonus for everyone.

**For more information please visit payvyne.com**

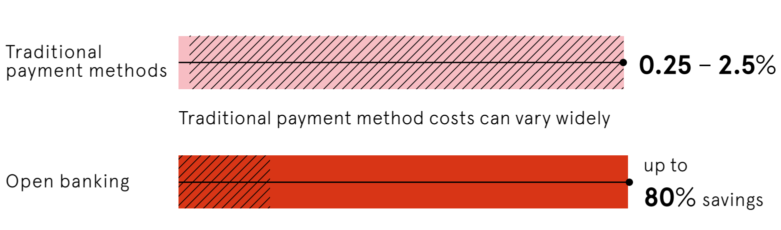
vyne

## TRADITIONAL PAYMENTS VS OPEN BANKING

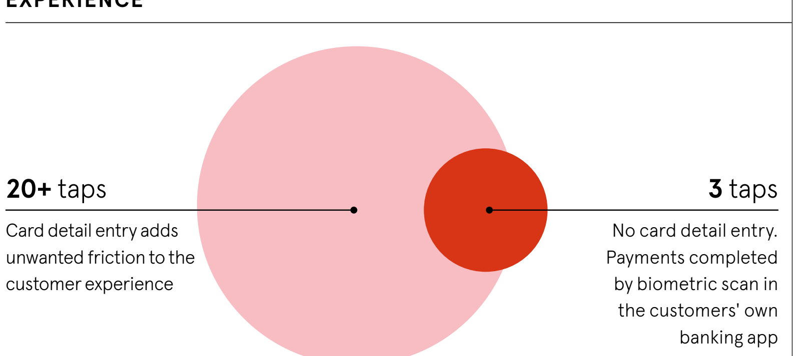
How do traditional payments stack-up against account-to-account open banking powered payments?

● Traditional payment methods ● Open banking

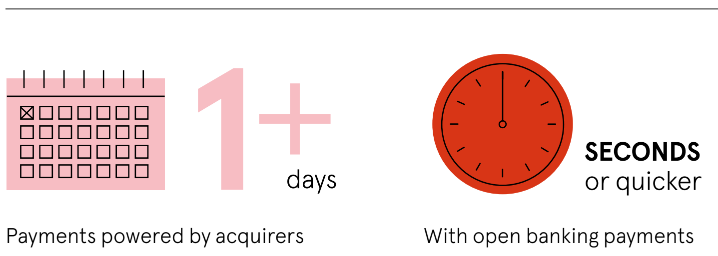
### COST




### EXPERIENCE




### SPEED




Vyne

INNOVATION

# Click and don't mix

The Covid crisis has accelerated innovation in payments, fuelling the development of low-touch transaction systems with an emphasis on customer convenience


Christine Horton

The Covid crisis has changed the payments industry irrevocably. A shift towards digital banking methods was already happening before the pandemic, but this accelerated in 2020 as the fear of viral transmission through the handling of cash prompted more consumers to use contactless payments. The number of transactions that used coins and notes fell by 35% in the UK last year, while contactless methods accounted for more than a quarter of all payments, according to research by UK Finance.

"Cash has all but vanished," declares Josh Guthrie, UK country manager at payment service provider Mollie. "Instant, contactless payments have become the baseline for in-person transactions."

Over the past 18 months there has also been a significant increase in the number of consumers using apps and other digital services offering them greater control over their finances. Almost 90% of European banking executives surveyed by Marqeta in August 2020 reported that their companies had struggled to handle the growth in demand for online and mobile banking. Three-quarters admitted that they hadn't been prepared for the speed of the changes in consumer behaviour triggered by the lockdowns in their countries.

Approximately the same proportion of respondents said that their banks had been obliged to change their strategies in order to stay fit for purpose in the Covid era. Indeed, there have been several recent innovations in areas such as embedded finance, instant payments and open banking.

The latest offerings have been designed to provide a high-quality customer experience, especially in user-friendliness and functionality. This is because digital services have become a key part of our lives, so we expect a lot more from them than we did. Consumers will no longer stand for poor performance and inconvenience in the shape of slow, clunky payment systems.

**Embedded finance**

Embedded payments are nothing new – well-established digital platforms such as Uber and the Starbucks app have been using them for years. But the technology is becoming ubiquitous, partly because of the convenience it offers consumers.

As Guthrie notes: "The double-click convenience offered by embedded payments, with methods such as Apple Pay, is setting the new baseline."

Online fashion retailer Snag Tights reports that more than three-quarters of its customers check out using an embedded payment method such as PayPal, rather than using a credit or debit card, which would require them to submit more information on its website.

"Embedded payment methods often come with higher charges for the merchant, but it is important for us to balance this factor against the customer's preference for the simplest checkout experience," says the company's chief revenue officer, Tom Martin. "If we were to refuse to adopt a new payment method because of higher fees, that would only cause fewer customers to shop with us."

Iana Dimitrova is CEO of OpenPayd, a provider of software that enables retailers to embed financial services within their products. She says that what was once a service exclusively provided by banks and card issuers, and divorced from the shopping process, is now becoming an invisible but inseparable part of the customer experience offered by brands.

Dimitrova points to research by her company, which indicates that 95% of UK brands expect to offer embedded payments in the next five years.

"By adopting such a strategy – adding convenience, tailoring the user experience and using data to offer customised financing solutions – retailers can maximise brand loyalty and benefit from crucial new revenue streams in return," she says. "But make no mistake: it's brand considerations, rather than financial ones, that are driving the uptake of embedded payments for most merchants in this country."

**Instant payments**

Frasers Group, which owns the House of Fraser department-store chain and trades mainly under the Sports Direct brand, has seen a huge growth in mobile payments.

Rolling out instant payments would boost this growth further, says its head of IT, Tony Westwater. "This is especially important with younger consumers, particularly those aged 25 to 34. They want to try new payment methods and aren't as attached as older customers are to debit and credit cards. Instant payments offer them something new to try from their mobile device, which is now becoming their primary payment vehicle."

Westwater adds that the transparency provided by instant payments can benefit shoppers who find it hard to keep track of their outgoings. "With their money being taken immediately, customers can more easily manage their spending and avoid experiencing bill shock at the end of the month," he says.

One of the biggest advantages for businesses of adopting instant payment is that it will improve their cash flow. Even before the pandemic, this was a big concern among retailers. Nearly all (96%) of those responding to a survey by the Confederation of British Industry in April 2020 reported that they were experiencing cash flow problems.

With the direct transfer of funds from a customer's account into the retailer's account that's enabled under an instant payment system, the money is made available immediately, rather than in the three working days it could take for the funds

Alena Kravchenko via Getty Images

### Hospitality welcomes the impersonal touch

Although the UK hospitality industry has been hit particularly hard by the Covid crisis, apps have given many pubs a boost in sales by cutting down on the time that customers spend waiting to pay at the bar.

Hospitality has invested heavily in digital payments since the pandemic, says Jacob Rider, co-head of payments at Projective Group, a consultancy focused on financial services.

"Almost every restaurant and bar now has an app with payment capabilities built in," he says. "This speeds up the ordering and payment process but it does also remove human interaction and risks excluding those consumers who don't have access to digital payment methods."

According to a recent survey by Worldpay, 86% of consumers believe that their interactions with hospitality staff are no less satisfactory than they were before the Covid crisis.

As the latest lockdown restrictions end in the UK, will the traditional scrum at the bar make a comeback? Research indicates that this is unlikely.

"We expect to see more prepayments being used in the sector to protect against the no-show problem that became an epidemic once venues began reopening," says Pete Wickes, general manager of Worldpay's enterprise arm in EMEA. "We also anticipate that paying at the table will continue, keeping contact to a minimum. While this trend can be attributed to changing expectations among customers, it may also be because many hospitality providers are facing staff shortages."


to clear. This would alleviate much of the pressure of cash flow management, says David Maisey, chief executive of MultiPay Global Solutions.

He adds: "If the government is serious about helping businesses to recover from the pandemic, then actions that offer long-term benefits and a solid foundation for growth – for instance, enabling instant payments – need to be looked at as a priority."

**Open banking**

The number of people in the UK choosing to share their data through open banking has tripled since the beginning of the Covid crisis, according to research published by Experian in May. More than half (54%) now regularly use apps powered by open-banking technology.

Marie Walker, co-founder of the Open Future World forum, expects to see further fast growth in the uptake of open-banking applications over the coming years.

"They are easy for consumers to use and very cost-effective for merchants," she says. "Open banking can be used to make life easier in other ways – for example, with apps that let people easily split the bill at a restaurant."

There are further benefits just over the horizon, according to Walker. The task of chasing payments is a huge burden for small businesses, for instance, but open banking will enable them to "automatically request payments whenever they issue invoices, and both invoices and payments can be automatically linked to the company's accounting system".

She continues: "Moving beyond payments, open banking and the broader world of open finance is very exciting. The technology will provide benefits ranging from helping individuals and businesses manage their finances better to making it easier for people to see what impact their spending is having on the planet."

> If we were to refuse to adopt new payment methods because of higher fees, that would only cause fewer customers to shop with us

**Barriers to adoption**

Much of the success of technologies such as open banking hinges on the process of user authentication, which can affect the user experience. Those providers that can streamline payment authorisation are likely to gain a crucial competitive edge over their rivals.

But some experts believe that regulatory constraints may affect developments in this field. One example is the revised EU payment services directive (PSD2), which is both an enabler of competition and a restrictor of innovation.

"Put simply, PSD2 does not allow open banking and embedded finance to be as innovative as they could be," explains Daniel Homoki-Farkas, managing director of digital innovation agency Supercharge UK. "Don't get me wrong: PSD2 is a great initiative that deserves everyone's support. But it is too convoluted in its current form. The effort involved, versus the potential return on investment, doesn't make it worthwhile for many players to think about launching a product or service."

He cites PSD2's requirements for re-authentication every 60 to 90 days as a case in point. These are "well intentioned as a protection against fraud. But it's a tedious, frustrating process that disrupts the user experience and turns off customers."

The challenge for banks and other financial service providers, then, is to strike a balance and come up with innovative products that don't compromise on security.

"PSD2 needs updating again to enable more effective and exciting use cases than those we have seen so far," Homoki-Farkas says. "We need cases that properly add value to customers' experience of personal finance products and services."

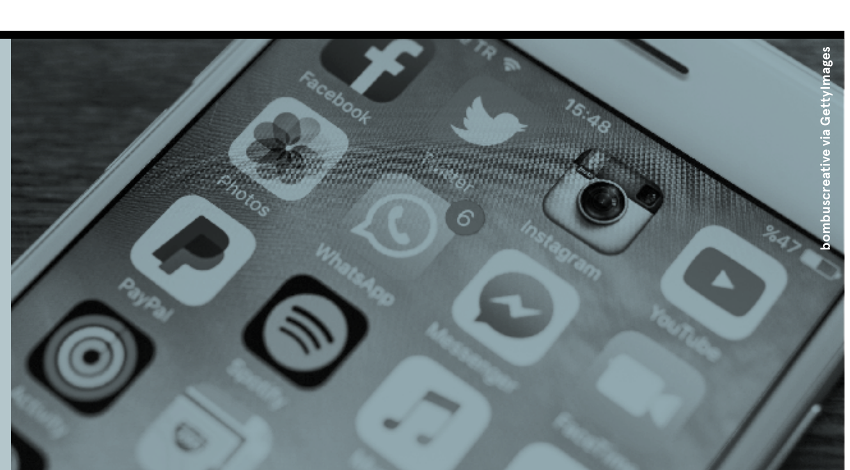
**Future advances**

Although customer experience has long been a battleground among brands, the demand for secure, user-friendly payment services is inspiring a new generation of innovative solutions. For example, with consumers already getting used to one-click payments, we're now entering a world of no-click payment. Amazon Fresh grocery stores are using a system known as Just Walk Out to enable customers to buy goods using their Amazon accounts simply by taking them from the shelves.

Elsewhere, look out for the arrival of one-tap direct payments via a bank-to-bank transfer that allows funds to move straight from the customer to the merchant, thereby circumventing a payment processor such as Visa or Mastercard.

There is still room for improvement, though. There will be increasing pressure for banks to make better use of PSD2 and open banking to optimise payment processes for their customers. The pandemic has accelerated innovation in payments – and these promise to meet consumers' ever-increasing expectations long after the lockdown restrictions are lifted. ●

### Key payment terms explained



bombuscreative via Getty Images

**Embedded finance** is the integration of financial services with non-financial products or technologies. It enables businesses of all kinds to incorporate payment functionality into their software-as-a-service platforms and/or mobile apps.

**Instant payment** is, as the name suggests, a technology that enables a customer to move money directly from their bank account into that of the business they are patronising, bypassing card providers and the fees they charge. Instant payment systems are already operational in several European countries, including Denmark, France and Italy, accounting for 20% of all transactions in some regions.

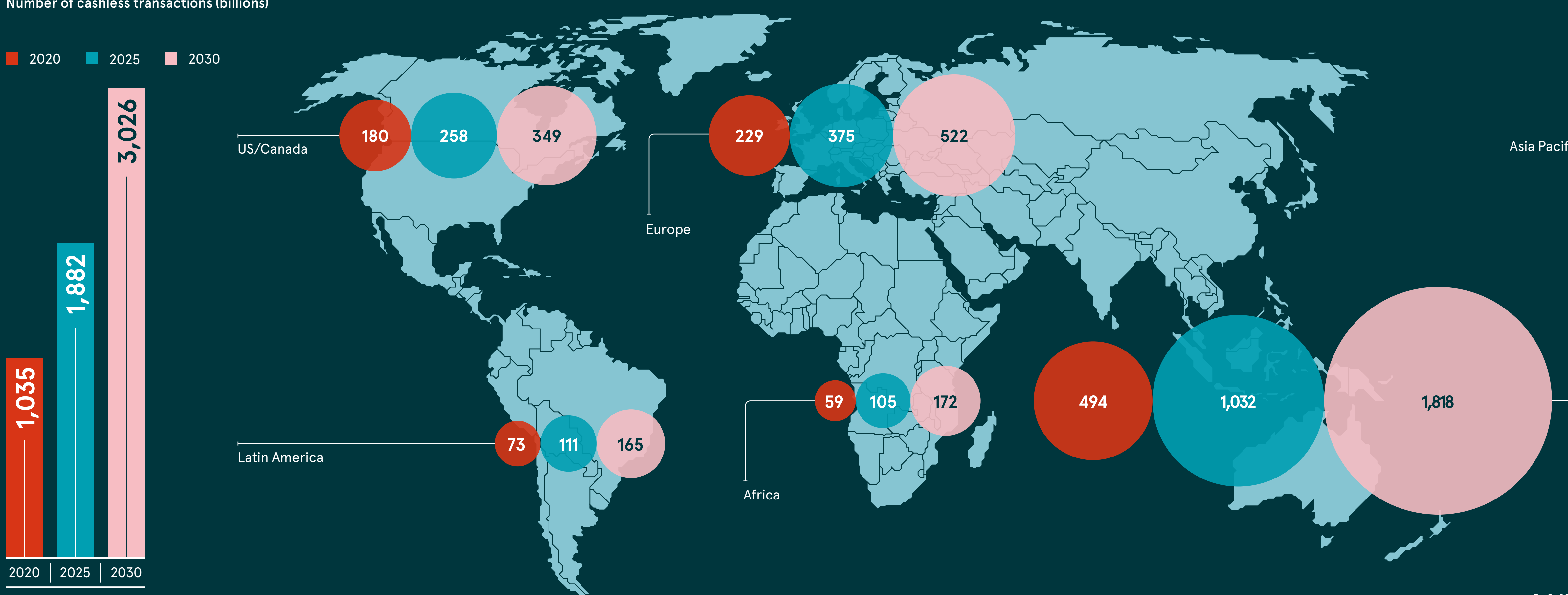
**Open-banking application processing interfaces (APIs)** enable two or more institutions to share financial information by allowing different applications to communicate with each other. Open-banking APIs make it possible for, say, a retailer's software to talk to a bank's software and obtain data from it securely and efficiently. The technology – and, indeed, the whole concept of open banking – is designed with innovation in mind. It should lead to further improvements in customer convenience by making a wide range of transactions as seamless as possible.

