MULTICHANNEL MERCHANT

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EXECUTIVE SUMMARY:

GLOBAL PAYMENTS

Global Payment Growth Fueled by Cross-Border and Mobile Commerce

BY TIM PARRY

Global ecommerce is expected to top $1.25 trillion U.S. by the end of 2014, according to Hamburg, Germany-based research firm ystats.com. With that, the Asia-Pacific region is forecasted to be the fastest growing ecommerce market worldwide, and is poised to overtake North America as the number one region in terms of ecommerce sales within a few years.

Ystats.com points out two leading trends that are shaping global ecommerce trends: the growth of mobile commerce and cross-border ecommerce shopping.

Mobile commerce is transforming the retail industry worldwide, as mobile traffic to retail sites surges and the variety of products purchased on mobile grows. In the advanced markets of North America and Europe, the share of mobile commerce on total online retail already reaches more than 10%.

In emerging markets where smartphone and tablet penetration is rapidly growing, the practice of online shopping through these devices is also increasing.

Cross-border ecommerce is growing to a multibillion dollar market, where online shoppers from such countries as the Canada, Brazil, China, Australia and Japan buy directly from online merchants in other countries.

Additionally, ystats.com says integra-

tion of payments across various channels is an important trend. Banks, payment processers, card companies and multichannel merchants globally are working toward integration of online payments with mobile and POS payment, while mobile wallets start to offer services beyond mobile payments, and merchants increasingly opt for a single payment provider across channels.

New payment methods have developed, and traditional payment channels have adapted to online shopping, notes Ystats.com. Payment by credit card continues to predominate worldwide, but alternative payment methods such as e-wallets are on the rise and outpace the growth of credit card use.

In some emerging markets, such as the Middle East and Africa, cash on delivery dominates over credit card payments. Mobile payments are also growing rapidly.

According to an April 2014 report by the McKinsey Global Institute, as financial inclusion grows, emerging economies are set to experience significant growth in their use of electronic payment systems. Today, only 44% of the world's population has access to banking services, but that share is increasing.

Brazil, Russia, India and China remain largely cash-based, but MGI expects them to be among the next wave of serious adopters of electronic payment systems. The BRIC countries are all major targets of leading players in the industry, including Visa, MasterCard and American Express. By 2016, for example, three out of the 10 largest countries in terms of card usage are expected to be emerging economies, and China is expected to have the second-largest number of card payments of any country.

Asia-Pacific's share of global card transactions is expected to increase from 17% of the total in 2007 to 33% by 2017, largely at the expense of the United States and Canada, which is already a highly penetrated market. Today, large payment companies are less focused on smaller emerging economies, suggesting opportunity for innovation in payment systems in these markets by smaller players.

CREDIT CARDS

Credit cards are the most frequently used method of payment around the world, according to the results of the DHL Shop the World study. In Turkey, Japan, the U.S., South Korea, Brazil and Canada, this figure rises to over 80%.

But consumers in The Netherlands, Poland and Russia tend to view credit card payment with skepticism. Regular credit card use in these countries drops to just below 25%.

Online payment is the largest contributor to card payment growth in the UK, with annual growth of over 10%, per ystats.com.

In South Korea, credit card payments are most common in ecommerce, while regulations are strict about security of such payments. Online card spending in Italy was growing year-on-year in every month of 2013.

According to ystats.com, credit card was the most preferred payment method in both ecommerce and mobile commerce in Sweden, although the share of online shoppers there preferring credit card decreased between 2012 and 2013.

Card use dominated payments in Denmark and Norway, and online shoppers in Turkey predominately use a credit card for purchases. Ecommerce transaction with cards in Turkey reached a value of over EUR 10 billion.

Credit card is the preferred payment option for Canadian ecommerce customers, as they are used frequently or very frequently by 56.7% of consumers.

Credit cards are the preferred payment method for 70% of Japanese consumers, per DHL's study. With that, Japan is significantly above the global average. Meanwhile, in Brazil, more than four in five consumers (81%) prefer to use credit cards. However, U.S.-based merchants can have difficulties selling to Brazilian consumers who want to pay by credit card.

International payments processing firm PacNet Services notes that there are two types of credit card circulated in Brazil: international cards, which generally are held by higher-income individuals, and national cards, which are far more prevalent. But while international cards can be processed through the normal channels, national cards can only be processed within Brazil.

PacNet Services says that until recently, separate contracts were required to process MasterCard and Visa transactions. However, a recent breaking of the restrictive agreements means major acquirers now offer both cards as well as other smaller ones under one contract.

ONLINE PAYMENT SYSTEMS

Per the DHL Shop the World study, online payment systems like PayPal and Alipay are the second most-frequent payment method used.. More than half of distance-selling customers around the world say they use them very frequently or occasionally.

As with credit card payments, use of online payment systems varies from country to country. In China, Aliplay is the dominant mobile wallet choice. The vast majority of all Chinese distance-selling customers (91%) use it to pay for their orders, according to DHL's report.

PayPal is preferred by Australian distance-selling clients: 61.9% use it frequently to very frequently (33.7% globally).

The MGI report says digital payment platforms such as PayPal are making it far easier to send money across borders and, as such, are enabling growth in international ecommerce. These platforms typically improve transparency and deliver payments at far lower cost than traditional infrastructure but compete with established incumbent players such as banks and credit card issuers. Consequently, these companies are creating new services that are encouraging cross-border payments targeted at specific segments.

In Africa, the MGI report shows a proliferation of companies using smartphones as a conduit for payments (with M-Pesa in Kenya being an example), which is less time-consuming and expensive than building a brick-and-mortar banking system.

Kenya is one of the most mobile-payment-ready markets in the world, with China the tenth most "ready" market for mobile payments, according to a data-driven survey of the global mobile payment landscape produced by MasterCard.

China and Kenya are not the only emerging economies "ready" for mobile payments, however. Twenty-one of the top 34 mobile-payment-ready economies are emerging. Dynamic companies in both developed and emerging markets are building payment services that facilitate the enormous and growing flow of e-commerce around the world. China's Alipay, which is building a footprint in the United States, is just one example of a company connecting different countries' payment systems. PayPal, Yandex and Stripe are yet more companies serving this need.

Boleto Bancario, an online invoicing system for online payments, was the second most used payment method in Brazil, after bank credit card, per ystats.com.

MOBILE PAYMENTS

The promise of mobile payments in both emerging and mature markets around the world has sparked enthusiasm in recent years. However, according to an October report by Mercator Advisory Group, the race to develop mobile payment services has resulted in a fragmented marketplace with different technology types and business models.

Mercator Advisory Group reports that the lack of industry agreement on how best to implement mobile payments has further complicated the difficult task of regulating the emerging mobile payments space. A number of countries have begun enacting regulatory frameworks for mobile payments with a focus on ensuring competition in the new market space.

A key goal is to encourage interoperability among the various mobile payment service providers in order to lower costs and ensure the widespread adoption of mobile payments. But industry participants counter that this strategy removes competitive advantages and discourages innovation.

Mobile payments, both online and in store, are predicted to continue strong growth worldwide, with customer adoption improving. Ystats.com says the number of payments with mobile handsets is forecasted to grow rapidly in the next few years to reach several billions by 2018. The region leading worldwide by share of mobile on total ecommerce payments is the Middle East and Africa.

Competition on the global online and mobile payments market is very strong, with major players developing and employing innovations in 2013 and 2014.

Mobile payments had a boom last year in China, per ystats.com, with gross merchandise volume of third-party mobile payment growing by around seven to eight times, sparked by mobile shopping, and more growth is expected as competition intensifies. The number of online payment users in China topped a quarter of a