# HOW PAYMENTS ARE CHANGING

The way we shop has transformed over the past year – and with it the way we pay for our purchases. Keeping on top of this changing market, while maintaining the confidence of retailers and consumers, is vital for the payments sector.

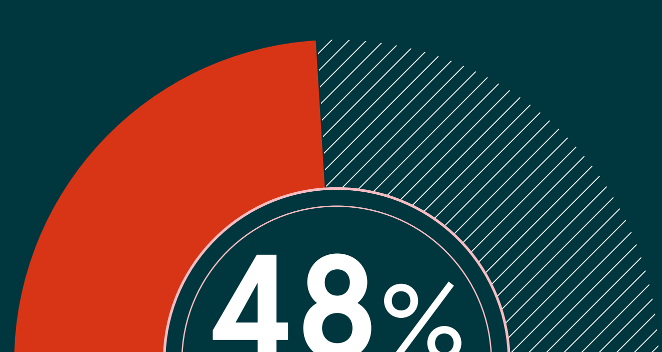
## CONSUMERS ARE INCREASINGLY USING CASHLESS OPTIONS

Number of cashless transactions (billions)




PwC, 2021

## BUYERS WANT CHOICE IN HOW THEY PAY

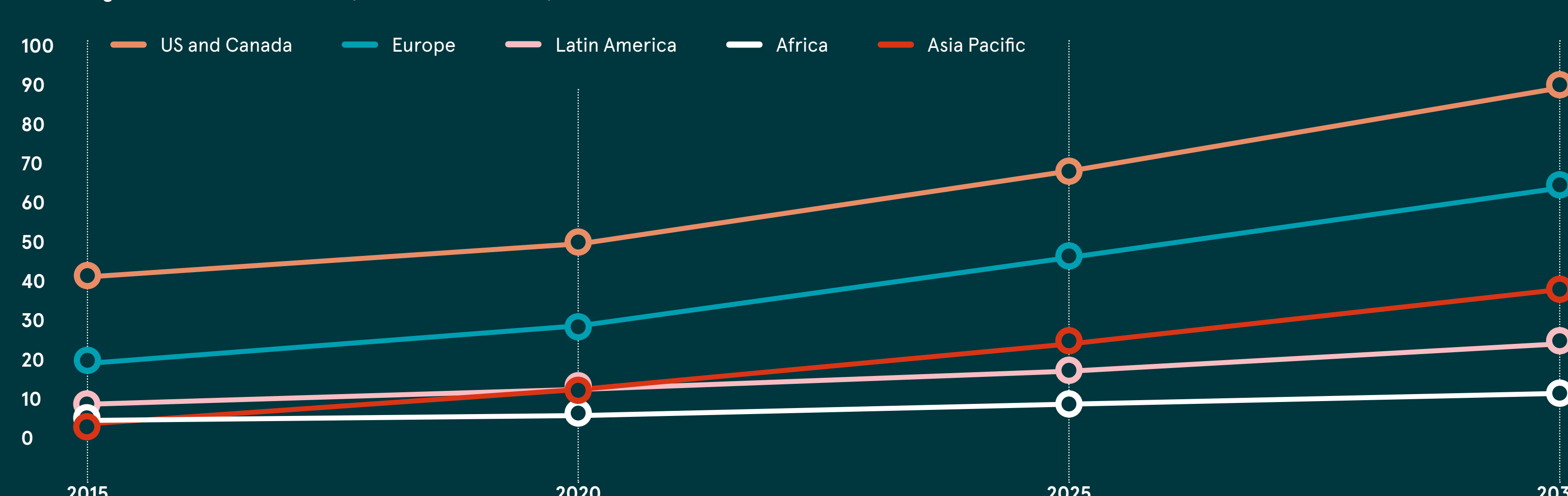



of British and Irish shoppers would be more likely to buy from a retailer that offers a range of payment options

TrueLayer, YouGov, 2021

## SIX IN 10 TRANSACTIONS IN EUROPE WILL BE CASHLESS BY 2030

Percentage of transactions that were, or are forecast to be, cashless

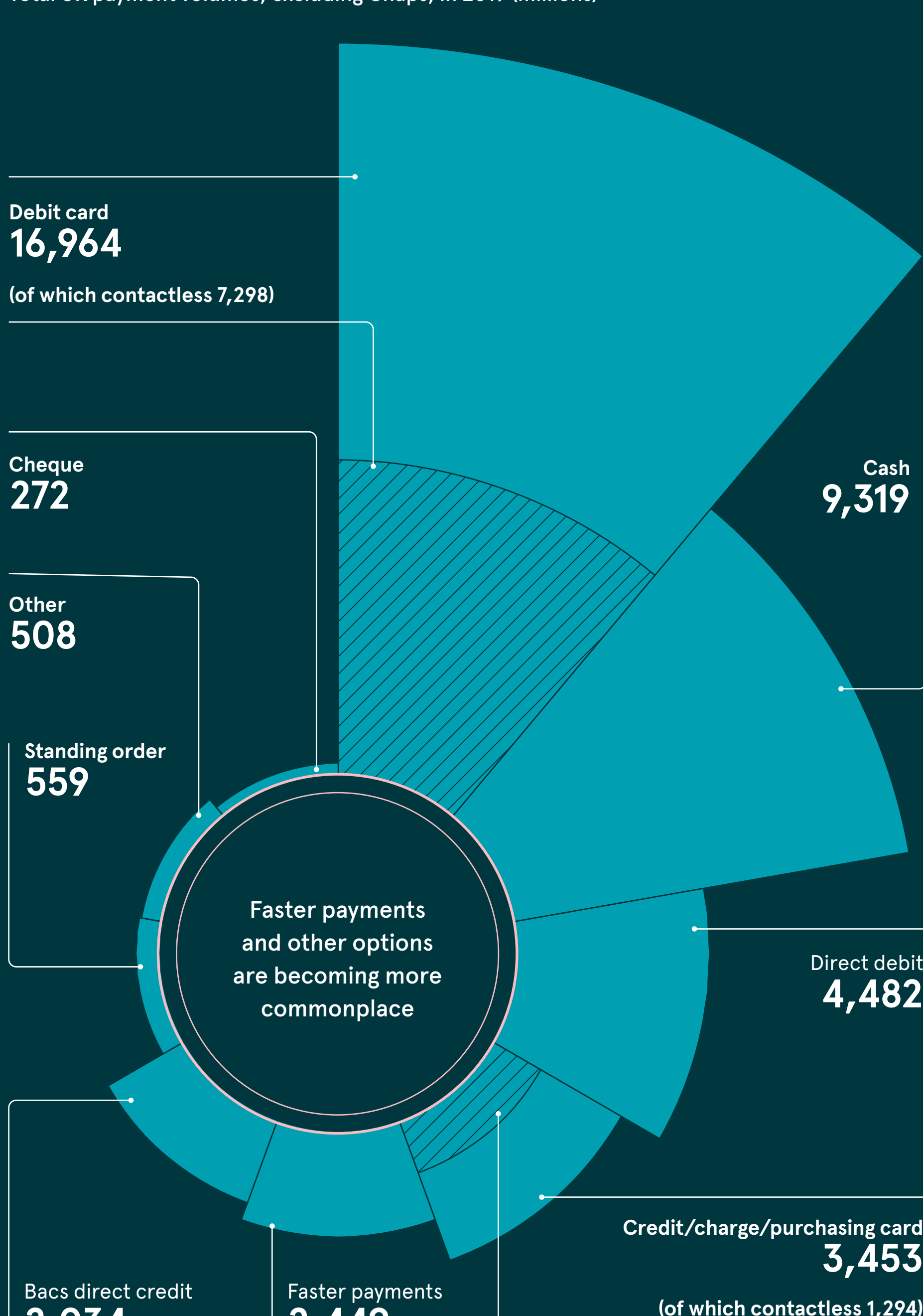



PwC, 2021

## CONSUMERS ARE USING A RANGE OF PAYMENT OPTIONS

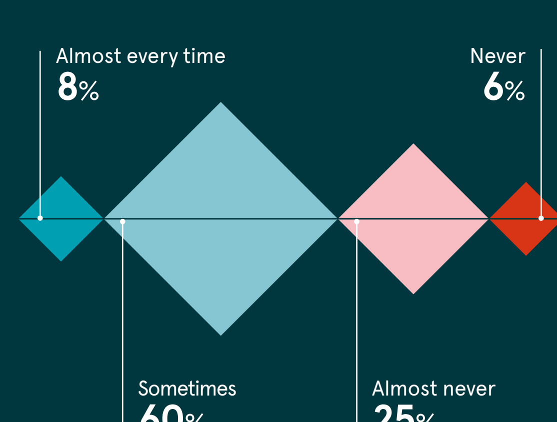
UK Finance, 2020

Total UK payment volumes, excluding Chaps, in 2019 (millions)




## SHOPPERS WORRY ABOUT SECURITY

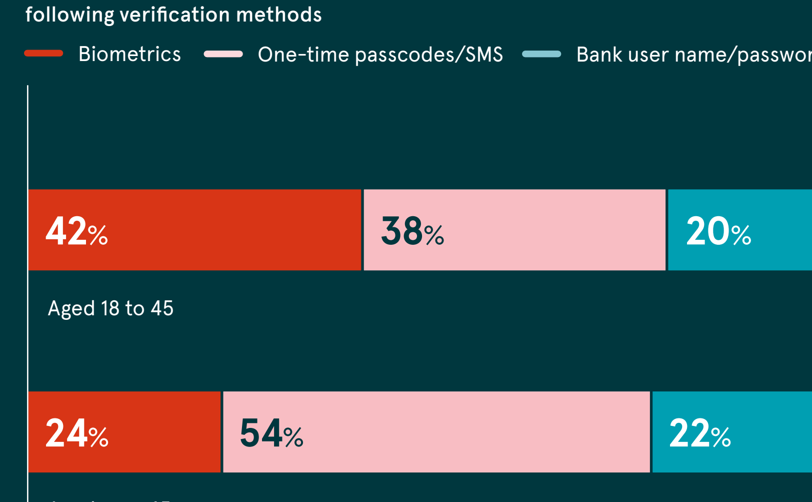
Percentage of shoppers who have held back from buying online, worried about payment security




TrueLayer, YouGov, 2021

## PURCHASERS WANT AUTHENTICATION OPTIONS

Percentage of shoppers in the following age groups who say they prefer using the following verification methods




TrueLayer, YouGov, 2021

## REFUNDS ARE A PINCH POINT

# 32%

of merchants receive complaints about slow or lost refunds

TrueLayer, YouGov, 2021

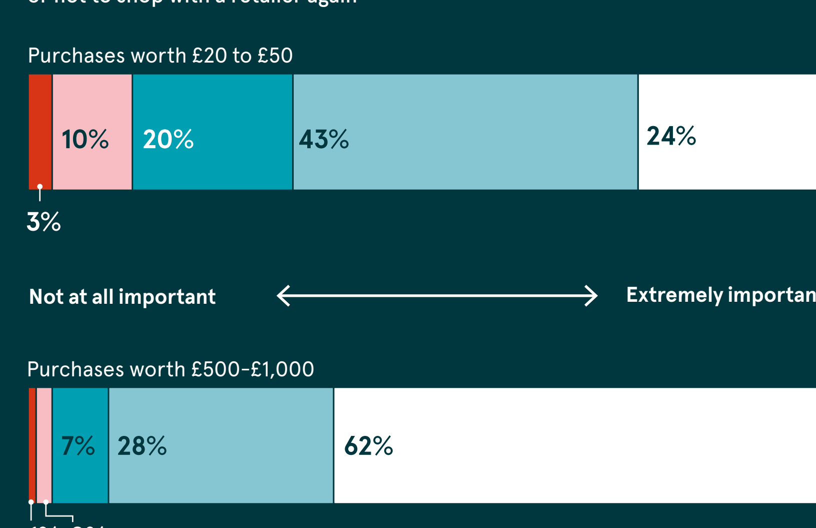
# 67%

of online shoppers say that the time taken to receive a refund is an important factor affecting their decision about whether or not to shop on that website again

TrueLayer, YouGov, 2021

## SPEEDIER REFUNDS LEAD TO REPEAT CUSTOM

Percentage of shoppers who say quick refunds are important in deciding whether or not to shop with a retailer again




TrueLayer, YouGov, 2021

Commercial feature


onfilm via GettyImages

SUSTAINABILITY

# The science of compliance

Offering suppliers preferential payment terms as an incentive for them to adopt greener practices can backfire on a company if its carrot is seen as a thinly disguised stick

Jim McClelland

As the year rolls on, the United Nations' upcoming conference on climate change in Glasgow looms like an early Christmas on the business calendar, with eco-conscious companies increasingly in the market for something special to show how much they care. They are shopping for sustainability.

One potential storehouse is the supply chain, the source of most of their greenhouse gas emissions. When the UK's largest retailer announced in April that it would start using its payment terms to incentivise suppliers to reduce their carbon footprints, it did not expect a backlash. Nonetheless, several observers interpreted Tesco's intention to reward stronger sustainability performance with earlier settlements as being more a way to legitimise late payments.

In theory, incentives are useful tools for encouraging change. If fair payment terms are made better by the desired action, that seems like a win-win situation. But any such arrangement still need to be designed with care, warns Mark Chadwick, managing director of sustainability solutions at Engie Impact in the UK & Ireland.

> **Improved terms could be used as an incentive, but we should not treat payment on time as a pat on the head**

"It's a matter of having the correct measurements and controls. Offering any incentive poses risks, so we must structure them appropriately, mindful of any potentially corrupting influence," he explains.

Trust and credibility are key in any relationship between client and supplier, so waving a big compliance stick, only thinly disguised as a carrot, is not the answer.

"To be a genuine carrot, an incentive must offer an improvement on business as usual," Chadwick stresses. "It is not enough to ask for sustainable action to forestall a downgrade in terms and conditions."

Not all sectors are the same, of course, when it comes to their traditions of supply-chain management. Incentives play differently depending on the prevailing culture. The construction industry, for instance, became notorious for perpetuating an adversarial approach in which deliberate late payment, or even non-payment, was common practice.

Although construction may be modernising its approach, there remains some way to go to normalise the basics of responsible bought-ledger management. As a result, any prospect of dangling carrots in front of SME suppliers and subcontractors here still seems remote.

Moreover, the idea of incentivising these micro-businesses in such a way is wrong in principle, argues Shaun McCarthy, chair of the Supply Chain Sustainability School.

"Payment to terms is a fundamental right," he says. "If the contract states that the client should pay in 30 days, this should happen. This frequently doesn't happen in the construction sector – and the biggest players tend to be the worst offenders."

The school measures its own success in terms of the extent to which it can persuade the whole supply chain to engage with the green agenda. But it would never approve of the use of cash flow assurance as a bargaining chip, McCarthy stresses.

Any attempt to nudge lesser players in the supply chain simply by honouring existing payment promises appears more patronising than encouraging, he adds. "Improved terms could be used as an incentive, but we should not treat payment on time as a pat on the head. It's a contractual entitlement."

One way of adding an extra dimension to the value exchange might be to introduce a 'sustainability data for benefits' swap between supplier and buyer.

Convened in 2017 by the University of Cambridge Institute for Sustainability Leadership (CISL) , Project Trado was an experiment to test whether sustainability data could be transferred from the start of a supply chain – in this case, tea farmers in Malawi – to large consumer goods companies at the other end, including Sainsbury's and Unilever. Powered by blockchain technology and supported by Barclays, BNP Paribas, Rabobank and Standard Chartered, the project also explored whether benefits via trade finance terms could incentivise small primary suppliers to adopt greener practices.

For the 225 farmers involved, sharing information about the social and ecological issues they were dealing with unlocked more favourable pre-shipment finance terms with potential long-term benefits. Contributing more than £57m a year to the country's trade figures, tea is big business in Malawi, representing the country's second-largest export commodity. The evidence from the project proved both that data transfer is possible and that banks can incentive small farmers.

The project's organisers hope that the Trado model will serve as a blueprint that can be applied in other settings to deliver social and environmental improvements.

But, when it comes to applying the approach more widely, supplier size needs to be a key consideration, as CISL's senior programme manager Thomas Verhagen, explains: "These mechanisms can work if they adhere to a specific system of proportionality with regard to rewards and penalties. The smaller the supplier, the larger the rewards for compliance – and the smaller the penalties for non-compliance – should be. Smallholder farmers in particular should face no penalties."

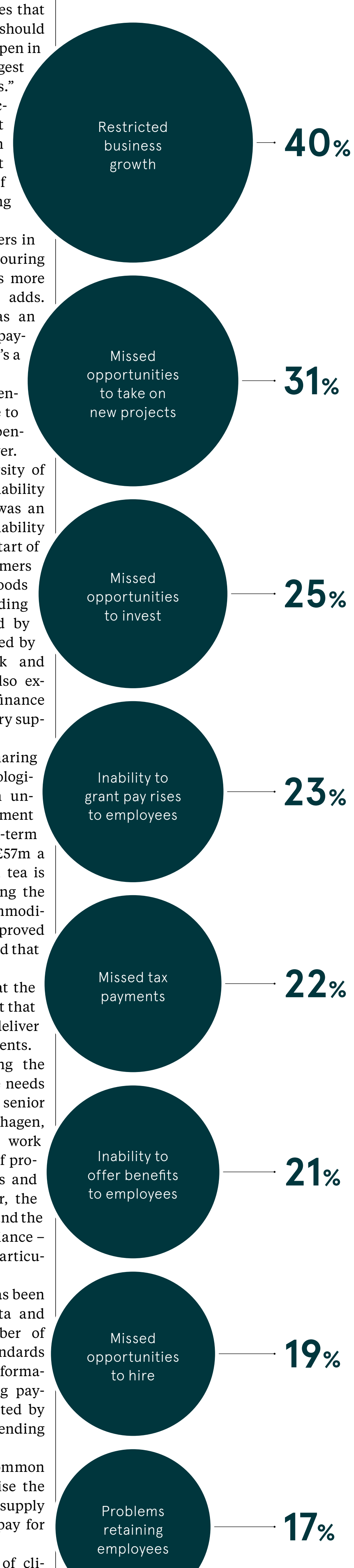
Trado is not only initiative that has been exploring potential for linking data and finance. The International Chamber of Commerce has also developed standards for the transfer of sustainability information alongside commercial banking payments. These have now been adopted by Swift, an inter-bank system for sending payment orders.

What these initiatives have in common is that they are striving to monetise the value of sustainability deep in the supply chain. They are trying to make it pay for everyone, including consumers.

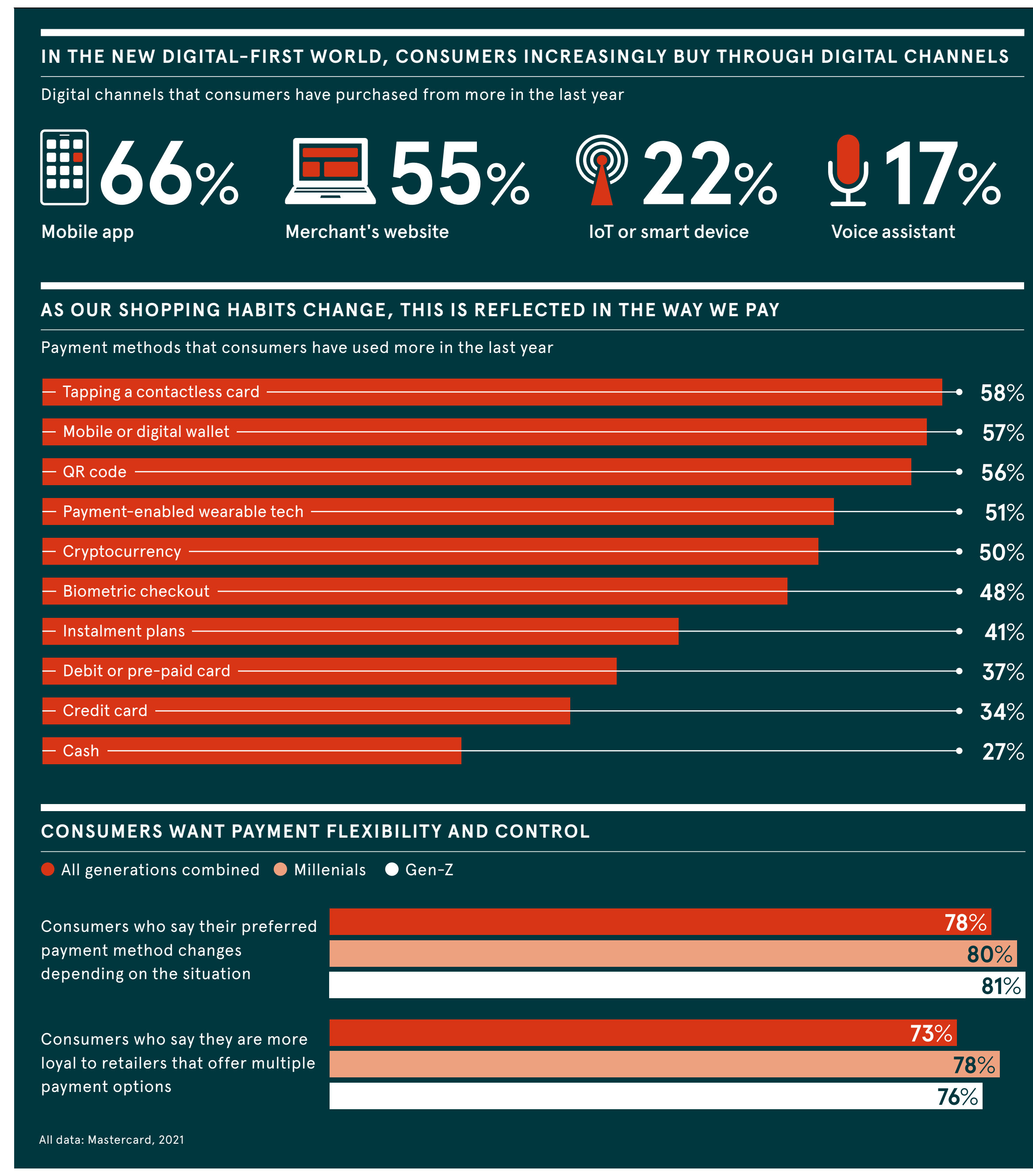
Given the undeniable currency of climate action right now, this green is the new gold. ●

THE TRUE COSTS OF LATE PAYMENTS

Percentage of small business owners who say the following are problems caused by poor cash flow – one of the biggest consequences of late payments




Intuit Quickbooks, 2020




# Navigating choice in the new payments ecosystem

A proliferation of new payment methods has left consumers with more choice than ever. Emerging technologies will be crucial to ensure that choice doesn't become paralysing

The pandemic compressed rates of digital adoption, including contactless payments, from years into months. Between the first quarter of 2020 and the same period in 2021, more than 100 markets saw contactless as a share of total in-person transactions grow by at least 50%, according to Mastercard. In the first quarter of 2021 alone, the company saw one billion more contactless transactions, compared to the same period of 2020. Particular momentum was evident in the US and Brazil where, combined, contactless penetration nearly trebled year on year.

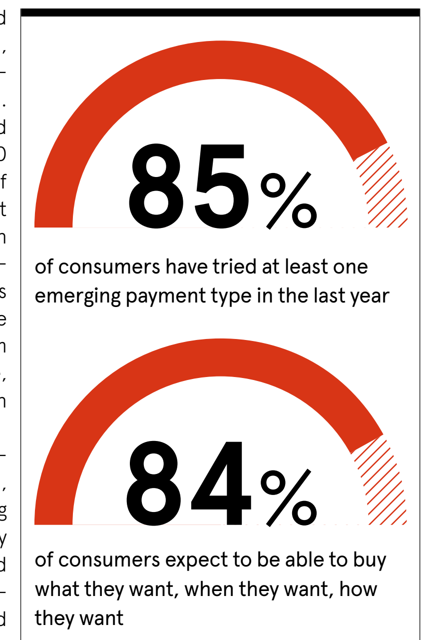
The growing appetite for using digital payments in a range of scenarios, whether buying groceries, shopping online, paying a bill or sending money to friends and family around the world is fuelled by recognition of their benefits. According to a recent Mastercard study, 53% of respondents would try a new payment method to save time. Three quarters of respondents to the same study, including 81% of millennials and 80% of Generation X, were open to using digital payment methods to help them save money.

Yet while people continue to demand more choice, often favouring different payment methods for different kinds of transactions, too many options can begin to have more of a paralysing effect, especially without education. The proliferation of choice, if unaccompanied by the necessary knowledge, is as much a challenge as it is an opportunity.

"We get bombarded with choice and it's not clear why we might want to use one method over another," says Paul Stoddart, president of new payment platforms at Mastercard. "It's often not clear to consumers how payment methods differ, such as when money will leave their account and be received, or the fees associated with sending and receiving payments at home and abroad. Choice is good so long as the implications are clearly available and understood by all involved."

A range of emerging technologies are helping to enable a more passive, intuitive choice for people while still retaining full control and flexibility. By assessing huge volumes of information quickly and accurately, AI-powered systems, for instance, can suggest a preferred payment option or move money between a person's accounts to maximise savings and rewards. And in the area of connectivity, the technologies that support the internet of things can make payments invisible within a consumer's set parameters, such as a smart fridge that orders milk when it runs low.

Voice and other biometrics allow faster, more secure authentication, while natural language processing via voice or using chatbots is becoming a primary mode for people to pay using a mobile device or no device at all. Real-time payments facilitate faster, smarter and arguably more secure payments, providing people with instant access to their funds and enable just-in-time payments, such as payment on delivery. Mastercard's research found that 93% of consumers will consider using at least one emerging payment type in the next year.




Open banking, meanwhile, is transforming the entire digital ecosystem, fuelling competition and innovation in financial services to empower consumers to use their own data for their benefit. In Europe and places such as India and the US, open banking is enabling more seamless payments. More broadly around the world, account information services can help people manage all their money in one secure place, prove their eligibility for affordable credit, and even improve their overall financial wellbeing.

Having evolved from a single rail payment processor focused on cards, to multiple rails, such as bank account-based payments and blockchain, Mastercard is now leading the industry. It enables consumers to pay with whatever method they desire, through whichever device they wish to pay on — even allow them to pay now or later — while providing flexibility and control. The company already has innovation hubs in Ireland dedicated to research and development of new payment solutions, and another focused on innovating for financial inclusion in Kenya. It is currently developing even more.

"Our goal is to provide any and all of the payment methods that might be available to a consumer or business in a given market," says Stoddart. "Our goal is to ensure our customers, such as banks and payment service providers, can provide all the payment services they might need through a single access point and relationship. The ease of managing a relationship with just one party is a benefit, but they also save on the cost of having to support multiple technical relationships with varying degrees of contractual liabilities or obligations.

"Within the product technology layer, we have increased and expanded our range of card payment services, including more digital card solutions. We've increased our capabilities beyond cards to include bank account-to-account payments, which often includes instant or real-time payments, and digital (including mobile) wallets. And we're starting to support select cryptocurrencies directly on our network — those that meet our high standards for consumer protections and compliance — to increase payment choice availability."

The payments ecosystem will continue to evolve at a rapid speed, even when the accelerating force of the Covid-19 pandemic has ended. To ensure consumer expectations are met reliably and securely, partnerships will be crucial. While newer, non-traditional providers, including fintechs and 'Big Techs', are increasingly trusted to provide a greater user experience, banks are still the most trusted to hold people's money and data. To provide the innovative, inclusive and trusted payment experiences people expect, providers should leverage each other's strengths. Competition breeds innovation, but collaboration is in consumers' best interests.

Mastercard is partnering with its customers, industry leaders and regulators to accelerate the future of payments to benefit all participants in the payments value chain. The company connects consumers, businesses, governments and financial institutions to a powerful digital economy that empowers people with flexibility and control, however they interact.

"There are cyclical and seasonal trends that continue to drive growth within the payments ecosystem, and the introduction of new technologies to serve different use cases and needs will fuel further growth," says Stoddart. "Mastercard is unique because we are able to contribute across the full breadth of the ecosystem, providing payment infrastructures, applications and services that use associated data to develop further richness in our solution.

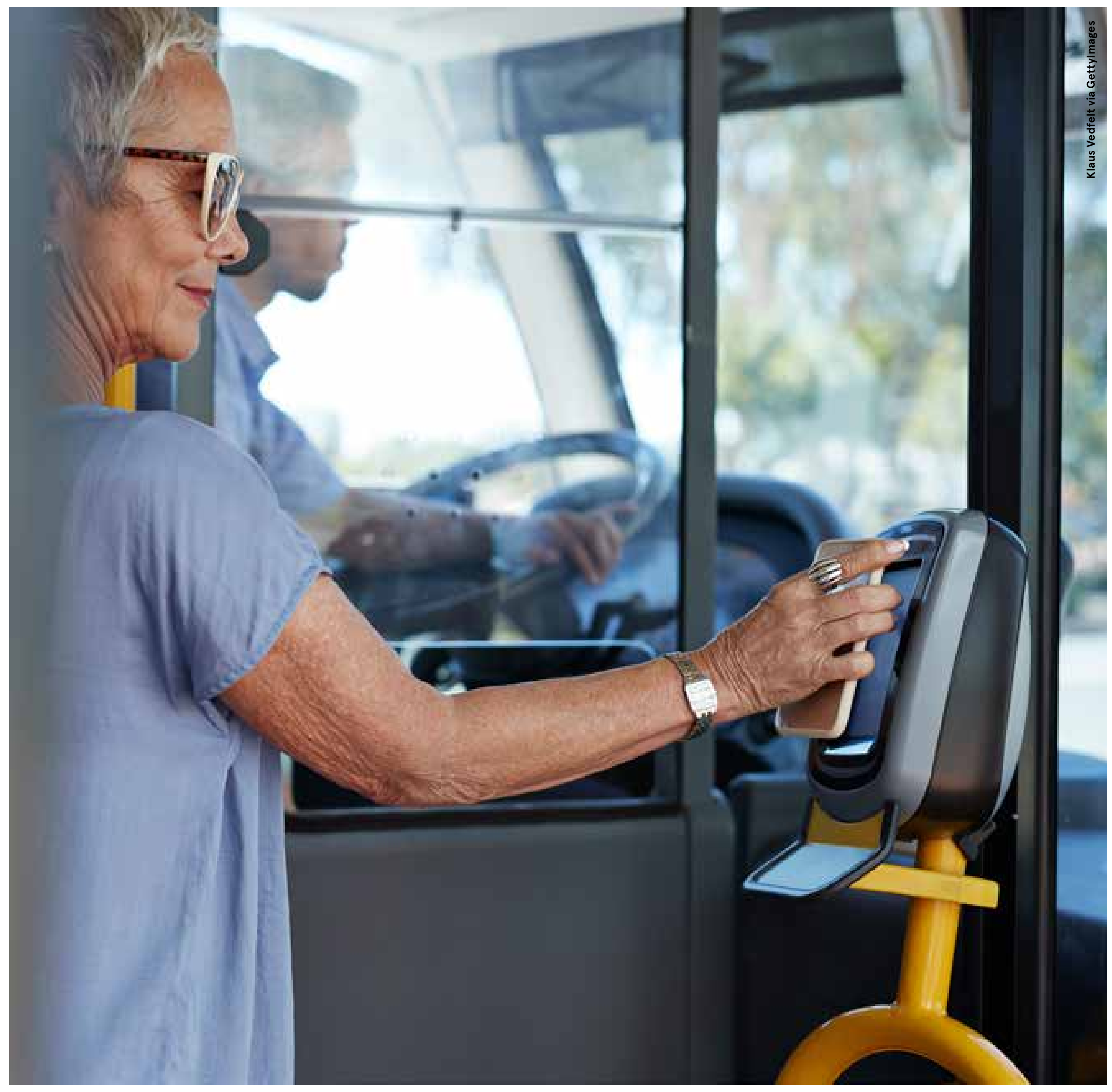
"We have long been at the forefront of payment innovation and continue to lead our industry into its next generation, riding the waves of change. From cards to bank account-based payments, digital wallets and now blockchain, we are converging our payment capabilities to provide the seamless experiences people expect. We're working to ensure the future is inclusive and sustainable, innovating with our partners to build trust and inclusion for everyone, everywhere."

**To learn more, visit mastercard.com/startwithpeople**

FINANCIAL INCLUSION

# In from the cold

Financial exclusion is likely to worsen as the pandemic takes its toll on jobs and incomes, but the payments sector has been working hard to tackle the problem



Klaus Vedfelt via Getty Images

Alison Coleman

The shift to digital payments that the Covid crisis has accelerated over the past 18 months appears to be pointing towards a cashless future. Yet, while most westerners take their access to financial services for granted, the World Bank has estimated that 1.7 billion adults worldwide are still totally cash-dependent, having no access to mobile money accounts or basic services such as loans.

Financial exclusion, which affects people of all ages, can be the result of digital exclusion, social exclusion and/or poverty. Banks have grappled with this problem for years, but recent advances in fintech are enabling the payments sector to play a much more prominent role in tackling it.

Project Inclusion, started by the Emerging Payments Association (EPA) in 2018 and led by a team of chief executives from across the sector, is engaging with both the public and third sectors in its work to promote paytech initiatives designed to combat financial exclusion.

"There are 150 companies across the UK payments value chain, employing 300,000 people in enabling £7tn-worth of transactions a year," says the EPA's director-general, Tony Craddock. "As a community, we have a responsibility and a long-term vision to ensure that more people in this country can access a wide range of convenient, information-rich financial services that allow them to benefit from using digital payments, rather than cash and cheques."

The Project Inclusion team's mentor is Neil Harris, chief commercial officer at Global Processing Services and chair of the Inclusion Foundation, a not-for-profit enterprise established in 2019 to help co-ordinate the industry's efforts to tackle financial exclusion. Although the number of cash-dependent adults in the UK fell by an estimated 270,000 to 1.23 million between 2018 and 2020, he expects that the total will rise again because of the pandemic's economic ramifications.

"As people suffer job losses and a lack of income, they will fall out of mainstream financial services, so we are anticipating an increase," Harris says.

More encouragingly, there has been an explosion in recent years in the number of products and services that payment providers have developed with an eye on financial inclusion. These range from financial education programmes to apps that enable users to track their credit histories.

"Companies building new payment apps on the latest open-banking technology have a full view of purchase-level data and which transactions are approved or declined. This enables them to design incredibly specialised payment experiences for an unlimited range of constituencies," says Ian Johnson, senior vice-president and MD, Europe, at Marqeta, "Open banking also enables lenders to reduce their reliance on legacy credit scores and instead use customers' income and spending behaviour to make better informed lending decisions."

Products such as Dozens can analyse a customer's spending behaviour, breaking it down by type, location and even time of day, and offer detailed recommendations to help them save money. Pockit is helping disadvantaged and vulnerable people enjoy the benefits of a payment account without the need for a credit reference history, while Updraft enables users to view all their outgoings in one place; consolidate debts from credit cards, store cards or overdrafts; and monitor their credit scores.

The emergence of digital wallets with 'cash conversion' functionality is fostering greater financial inclusion, according to Anil Malhotra, co-founder and CMO of online payments provider Bango.

"Some digital wallets, such as Apple Pay, act only as a vessel for existing funds, like a physical wallet," he says. "But a growing number of e-wallets now have a function that enables users to visit a shop or ATM to deposit cash that then becomes electronic money in their wallets, opening new avenues of payment for cash-reliant people."

Challenger credit bureau Credit Kudos uses new data that's become available to it via open-banking tech and the second EU payment services directive to predict a user's credit risk more accurately than was previously possible using traditional rating data. It uses machine learning to link transaction data with loan outcomes, giving lenders a more accurate view of an applicant's creditworthiness.

It's not only about accessing credit. Many payment companies are incorporating financial education into their offerings. For instance, Creditspring's no-interest subscription model provides an alternative to high-cost, short-term credit options. It includes a Stability Hub that provides free personalised support including monthly financial health checks; alerts to tell people when they have been pre-approved for credit; and advice to help them make better-informed financial decisions.

But fintech companies also need to educate themselves to ensure that they are delivering a better service for the largest possible constituency of users, according to Harris. No one should be excluded because the tech is too complex or the cost is too great, he says, adding: "New propositions coming to market need to be completely inclusive in thinking and design. For instance, there are still many people who don't use a smartphone."

While payment companies have an important role to play, they cannot solve the problem alone. Banks must therefore remain a big part of the solution. Tackling financial exclusion will require a collaborative effort between the banking community, with its infrastructure, security, resilience and reach, and the emerging payment companies, with their ability to create high-quality user experiences.

"Ultimately", Harris says, "this is the combination that will really address financial inclusion." ●

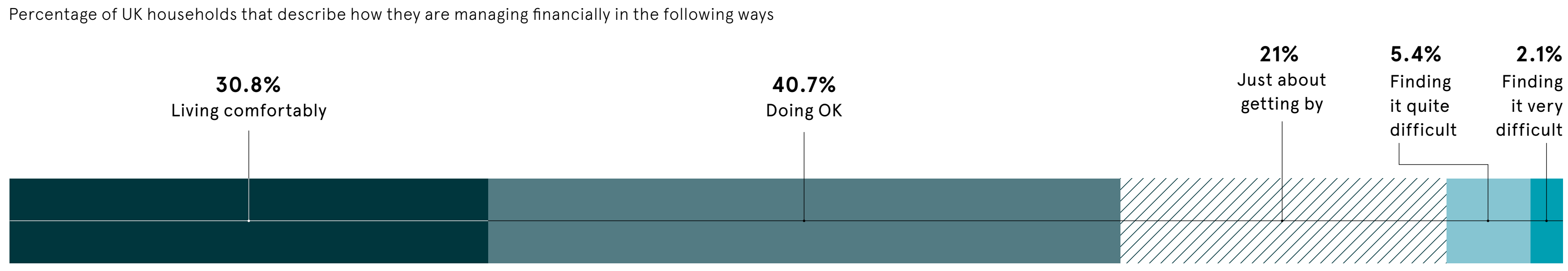
"

**We have a responsibility and a long-term vision to ensure that more people can access a wide range of convenient, information-rich financial services**

MANY BRITONS ARE BESET BY MONEY WORRIES

Understanding Society, University of Birmingham, 2020

Percentage of UK households that describe how they are managing financially in the following ways




FRAUD

# Cryptocurrency or kleptocurrency?

The sheer number of novice investors being tempted by the potentially high rewards of the crypto market is creating similarly lucrative opportunities for scammers


Bloomberg/Contributor via Getty Images

Santander is one of the banks working to crack down on crypto fraud. It has stopped payments to crypto exchange Binance

Peter Archer

Such is the allure of cryptocurrencies that investors are acting in ill-judged haste, hoping to make a fast buck. According to the UK's fraud reporting service, Action Fraud, British investors lost £113m to crypto scammers last year, up from £77m in 2019.

During the six months to May 2021 – a particularly frenetic period in an already febrile global crypto market – fraudsters impersonating Elon Musk are thought to have pocketed more than $2m (£1.4m). Other scams have used dating websites to entice unwary victims through the false promise of romance. The long-distance new love mentions a 'good' crypto investment opportunity and their lovesick mark parts with their cash.

Fraudsters will typically create credible-looking online ads and websites and send professional-sounding emails to advertise sham investment opportunities. Fake testimonials are often accompanied by a picture of a well-known and trusted public figure to lend legitimacy.

Cryptocurrency exchanges, many of which remain unregulated but offer an important platform for trading digital assets, are particularly susceptible to fraud. Criminals have manipulated trading volumes on seemingly reputable exchanges to tempt potential investors and fleece them of their funds. Some have even set up fake crypto exchanges. These may harass users, deny withdrawals, charge exorbitant fees or simply take the entire investment.

Susannah Streeter, senior investment and markets analyst at FTSE-100 financial services company Hargreaves Lansdown, notes that the scale of crypto fraud in the UK has become clear from the latest figures from the Advertising Standards Authority. These show that about 95% of all scam alerts currently received by the watchdog relate to bitcoin.

"Many of the scams flooding the market promise to double applicants' returns or offer them giveaways in the currency. They often feature the profile of celebrities on their ads," Streeter says. "The only people to get rich quick from these kinds of schemes are the scammers themselves."

The simplest way to avoid becoming a victim is to bear in mind that if anyone is offering fast returns without risk, they're scammers. If it sounds too good to be true, it definitely is.

The Advertising Standards Authority is considering reforms to its financial advertising remit to include cryptocurrency as one of its priority areas. This may require it to seek new powers.

The Financial Conduct Authority has stressed that there's a limit to what it can do to crack down on online scams that are currently beyond its regulatory scope. Since January, it has required all businesses offering crypto-related services to register and demonstrate their compliance with anti-money-laundering rules and other safeguards. But it recently revealed that only five firms have registered so far, most of which are not yet compliant.

Video-sharing social network TikTok has banned paid-for content for financial services promotions, as it's clearly concerned about the number of users who are being duped into putting their money into bogus investment schemes.

There were hopes that the government's new online safety bill would be widened to cover internet scams, but at present it does not include fraudulent advertising, which means that criminals will continue to slip through the net.

One of the most notorious bogus cryptocurrency exchanges was BitKRX, which was unmasked by South Korean authorities in 2017. It was named to appear like the cryptocurrency arm of the country's largest legitimate financial trading platform, Korea Exchange (KRX). When clients who thought they had purchased bitcoin tried to access their funds, they discovered that the money had vanished.

In another scam, exposed by a joint investigation in the Netherlands and the UK, six people were arrested for creating a bogus cryptocurrency exchange that duped more than 4,000 victims in 12 countries out of an estimated £19m. The scammers were able to access bitcoin wallets using so-called typosquatting. This technique relies on accidental misspellings by people typing the web address of an authentic exchange into their browsers. Victims arrive at a fake website designed to resemble the one they intended to visit. Its address may have only one letter different from that of the legitimate exchange – a small detail that's easy to overlook, but enough to enable the criminals to do their work.

In June, NatWest joined Barclays and Nationwide in restricting its customers' use of cryptocurrencies. It reports that many scams have used social networks to target both retail and business banking customers. The bank has temporarily capped the daily amount they can send to crypto exchanges, including one of the world's largest, Binance. The maximum amount allowed varies depending on the platform, but is still typically a four-figure sum.

NatWest is also blocking payments to a small group of crypto asset firms where it has seen significant levels of fraud. Meanwhile, Santander has told its customers that it's stopping all payments from them to Binance for their protection.

For its part, Binance says that it takes its responsibility to shield its users from fraud seriously, adding: "Where we are made aware of these kinds of claims, we immediately take action and have an excellent record of working with law-enforcement agencies globally to assist in their investigations."

Katy Worobec is an expert on economic crime and managing director at UK Finance, the trade organisation for the financial services sector. She points out that each bank will have its own policies for protecting account-holders seeking to buy and sell cryptocurrencies.

"Most cryptocurrencies are not regulated by the Financial Conduct Authority," Worobec notes. "For that reason, we would always urge consumers to proceed with extreme caution." ●

**57%**

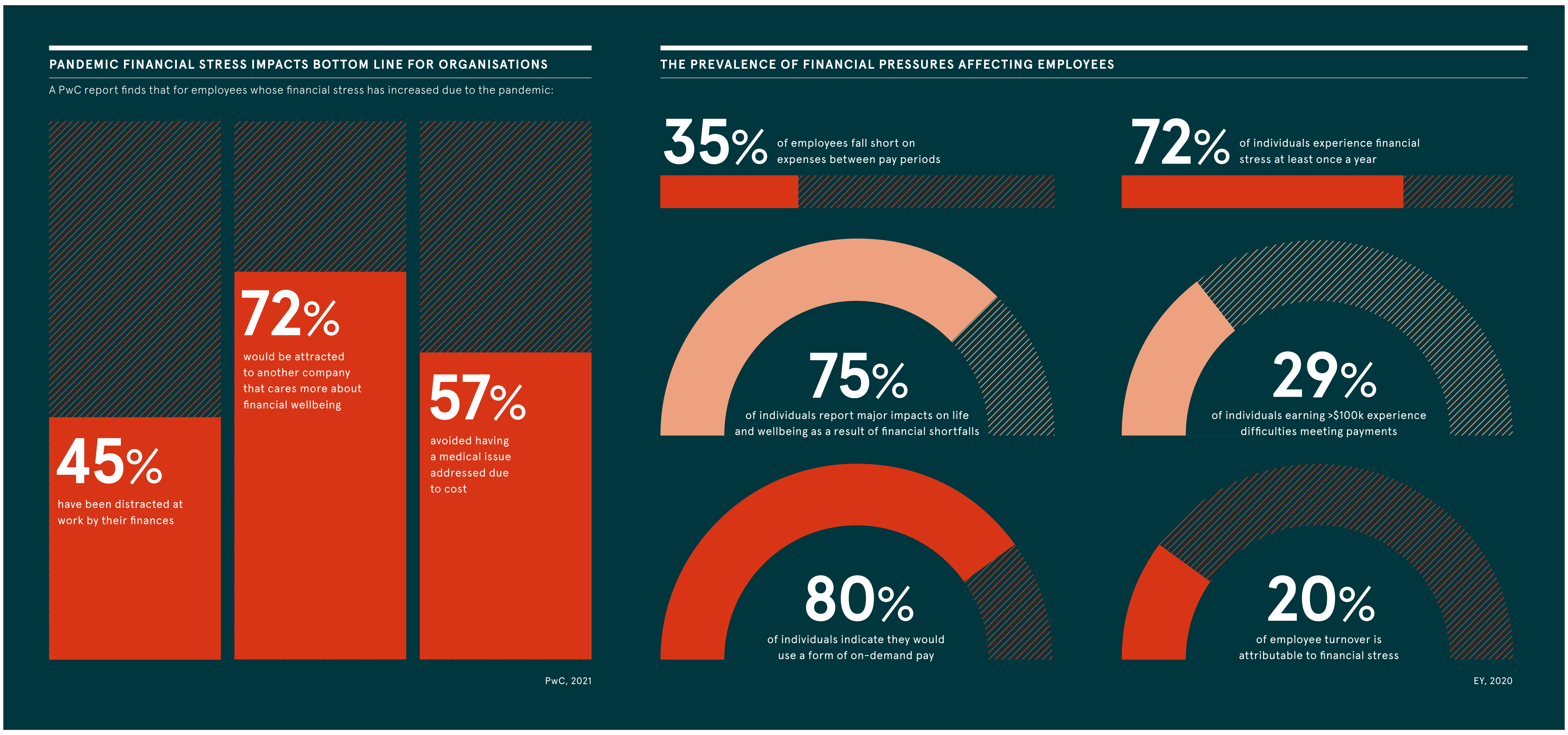
Year-on-year rise in UK crypto investment scams in 2020, when 5,581 frauds were reported

Action Fraud, 2021

"

**Many of the scams promise to double applicants' returns or offer them giveaways in the currency**

Commercial feature




# New model of employee pay addresses a century-old timing misalignment

A damaging timing misalignment between employees' labour and when employers remunerate them is holding both sides back from achieving their potential. But new models of employee payment are quickly gaining adoption, empowering staff with flexible access to their wages

The way employers pay their employees – monthly, bimonthly or weekly – is preventing companies from unlocking a $1tn opportunity. That's how much is accrued in employer payroll accounts on any given day in OECD countries, according to EY. Unlocking it means fixing a damaging, century-long timing misalignment between labour and pay that could also help companies win the battle for talent and improve the relationship with their workforce.

The main impact is on employee wellbeing. EY's research finds three in four people with financial difficulties suffer material health deteriorations. A further 70% of UK and US individuals regularly experience financial stress.

But this outdated model of employee pay is also having a spiralling effect on businesses. One fifth of staff turnover is attributed to financial stress, not to mention how poor wellbeing manifests as distraction, absenteeism and poor performance. Aegon research estimated absenteeism and presenteeism due to poor financial wellbeing could be costing as much as £1.56bn a year.

Having witnessed millennials struggle to achieve the financial independence or viability to reach milestones like buying a home, those from Gen Z entering the workforce are determined to halt the trend. This is a crisis affecting every working age group, however, causing all generations to unite in demanding an alternative model of remuneration. Employees in a better financial situation are nearly twice as present and engaged at work as those in a worsening financial position, according to a 2020 study by Willis Towers Watson.

Post-pandemic, the days of caring about having table football or beer on tap in the physical office are fading. Today, employees seek out companies that prioritise wellbeing and offer flexibility. Both concepts must extend beyond how and where they work to how and when they get paid. Facilitated by new technology and payment options, on-demand pay - also known as earned wage access - is the tangible solution.

Progressive employers are already deploying on-demand pay on a global scale. One company, a global premium lifestyle brand, has implemented CloudPay's earned wage access capabilities to allow employees across 12 countries to draw down their earned pay ahead of payday. This is provided as a benefit at no cost to staff, though system rules are in place to encourage the right behaviour.

In some countries, for instance, employees can withdraw earned wages a maximum of four times per month. In others, they can only withdraw up to half of their earned wages ahead of payday. In yet a third set of countries, more tenured employees can access a higher portion of their earned wages.

In all instances, flexibility, education and speed are paramount to the success of these initiatives. Employers are starting to embed financial education content in on-demand pay tools to educate employees on how to better manage their finances. This is crucial because a lack of financial literacy is as much a problem for staff wellbeing as the historic timing imbalance between labour and pay. It can cause employees to turn to suboptimal lending practices, such as credit card debt, that might fulfil the immediate need to pay an urgent bill but ultimately perpetuate financial stress and its subsequent implications.

> **"With the first solution for global earned wage access, CloudPay is trying to shift the balance of power in ways that are beneficial to both employees and employers**

With the first solution for global earned wage access, CloudPay is trying to shift the balance of power in ways that are beneficial to both employees and employers, as well as providing a viable way to eliminate a widespread financial crisis that has endured for far too long.

"On-demand pay tools enable employers to fix both the financial literacy challenges their employees face and the timing misalignment between labour and pay," says Paul Bartlett, CEO of CloudPay. "We think there's a strategic and moral opportunity for companies to improve staff wellbeing, retention and brand loyalty in the process of addressing this crisis. And honestly, it's giving people what is already theirs."

Earned wage access will eventually become as expected by employees as flexible working. Organisations that don't offer it will likely disqualify themselves from the best talent, which simply won't accept the burdens of a monthly pay cycle. Like flexible working, and unlike more traditional additions to employment packages such as gym memberships and private healthcare, it doesn't have to cost employees anything.

Crucially, the benefits not only affect employees but employers, too. Offering earned wage access enables employers to better attract and retain talent, improve employee engagement and enhance employee wellbeing, which has become increasingly important in recent years. Quite simply, employees who worry less about paying their bills will be more productive and mindful that their employer is actively supporting them in both their personal and professional lives.

As on-demand pay becomes the standard system of employee remuneration, it will transform the employment landscape and the traditional relationship between companies and workers. For employees, it changes their approach to credit, and to earning and using money. Most importantly, it enhances their financial literacy and wellbeing, making them happier and more productive, engaged and, likely, loyal employees to organisations that recognise the value of a workforce that is empowered to withdraw earned pay when it makes the most sense for them.

**3 in 4**

**people with financial difficulties suffer material health deteriorations**

EY

**£1.56bn**

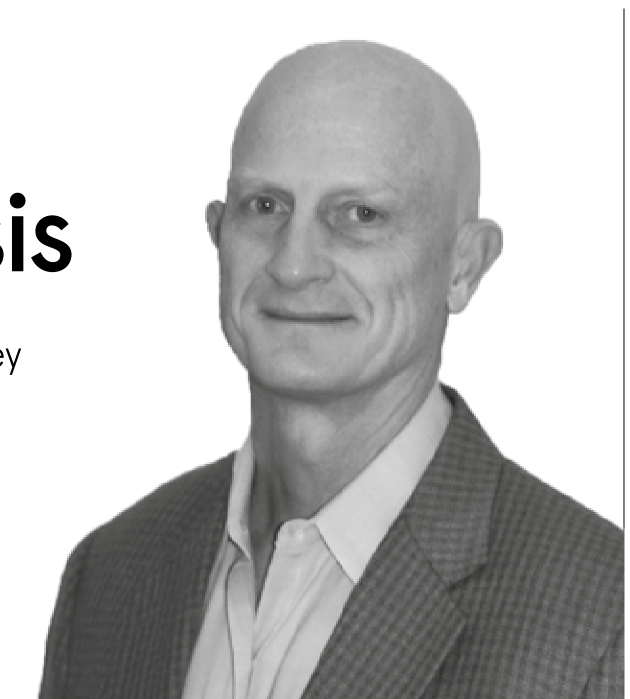
**a year – cost of absenteeism and presenteeism due to poor financial wellbeing**

Aegon

# Q&A

# The hidden financial crisis

A worker's income level doesn't necessarily correlate to whether they are living pay check to pay check, says CloudPay CEO **Paul Bartlett**, as shown by the data around income levels and credit card debt. The inability to address unexpected expenses and balance financial obligations has a detrimental effect on wellbeing



**Q A lot of people might assume financial literacy and wellbeing are issues that disproportionately impact low wage earners – are they right?**

**A** It's an assumption that many people naturally make, but it's most certainly a misconception. People at all levels of the pay scale can experience problems. Many earning six figure incomes are struggling to make ends meet and pay bills on some form of credit because, as humans, we adjust our standard of living to our income.

A recent survey of UK working adults by Portafina found that on the seventh day after a payday, 81% of it has already been spent. Our expenses are front-loaded and we're then just hoping our gas doesn't stop flowing, our car doesn't break down and we don't need an emergency dentist visit that month.

**Q What is the escalating impact of this on people's finances?**

**A** The truth is many people are living this way and it promotes things like predatory lending, poor credit scores and higher costs for mortgages or car loans, for example. You can get an introduction to a credit card at a very low initial interest rate but miss one payment by one day and suddenly your effective interest rate can jump to over 25%. The average payday loan charges approximately £15 for every £100 loaned; it's a hidden crisis. Earned wage access not only provides material cost savings but also a vehicle for improving financial wellbeing.

**Q Why haven't employers dealt with this issue before?**

**A** The crisis has endured for a long time but the technology to solve it hasn't previously existed. Equally, employers don't always know when an employee has a problem because people are unlikely to admit they are struggling to pay their bills.

The links between financial worries, mental health and absenteeism are well known. Yet it wasn't until recently that employers could address this problem in a meaningful way. Now the technology exists to make a real difference to financial wellbeing.

**Q How is CloudPay supporting employers and employees in this area?**

**A** Our on-demand pay solution, CloudPay NOW, provides employees with flexibility around when they access their earned wages. It gives them better control over their finances, powering financial literacy. The first earned wage access solution that can be deployed globally, CloudPay NOW enables multinational organisations to offer access to earned wages in advance of payday. Workers can tap into their own pay balance as early as the day it is earned. In direct contrast to credit card debt, this real-time pay system reduces financial stress for employees and can help eliminate the monthly pay crisis.

**Q How does earned wage access work in practice?**

**A** We enable both the employer and employee to set parameters. Asking employers to make payments before they are able to would have cash flow implications, so they can set limits such as a percentage of the earned wages that employees can draw against or the number of times they can make a request for a withdrawal. We also allow employees to set their own criteria. If the employer says they can withdraw 50% of their earned wages four times a month, the employee might actually want a limit of two withdrawals a month at 20% of their earned wages. This means everyone can tailor it to their own needs.

**Q How has your technology enabled on-demand pay to become a reality?**

**A** We've been looking very closely at various payment methods globally and how we can allow people access to their income in a flexible, timely way. One of the problems is that traditional ACH (automated clearing house, a funds transfer system that facilitates payments in the US) payment methods don't facilitate instant payment, so we've had to look elsewhere to provide employees and employers with more options. If somebody needs money on a Friday night and the banks won't facilitate the payment until Monday, that's not going to help them.

We've looked at the card payment rails as an option to pay people directly into their bank because it's instant, secure and really cost effective for the employer. We've implemented different methods of allowing adoption of earned wages and instant payment off the back of it.

> **"Our on-demand pay solution, CloudPay NOW, provides employees with flexibility around when they access their earned wages**

**Q What is the ultimate value of earned wage access?**

**A** We see this as a solution to a global problem that impacts everyone in the workforce, which is why we are so committed to offering it to the world. Flexible access to earned wages really starts to level the playing field. We've been selling payroll services to organisations for a long time, so we can use our domain expertise and knowledge to enable the global workforce to benefit from this. Employee wellbeing and financial literacy are challenges that transcend borders. CloudPay aims to fix this globally.

**To see on-demand pay in action, visit cloudpay.com/ondemandpay**

cloudpay

Oscar Wong via Getty Images

> We know that almost half of all online shoppers will drop out if their preferred payment method isn't offered

ONLINE RETAIL

# Four ways to make ecommerce pay better

Etailers seeking a competitive edge in a crowded market would do well to question whether their payment systems are making the customer experience as smooth as it could be

Marianne Curphey

The three biggest problems facing online merchants are high operating costs, such as transaction and chargeback fees; the high risk of fraud; and the low proportion of site visitors who become paying customers. These are the findings of a recent survey of etailers by TrueLayer and YouGov, which indicates that the UK has one of the highest levels of card fraud in Europe.

Customers have varied experiences when they're shopping online. Some ecommerce sites are slick and user-friendly, whereas others offer cramped windows, tiny fonts, ambiguous terms and a lack of payment choices at the point of sale. There is also confusion about shipping costs and import duties – often these aren't made clear until a visitor is about to commit to a purchase. Little wonder, then, that so many consumers ditch their shopping carts at the checkout in frustration.

Global research conducted by Statista across a range of industries in March 2020 revealed that the average online cart abandonment rate for the month was 88%. The largest proportion of trolley-dumping will always be done by idle browsers or shoppers doing price comparisons. But other key reasons that consumers cite for walking away at the last moment include unnecessary complexity in the checkout process, an obligation to create an online account with the retailer and mistrust in a site's ability to keep their card details secure, according to research by the Baymard Institute.

Here are four areas in which improving the transaction process can enhance the etail experience and so convert more window shoppers into loyal customers.

## 1 Offer a wide range of payment methods

Consumers expect to be offered a variety of ways to purchase their goods and services, including Apple Pay, PayPal, digital wallets and buy-now-pay-later schemes.

"We know that almost half of all online shoppers will drop out if their preferred payment method isn't offered," says Maria Prados, head of vertical growth teams at Worldpay. "Consumers crave convenience: 58% of UK shoppers are more likely to patronise retailers that offer one-click checkout options."

Clothing retailer Weird Fish invested heavily in upgrading its payment process last year as part of the brand's digital revamp. It has seen a 12% improvement in its conversion rate (the number of buyers as a proportion of site visitors) since then.

"Covid-19 has changed how consumers look at payment options, with speed and safety now at the front of their minds," says Weird Fish's customer director, Benoit Mercier. "As part of our digital investment, we improved our checkout flow to prevent customers from being redirected to complete payment authorisations. Another useful innovation has been the integration of express payment options on product pages, such as Amazon's 'Buy now' button, because this saves shoppers from having to undergo a longer checkout process."

Such is the importance of making the checkout experience as smooth as possible that Mercier recommends using a payment platform provider – for instance, Adyen or Alipay – that offers flexibility, risk management and even innovative solutions such as facial recognition to verify purchases.

"Such platforms allow multiple payment options – for instance, Klarna and Apple Pay – in a range of currencies, so each transaction gives a personalised experience," he says.

It's also crucial to evaluate the performance of these platforms constantly, assessing and amending metrics and key performance indicators as consumers change their behaviour, Mercier adds.

"Choosing a platform provider that's flexible enough to let you adapt to the emerging

Commercial feature

environment is key," he says. "Those that offer data insights are particularly beneficial, as they can capture valuable information to help businesses better understand their customers and how they prefer to pay."

**2 Take the pain out of returns and refunds**

One of the inconveniences of online shopping is the consumer's inability to assess an item's suitability before buying by physically handling it and/or trying it for size. Research published last year by IMRG, a UK membership body for etailers, suggests that the return rate for online purchases is about 20%, compared with 10% for in-store purchases.

Customers of clicks-and-mortar retailers find it frustrating if they're unable to return an unwanted online purchase at a store. Many firms still can't offer this service because they have yet to unite their online and offline payment systems. Those that have invested in an integrated system have gained a competitive edge, according to Colin Neil, head of commercial at Adyen UK.

"The list of customer possible journeys is endless – let your imagination run wild," he says. "If someone wants to buy online and return in store, a modern payment system can easily find the transaction and refund the customer, since it keeps all of the relevant data in one place."

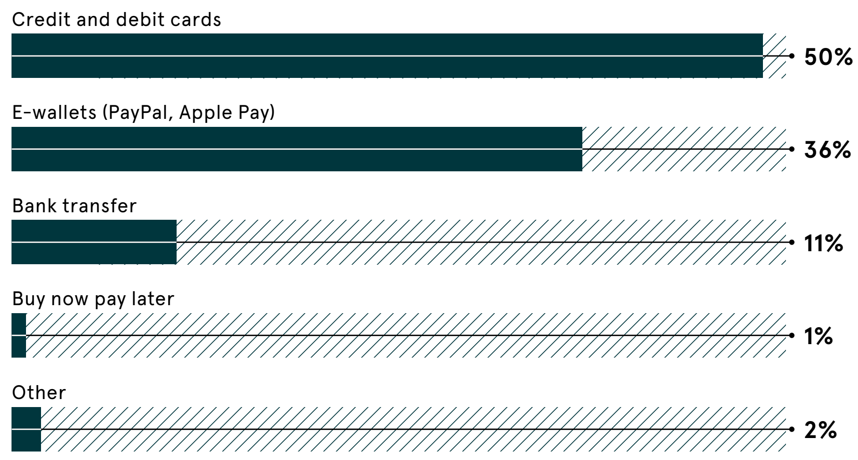
Neil observes that, while customers have demanded more flexibility for years, the pandemic has forced the issue by obliging brands to invest heavily in their digital infrastructure. One side effect of this has been an improvement in customer service.

"The latest systems make it easier for consumers to buy things in the way they want to," he says. "They eliminate all those 'computer says no' moments when a customer wants to click and collect, return in store or pay with an app. They do this by linking things that used to operate in silos."

> **Covid-19 has changed how consumers look at payment options, with speed and safety now at the front of their minds**

**CARD PAYMENTS REMAIN THE MOST POPULAR IN THE UK**

Percentage of British consumers who say the following is their primary payment method when shopping online




TrueLayer, YouGov, 2021

Neil cites furniture retailer Loaf as an example of how an integrated payment system can improve the customer experience. The company had been operating in a traditional ecosystem, working with different partners to provide acquiring and processing services, as well as using standalone card terminals in its showrooms. This made it impossible for the business to provide a consistent customer experience across all sales channels.

Now that it has adopted a fully integrated system, Loaf has gained "full control over the payments journey for customers. It has a single partner for payment processing, including fraud screening, both online and in its stores," he says.

Nick Raper, director at Nuapay UK, says that retailers should consider how their digital infrastructure supports the entire customer journey – particularly the refund process – rather than treating the checkout as the end of the relationship.

"Retailers seeking a competitive advantage would do well to consider offering instant refunds," he suggests. "A long-term relationship between a retailer and a customer is built on the latter's experience and trust – and refunds play an important part in this. An instant-refund facility, enabled by open-banking technology, will improve the customer's experience, as they can see the money returning to their account immediately, rather than waiting for a card payment to clear or seeing 'pending' on their bank statement."

The result is likely to be a happier customer and more repeat business, especially if the money is there for them to spend.

Prados notes that a quarter of consumers who come into stores to collect or return online purchases are likely to buy additional items once they are on the premises. "Giving them the ability to add items to an order without showing their payment card again is another easy way to make such transactions seamless," she says.

**3 Conduct more surgical strikes on fraudsters**

On average, etailers lose 1.5% of their income to fraud. In their efforts to foil the criminals, merchants can accidentally reject bona fide transactions and block legitimate customers. But the latest payment systems can reduce the number of so-called false positives by detecting fraud more accurately and allowing a higher proportion of genuine purchases.

The more intelligent the tech, the greater the number of honest transactions it can approve that might otherwise have been red-flagged. Such systems can even help to reduce cases of chargeback fraud, when customers falsely claim that their purchases were faulty or weren't delivered.

"The more details about the customer that are available, the better informed the decision can be in terms of blocking a given transaction."

So says Christian Mangold, Co-CEO of Fraugster, a provider of fraud-detection technology powered by artificial intelligence. He observes that merchants can use email analysis, geo-tracking and data enrichment (merging information about customers from authoritative third parties with their existing data) to find clues about a buyer's true intentions.

"Chargebacks can be costly," Mangold says. "The best defence a merchant has in the fight against chargeback abuse is to ensure that it has the correct risk management system in place."

According to Amir Nooriala, chief commercial officer at fraud-detection specialist Callsign, the assessment of any customer can and should start at the first contact, rather than the point of payment. This can be achieved by analysing the unique behavioural biometrics of each visitor to the website – for example, their mouse movements or even the pressure they put on their touchscreens. The technology is powerful enough to discern the activities of a genuine user from those of an imposter who may have hacked into their account.

"Behavioural biometrics considers millions of contextual data points, such as location or keystroke patterns, to verify that a user is genuine, without adding friction to the user experience," Nooriala says.

The benefit is that fraudsters are identified more quickly but genuine customers don't have to face any further verification hurdles, which might otherwise discourage them from completing a purchase.

**4 Make your offering mobile-friendly first**

Few retailers design a mobile ecommerce site as the first point of contact. This means that consumers who use smartphones and other touchscreen devices often have to deal with clunky websites aimed first and foremost at PC users.

The payment page in particular is one that "merchants need to take control of", says Garry Hamilton, chief growth officer at digital agency Equator. "So many website owners skip this one, as it is 'too hard' to deal with. Don't rely on an off-the-shelf solution from a provider. Make it mobile-first – find what works for your customers. And make it clever, integrated with Safari and Chrome."

Online shoppers are increasingly using mobile devices, which makes entering a credit card number, say, more fiddly than it would be on a standard PC keyboard. This, among other factors, is fuelling the uptake of mobile digital wallets.

"A payment function embedded in an app that allows consumers to order a service or product and seamlessly pay at the same time is one example of eliminating friction for the shopper. This will improve your conversion rates," says Eric Christensen, chief payment officer at ecommerce service provider Digital River.

For multinational companies, creating a dedicated retail website for each region is sure to improve the customer experience. Shoppers in the UK are likely to have different preferences from those of customers in other parts of the world, for instance. The shopping experience provided in each country should look like a local shopping experience, providing currencies and payment methods that are reassuringly familiar to consumers.

"Having a payment system which can ensure that a purchase clears as a local transaction will eliminate hidden fees that a consumer may incur," Christensen says. "This should provide a smooth, surprise-free experience."

Keeping transactions local in this way should also minimise the merchant's costs. This has become an especially important factor, given that Visa and Mastercard will shortly be increasing their so-called interchange fees on cross-border transactions between the UK and the EU. ●

**THE BIGGEST PERSISTENT PROBLEMS THAT MERCHANTS HAVE WITH PAYMENT PROVIDERS**

Percentage of merchants ranking the following problems from most painful to least painful


TrueLayer, YouGov, 2021

**MERCHANTS' TOP 5 PAYMENTS PRIORITIES**


Primer proprietary research, 2021

# Flexible payment foundations hold the key to competitive advantage

Exceptional customer experience rests on payments variety, flexibility and usability but merchants can't always make the most of the opportunities in front of them

Merchants' worlds are expanding at a startling rate. While the pandemic undoubtedly caused a rush to ecommerce, changing consumer behaviours have been impacting the way they do business for some time. Social commerce, mobile payments, in-store digital and a global-first audience mean merchants have to adapt, and fast.

Payments are key to delivering on ever-changing customer expectations. More than half of shoppers will abandon a company's website if a page takes more than three seconds to load, but a difficult payments experience can have an equally detrimental impact on conversion. 49% of online shoppers abandon their baskets due to unexpected costs. Offering a range of payment methods is also critical. Research by Primer shows that, on average, enterprise-level merchants want to operate at least four different payment services, and two in three of all merchants are looking for greater flexibility to use the payments services they want when needed.

"Payments are constantly evolving. Every month there is a plethora of new payment services across the payment stack. For us, the future of commerce resides in the ability for merchants to create new commerce experiences to better engage with their customers," says Primer's co-founder, Gabriel Le Roux. "This is something that we see in on-demand industries like micro-mobility and food delivery. Merchants are looking to redefine their payments experiences to create stickiness and engagement with their customers at the point of checkout. This can be done via loyalty programmes like card-linked offers, or subscriptions which are increasingly popular - just look at Netflix or HelloFresh. The future of payments is the ability for merchants to redefine what payments mean for their customers."

Paul Anthony, who co-founded Primer with Le Roux after the pair met while working for PayPal, adds "When new products are launched to market across the payments stack, merchants are very keen to give them a go. But technical complexity prevents them from integrating these into their payments system in an autonomous way which is decoupled from any specific payment provider."

In addition, there is pressure to address a global marketplace. Customers are increasingly content to buy from companies that can provide the product they want, regardless of its physical location. North American and European customers are least likely to buy from foreign countries, although those purchases still make up 14% and 15% of their online shopping respectively. Vietnam is the biggest consumer of foreign products at 55%, while shoppers in Australia and New Zealand buy in 35%. As long as the price is right, delivery times are not too drawn out and reviews are good, it doesn't matter if the company is based in Haringey or Hyderabad.

You can add layers of complexity when you have a non-standard commerce experience - like a club, for example - that is looking to take its enterprise international. Created in 2013, ClubCollect manages the payments for more than 1,700 clubs and organisations across Europe, handling everything from invoicing, collecting membership fees, chasing late payments and reconciling accounts. To expand, the company faced either holding cash in escrow, causing cash flow issues, or applying for a banking license itself. Using a platform like Primer helps ClubCollect adapt its payments needs to new territories without having to reengineer its payments infrastructure, or limit itself to a handful of providers.

"Internationalisation is key," Le Roux says. "More than 50% of our merchants want to expand with optimised payments solutions that meet local expectations. You have to factor in different customer behaviour and preferences, local regulations, data locality, as well as macro changes which may impact the merchant's payments ecosystem."

> **The future of commerce resides in the ability for merchants to create new commerce experiences to better engage with their customers**

That is because, while the internet may be an open shop window to the world when it comes to offering goods for sale, payments can be a complex landscape. Targeting Brazilian customers, for example, means using the Boleto Bancario – a payment slip issued via banks – or bank transfers. Adapting to how each country's consumer wants to pay isn't always simply a question of adding in a new checkbox on the checkout page.

"Large merchants tend to have very expansive payment stacks, featuring lots of payment and non-payment specific products. They leverage multiple payment service providers (PSPs), know your customer (KYC) platforms, loyalty schemes, payout services, chargeback systems, business intelligence tools and accounting software. Even giants like Ticketmaster use third-party queue management systems," explains Anthony. "The reality is that, rather than trying to get all their products and services from a PSP, they want to use the best-in-class services."

By integrating multiple providers themselves, merchants swap the lack of flexibility for technical complexity. "Merchants have a payments roadmap. They have a list of objectives that they would like to achieve over a given time in order to expand to new markets, serve more customers and ultimately take more payments. In our experience, that roadmap is typically 12 to 18 months long because of all the technical challenges involved," Anthony adds. Factor in macro challenges such as ever-changing regulations, like ensuring SCA (strong customer authentication) compliance, and the time and energy spent managing the payments stack alone become significant burdens that result in a poor customer experience.

More and more business operations are being built on open architectures, available in modular elements that allow companies to grow and adapt iteratively but this has not, until now, stretched to payments. "Our approach to payments is in line with how merchants think about payments. Using Primer, merchants can construct their ideal payment by building end-to-end payment flows connecting any number of products and services across the payments stack. Primer is the first automation platform for payments and we enable any third-party API or service to integrate with us via our open app framework, akin to companies like Zapier," Anthony says.

Merchants typically describe payments as a black box with limited visibility of data which would help them optimise for costs, auth rates and conversion. Using Primer, they have access to a fully consolidated view of payments so they can gain operational efficiency and leverage the data and insights to make smarter decisions and build better payment experiences for their customers.

Anthony insists: "This is a paradigm shift in organisations where payments, at last, become a first-class product area. Online merchants will spend millions on branding and still deliver the worst experience on the checkout page." Le Roux adds, concluding: "Whether it's accelerating their payments roadmap, establishing cohesive fraud strategies or improving conversion, merchants are looking to manage and optimise the whole payment lifecycle. Primer is a single source of truth that allows merchants to finally deliver on customer expectations, wherever they are."

**Get in touch to automate your payment flows: email hello@primer.io or head to www.primer.io**

Primer

Commercial feature

# Q&A

# The payment industry is now more open, this is why it matters

**Mario Klapsis** is general manager for the UK at Trustly, a provider of online banking payments founded in Sweden in 2008. A payments industry veteran, Klapsis shares why a more open payments environment matters

**Q How is the payment industry evolving?**

**A** We live in a time when more people elect to shop and bank online rather than in person, a trend significantly accelerated by Covid-19. Consumers expect seamless and secure experiences when transacting from their laptops, mobiles or other devices. In response, online payment choices are exploding. As such, it is an exciting time for consumers, merchants and payment solution providers.

One factor that enables this progress is the way consumer data is collected, analysed and shared, with the traditional banking and payments models quickly losing ground. Based on a more open ecosystem, consumers are able to access their banking and personal ID information in a secure fashion to identify and validate themselves or use their payment credentials to transact online. This is enabling new services such as open data, open finance and open banking.

**Q What is driving these changes?**

**A** These changes are the result of a combination of technological evolution and regulatory enablement. Merchants can easily adopt new payment solutions to provide value-added services and smooth experiences to consumers. This is a virtuous cycle as the resulting convenience is appreciated by consumers who move more of their shopping and banking online.

The coronavirus pandemic has led to an evolution in consumer behaviour and the payments landscape has changed remarkably. Pain points in the payment process had to be overcome quickly to deal with the wholesale shift online as everyone began working and shopping from home. As restrictions are lifted, these drivers of change will come even further into play.

**Q Why does a more open payment environment matter?**

**A** Consumers want to buy goods and services, trade, and game online in secure environments without any obstacles – both locally and across borders. For example, we believe that consumers should be able to take out a loan, trade or send money abroad quickly and securely without spending time visiting bank branches or filling in complex forms.

For their part, merchants should be able to receive payments in a cost-effective way to provide convenient online experiences that encourage loyalty.

**Q How will this open payment environment come about?**

**A** Regulation is encouraging change on national and regional levels, driving innovation globally. Banks and card networks are adapting at pace and UK consumers are now more willing to share their data with a trusted payment provider in return for value-added services.

Open data, which is safeguarded by UK regulation, drives the creation of a more open payment environment in which transactions are integrated deeper into online experiences. Openness drives innovation by enabling experiences that are designed for online, rather than a virtual adaptation of a physical payment. What's more, open data helps service providers expand trade opportunities, for example in instant refunds and cross-border payments.

**Q Where is the payments industry heading in the future?**

**A** Payments will be seamlessly embedded into the online experience, whether that is buying a product or a service, gaming, investing, sending money or travelling. Payments companies that address the pain points of merchants and consumers to facilitate more trade will do well. Offering innovative value-added products like instant refunds or cross-border transactions is crucial.

At Trustly, we focus on providing simpler, more convenient and faster online payments. We enable people to pay directly from their bank accounts. Trustly is a relatively new payment method that empowers people who prefer to spend online with the money they have and not the money they would like to have. For us, it is all about creating positive and secure online experiences.

**Find out more about open banking payments at trustly.com**

Trustly




INTEGRATION

# European reunion

The European Payments Initiative is aiming to succeed where similar efforts have failed. Can it create a viable pan-continental system to rival those of Visa and Mastercard this time round?

Sam Forsdick

A year on from its establishment, the European Payments Initiative (EPI) remains optimistic that it can achieve its ambitious plans to create a continent-wide payments system in 2022.

More than 30 banks have signed up to the project, including Santander, Deutsche Bank and ING. The nations they represent are Belgium, Finland, France Germany, the Netherlands, Poland (the only EPI member outside the eurozone) and Spain.

"The good news is that, with seven countries around the table, we have already achieved critical mass," says the CEO of the EPI Interim Company, Martina Weimert. "But, of course, there is an opportunity for others to join this autumn."

While she is confident that the EPI's first usable applications can be rolled out next year, several participants will have memories of the Monnet Project. Founded in 2008, this had also aimed to introduce a unified payment system across Europe but was disbanded in 2011, despite gaining the support of seven EU nations and 24 banks – a similar position to where the EPI is now.

Dr Corrado Macchiarelli is a macroeconomics research manager at the National Institute of Economic and Social Research and a former monetary policy adviser at the European Parliament. He explains that one of the big problems that the Monnet Project faced was a "lack of clarity over interchange fees. That really derailed the project."

Weimert acknowledges that it would be naive to underestimate the complexity of the task at hand, but she is buoyed by the positive feedback the initiative has received to date from the European Commission. "It looks like we can have a viable business model with the EPI," she says.

With respect to card transactions, the EPI's revenues are set to come from interchange fees – capped at 0.2% of the value of a transaction for debit cards and 0.3% for credit cards.

For other types of payment, the EPI has "an alternative business model that is not based on an interchange," Weimert says. "We don't want to share the details of that yet, but it will offer more transparency for the merchant and cost-attractiveness too."

Another key difference between Monnet and the EPI is that the political context has changed considerably since the former's disbandment a decade ago. In May 2018, Europe regained its appetite for a continent-wide payments system when Donald Trump withdrew the US from the joint comprehensive plan of action on Iran's nuclear programme.

Macchiarelli explains: "While Europe continued to comply with that plan, there was an increasing threat that secondary sanctions would be imposed by the US. One possibility was that American corporations, such as Mastercard and Visa, could have been forced by the White House to cut access to any European company."

> **"The importance of establishing a pan-European payment scheme is a question not only of independence, but also of sovereignty**

Visa and Mastercard accounted for 99% of the 97 billion transactions made in 2019 on credit cards and prepaid cards issued across Europe, according to research by Statista. The rise of Chinese payment systems such as Alipay and WeChat Pay, as well as the prospect that more new players would enter the market, also heightened concerns about the European Central Bank's ongoing ability to regulate payment networks in the EU.

"While the risk of sanctions turned out to be overstated, because they never materialised, there was a sudden realisation that nearly all card transactions in Europe are handled by two US companies," Macchiarelli says. "From a political viewpoint, the importance of establishing a pan-European payment scheme is a question not only of independence, but also of sovereignty."

This is clearly an important factor for Cecabank, one of the EPI partners. The Spanish commercial bank says: "Many regions and countries have their domestic schemes and payments solutions, the US being the most powerful. We hope that the EPI will become the European player we have been looking for."

Another factor that could prove decisive in the success of the EPI is its plan to enable instant payments. Weimert believes that it would be "stupid to miss out on the opportunity" to introduce such a system.

The European Central Bank says that customers should be able to "make payments at the physical point of sale or via ecommerce, including on their mobiles, throughout the EU just as efficiently and safely as they do in their home countries". The EPI is seen as the key to making this ambition a reality.

An instant payment system will not only offer speed and efficiency; it will also enable merchants to track consumer spending more easily. So says Finastra's head of international payments, Paul Thomalla, who is also a board member of the UK Payment Systems Regulator.

"Using a platform that's based on a digital process allows competition and enables third parties to add value," he says, adding that this would be a far more desirable situation than the current "duopoly of two big US players. The EPI could bring more benefits for retailers and consumers, who have become more familiar with digital payment technologies through the course of the pandemic."

ING also sees it as a chance to "harmonise Europe's scattered payment landscape". Eric Tak, head of the bank's global payments centre, says: "Consumers can only use their local payment schemes in their own countries, but they increasingly want to use these in the whole of Europe or even globally. Moving to a single pan-European solution will extend reach and usability."

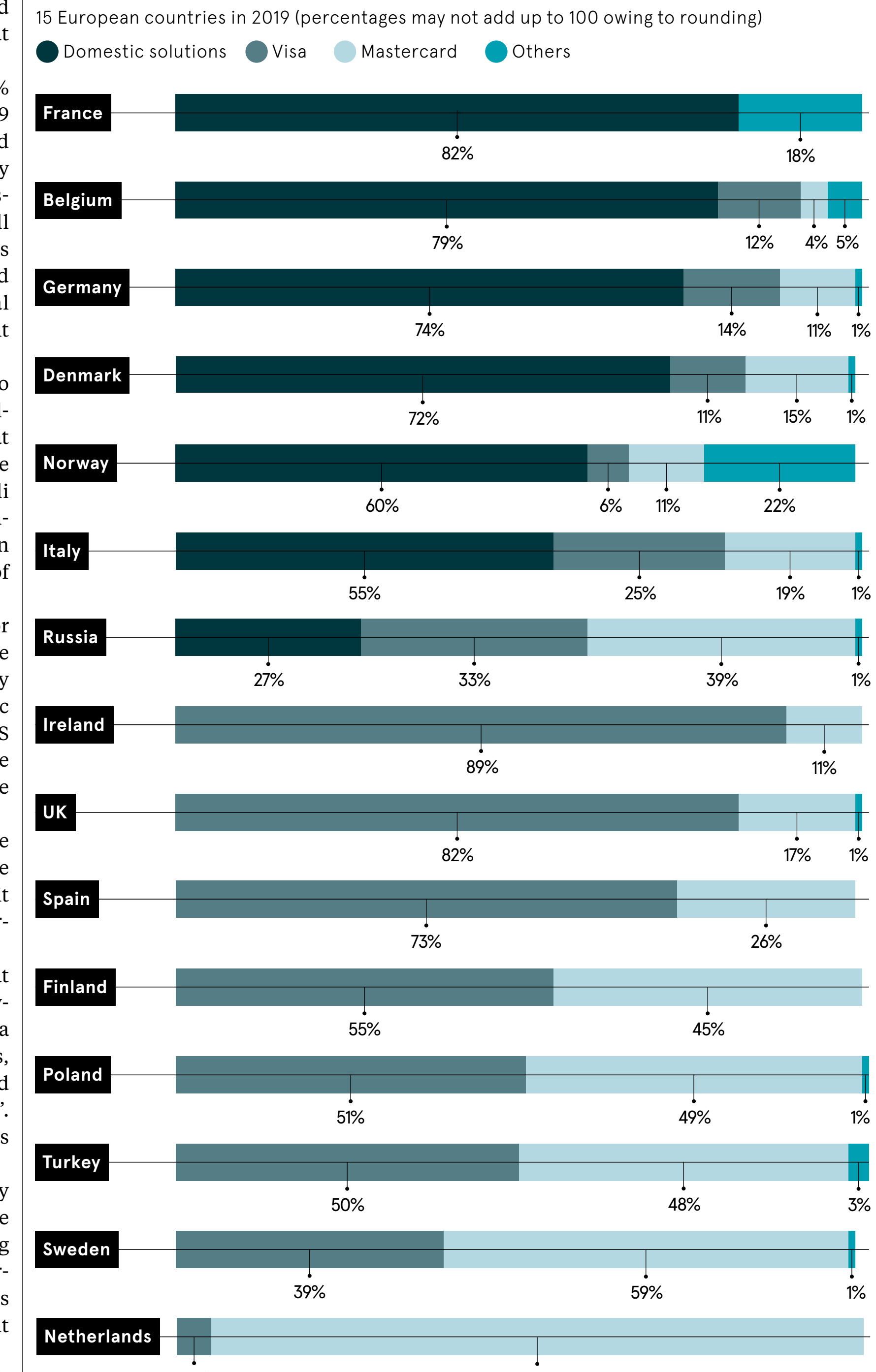
Although the EPI is often described as a competitor to the US duopoly, it appears that some level of cooperation may still be required. Mastercard's head of European market development, Jason Lane, reports that his company is in regular contact with the EPI in Brussels and is pursuing opportunities to provide the initiative with infrastructure, applications and services.

Ultimately, the EPI may offer Europeans a more convenient way to pay. Weimert claims that the system's main advantage is that it "bundles all payment use cases in one set-up", rather than requiring several apps or accounts to make transactions.

With substantial political and commercial backing, the EPI's payment solution is likely to come to fruition. Whether it can persuade consumers to switch from their current trusted payment methods of choice remains to be seen.

IS AMERICA'S PAYMENT DOMINANCE IN EUROPE SET TO SHIFT?

Market shares of Visa and Mastercard versus those of domestic and other solutions in 15 European countries in 2019 (percentages may not add up to 100 owing to rounding)




Worldpay, 2019

Oscar Wong via Getty Images

CREDIT

# See you later, regulator

Buy-now-pay-later providers have thrived by offering consumers accessible, simple and (in theory) free credit. But their practices may prove a little *too* free and easy for the financial watchdog's tastes

**Fiona Bond**

The buy-now-pay-later (BNPL) sector has exploded in popularity in recent years. While the concept of offering short-term credit is far from new, a host of entrants to the sector, including Klarna, ClearPay and Laybuy, have reinvigorated the market with their innovative products. Big retailers ranging from M&S to H&M are now offering their customers a BNPL option.

The appeal of BNPL is clear: it enables shoppers to get their goods immediately but part with their money more slowly, paying either interest-free monthly instalments or a lump sum. Such is the success of these new offerings that Klarna has become Europe's biggest fintech unicorn, valued at £33bn and boasting more than 90 million customers worldwide.

"Fundamentally, BNPL services are appealing because they can help consumers to manage their cash flow," says Mark Turner, MD of financial services compliance and regulation at risk consultancy Kroll. "Instead of having to wait a week or two, they can have the items they want now and hand over the money after pay day."

While they operate in a similar way to credit cards, BNPL services normally require debts to be cleared more quickly and with fewer instalments, but often without the risk of punitive fees and interest charges. Perhaps unsurprisingly, their popularity has soared during the pandemic, with the number of transactions tripling in 2020. BNPL sales are on course to account for 10% of all ecommerce activity by 2024, according to Worldpay.

While it may be easy to imagine that BNPL is the preserve of younger consumers who live from pay day to pay day, research paints a different picture. While 42% of millennials have used a BNPL service more than once in the past five years, the equivalent figure for gen-X consumers, 34%, isn't too far behind, a study by US management consultancy Kearney has found.

Moreover, research by *Which?* magazine has found that people in more affluent households and those with young dependants are more likely than average to use BNPL services.

As BNPL has broadened its appeal, it has also attracted its fair share of critics. Some observers have long voiced concerns that these products encourage overspending and could tarnish users' credit ratings if payments are missed.

"As with any credit product, the main risks relate to affordability," Turner says. "For anyone who is in control of their finances, there is nothing wrong with using them. But some customers may already be heavily indebted. Adding BNPL obligations to that debt could push these people over the edge."

Debt charities and consumer campaigners have questioned the quality of the credit checks made by the BNPL sector and are calling for better protections for users. A service provider will currently conduct a so-called soft check on an applicant, meaning that any other potential lender will not be able to see that the individual has made that application. This verification process tends to focus on the risks to the provider, rather than on whether the applicant can afford to use the service.

Although BNPL transactions tend to be relatively small, the lack of cross-referencing means that someone could make several purchases with different providers, making it fairly easy for that consumer to accrue a debt of about £1,000, which credit reference agencies and mainstream lenders won't know about.

Citizens Advice has warned that as many as 40% of people who have used BNPL in the past year have struggled to honour the payments. According to its research, there is also a lack of awareness among consumers as to how missing a payment could affect their credit rating, with BNPL providers reserving the right to pass information on to the reference agencies if required.

For the charity's acting CEO, Alistair Cromwell, this makes BNPL an inherently risky proposition. This is especially the case for vulnerable consumers – for instance, people with mental health problems – who may not fully understand what they are agreeing to.

"It can be like quicksand – easy to unwittingly slip into and much more difficult to get out of," he said in April when Citizens Advice published its findings. "It shouldn't be possible for people to sign up for credit without realising. The fact that this is happening so often signals that a drastic overhaul is needed."

Whether it's drastic enough for Cromwell's liking or not, an overhaul is on the way. In February, the Treasury announced plans for the Financial Conduct Authority to start regulating the BNPL market, noting that "legislation will be brought forward as soon as parliamentary time allows".

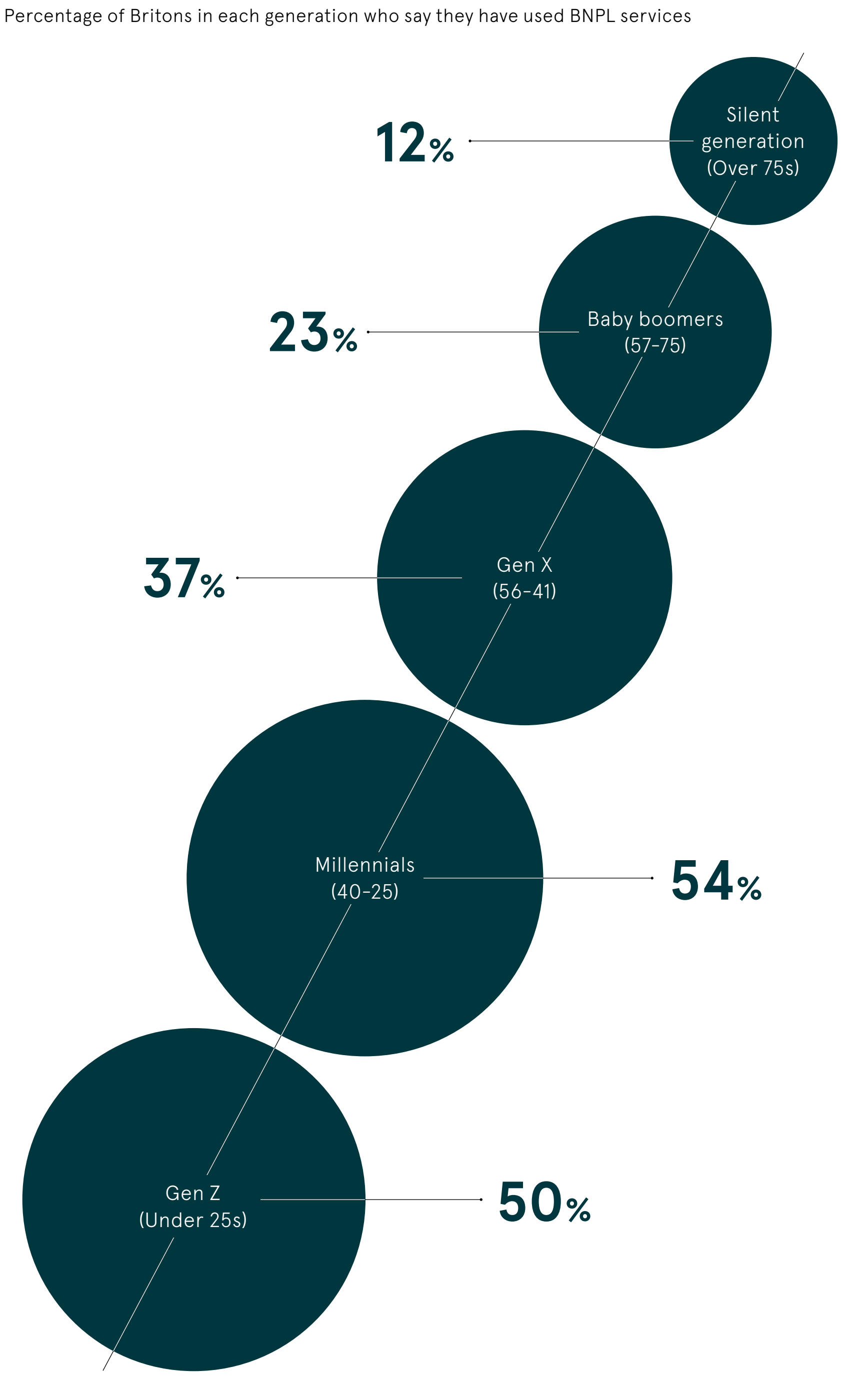
Under the proposed new regime, providers will need to conduct affordability checks on applicants before lending to them and ensure that customers are treated fairly, particularly those who are struggling with payments. Users with complaints will be able to take them to the Financial Ombudsman Service.

The announcement was generally well received, although some experts think that the government should have acknowledged the well-publicised risks of BNPL sooner and acted more quickly to protect consumers. One of them is Andrew Hagger, founder and director of personal finance website MoneyComms. He believes that, once the legislation is in force, "it should mean that more applications will be declined based on lack of affordability, which would bring BNPL in line with other forms of personal consumer credit".

But he adds: "This will come too late for some users, who will already have racked up huge debts across multiple retailers and are now struggling to meet their sizeable monthly repayments. Those who have defaulted will have damaged their credit records in the process – something that could take years to repair."

**WHO IS BUYING NOW AND PAYING LATER?**

Percentage of Britons in each generation who say they have used BNPL services




Finder, OnePoll, 2020

# Q&A

# Deko: A fresh approach to retail finance

**Mike Dawson**, CEO of the retail finance ecosystem Deko, explains why a more flexible, multi-lender, multi-product approach can improve choice for consumers while also maximising acceptance rate at the checkout for merchants

**Q Hey Mike! Talk to me about Deko.**

**A** Deko is a multi-product, multi-lender retail finance ecosystem focused on expanding access to retail finance for lenders, merchants and customers. Knowing that single lenders will have varying levels of sector or risk appetite, Deko partners with multiple lenders to ensure a perfect match for customer, merchant and lender. This means that we can confidently say "yes" to more transactions and help customers access more of the things they love.

**Q What role does retail finance play today?**

**A** The terms Retail Finance, and Buy Now Pay Later are common in households with their popularity having exploded over recent years. Surveys show 4 in 10 Brits say they have used a Buy Now Pay Later service when making a payment.

While the benefits to consumers are clear, the benefits to merchants should not be overlooked. When partnering with a retail finance provider, merchants can increase the breadth of their customer pool and enable existing customers to purchase more. So as retail finance services continue to grow – and are expected to double by 2023 - merchants are increasingly identifying them as essential in appealing to as large a pool of customers as possible.

In addition, the lifting of lockdown signals a more positive outlook for the retail sector. It is now a crucial time for all businesses, especially SMEs, to ensure they have the capability to compete in a world increasingly led by e-commerce. At the heart of this issue is the fundamental need to increase the checkout acceptance rate of online sales when customers are making payments.

**Q How does a multi-lender approach differ from traditional offerings?**

**A** The main difference is that multi-lender retail finance platforms increase the acceptance rate and basket range that can be covered. With Deko filtering lender options and ensuring the right lender fit for the customer, the multi-lender approach delivers higher confidence the merchant will secure the purchase and that the customer can make the payment. This is what we at Deko identified to be the key driver behind merchants seeing more business. Higher acceptance rates are of use to all merchants but in particular to businesses with a wide product range, especially those with larger than average basket prices. With a single lender, if a customer is not approved then they may be left in the lurch, unable to make the payment and the merchant is left without a sale. Through a multi-lender approach, we can responsibly increase approvals, utilising different lender criteria and also deliver larger sized approvals. This enables customers to pay for what they need without friction and across a range of basket sizes.

At Deko, we have seen the demonstrable benefits that flexible payment solutions can provide to our innovative retail partners. Many of these businesses benefited from up to a 30% increase in sales after integrating our multi-lender platform into their checkout process. The integration leaves our partners well-placed to amplify their revenue and drive customer loyalty in order to capitalise on the potential post-pandemic rush.

**Q What do you see as challenges for merchants to the industry in the coming year and what are you doing to meet those challenges?**

**A** The past 18 months have been one of the most uncertain and difficult for merchants and customers in the UK. How each of these communities perform in the near future is going to be crucial and this is something that we at Deko understand and are incorporating into our business. We understand that retail finance will be a key facilitator of this recovery, so a greater range of acceptance as well as a seamless checkout experience will be even more important. Most importantly, customers love our service and consistently rate us as excellent. This in turn motivates us to keep pushing further and make the service for our whole ecosystem even better.

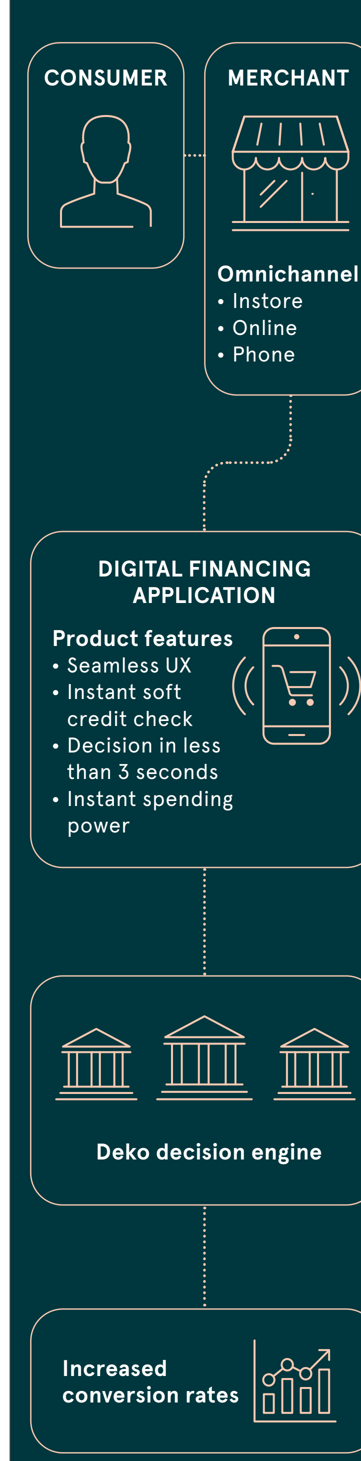
Every merchant is unique and requires its own unique service. Retail finance can undoubtedly improve merchant revenue, but it needs to be responsive enough to the different needs of merchants and consumers alike so as to benefit the greatest number. This is where a multi-product service becomes crucial. Traditional Buy-Now-Pay-Later services are perfect for some merchants, but a one-size-fits-all approach is not always effective and can be restrictive depending on the type of merchant. At Deko, our ecosystem is built on delivering choice. We have a wide range of services both in the sense of new-era digital credit accounts, that require one application and then can be used multiple times, as well as the more well-known buy-now-pay-later payment services and the more traditional bigger ticket loan facilities. This flexibility and bespoke offering is crucial, especially for smaller merchants in more specialised areas that require options for larger payments and basket sizes, and can be used as an effective tool for increasing customer loyalty.

**Q What advice do you have for modern retailers?**

**A** Today, merchants can be reliant upon multiple different providers to get the right product or sector coverage, which is not optimal. The key, therefore, is partnering with a multi-lender and multi-product provider who can invest more time in understanding the best match between a merchant and their needs – and deliver this in an effective integrated experience. The relationship between merchants and retail finance partners requires trust and a partner that understands your business. This is what we strive to deliver our partners who work with Deko - a seamless, flexible, retail finance payment ecosystem.

**DEKO MULTI-LENDER DECISION ENGINE**

How it works




**To find out more visit dekopay.com**

DATA PROTECTION

# Cybercrime does pay

A sophisticated ransomware assault on IT company Kaseya sent shockwaves through the global payments sector last month. The case has underlined just how vulnerable the ecosystem has become

Chris Stokel-Walker

sturti via Getty Images

The inexorable rise of cybercrime has made it a risky time to be running a business that depends on the internet. When that business is dealing with payments, brokering financial transactions for a potential customer base of millions, the stakes are even higher.

One cyber attack in July, targeting a global network of payments terminals using software supplied by Florida-based company Kaseya, amply illustrates the risks facing the sector. It was mounted by a hacking gang using a ransomware strain known as REvil.

In the statement it made after the attack, Kaseya reported that only 60 of its customers were affected – which, while correct, belied the concentration of power in the payments industry. Those 60 customers were supporting about 1,500 other businesses, which were rendered incapable of taking payments.

More than one-third of the affected enterprises were branches of a Swedish supermarket chain called Coop. The ransomware effectively disabled their checkout tills, forcing the closure of most stores. A small number tried to continue trading using an alternative payments method that they had tested before the attack, but that system would also later fail, unable to withstand the sudden surge in demand. Some perishable foods had to be given away to prevent spoilage.

Natalie Page, cyber threat intelligence analyst at Talion, a specialist in network security, notes that only 0.1% of Kaseya's clients were affected.

"This attack could have been a lot worse – the 'god mode' level of system access that the REvil ransomware operators achieved was extremely worrying," she says. "Unfortunately, this won't be the last supply-chain attack we shall witness. Next time we may not get off so lightly. It's a matter of when, not if, there will be a similar case. Owing to the spreading mechanism an attack of this nature can provide, such incidents have the potential to be little short of disastrous."

Kevin Curran, professor of cybersecurity at the University of Ulster, believes that the sector "has a long way to go to keep up with sophisticated techniques used by fraudsters. Although a cashless society is on the horizon, moving that way presents some major risks for the payments industry."

It's therefore vital that all players in the sector apply artificial intelligence as a threat-hunting tool, says Page, who notes that Visa has been using AI-based systems for well over two decades to safeguard transactions. This technology is capable of analysing more than 500 risk attributes every millisecond.

"AI has been the driving force in helping companies worldwide to improve the customer experience, boost their growth and, most crucially, mitigate threats to payment security," she says.

But Page adds that further work is still needed in order to keep the ever-more sophisticated cybercriminals at bay. This includes the development of an approach known as zero-trust architecture, which requires every request made on an organisation's network to prove its integrity before it can be permitted.

Some observers have observed that the pandemic-fuelled uptick in M&A activity and increasing centralisation in the payments industry have been making the situation riskier. These trends have combined to cause points of failure to be bunched more closely among a decreasing number of payment providers. This concentration of power is a concern for businesses that operate crucial infrastructure such as payment services, as Page explains:

"With many payment providers merging and centralising, a smaller group of targets is being created, with a much larger client base than ever before. This means that security has never been so crucial."

She continues: "There are real disparities in the quality and security offered by various payment systems. With no governing body to set and maintain standards, the industry could be heading for disaster. The development of a real authority to monitor this area would therefore be an extremely positive step towards ensuring the security of the payments industry."

Curran is concerned that the sector, as currently structured, is ill-equipped to handle another crisis on the scale of the Kaseya attack.

"Even though the growth of mobile payments has been explosive, the associated security controls and enterprise management tools have not matured in the same way," he notes.

Within days of the attack on its system, Kaseya managed to come up with a software patch to plug the vulnerability that the hackers had exploited.

Curran stresses that businesses need to update their software as soon as they are prompted to do so. This is particularly important in the case of payments systems, which process highly sensitive private information, including the three-digit security codes on customers' bank cards that are required to verify online and telephone transactions.

"All software has vulnerabilities, so the quicker an update can be distributed, the more secure it is," he says. "The longer a system remains outdated with known vulnerabilities, the greater the risk."

It's important for companies to back up their systems regularly and maintain cybersecurity awareness among their employees. From a business-continuity perspective, it's also advisable not to rely on a single payments provider if at all possible.

The Kaseya attack has been useful in that it has warned all players in the sector that they must take prompt and effective action to protect themselves. Otherwise, they risk becoming the next victims.

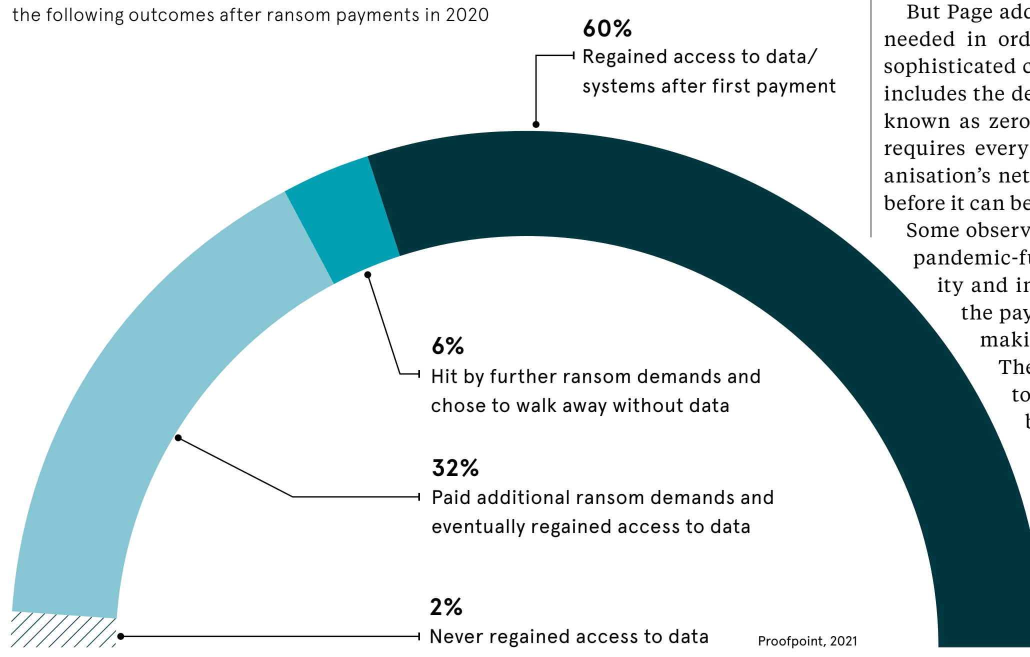
"Although the pandemic has made many people feel as though time has stood still", Page says, "the global economy certainly isn't standing still."

With this in mind, the same needs to apply to the payments industry.

> The payments industry has a long way to go to keep up with sophisticated techniques used by fraudsters

DOES PAYING THE RANSOM WORK FOR BUSINESSES?

Percentage of IT professionals worldwide who said they witnessed the following outcomes after ransom payments in 2020




Proofpoint, 2021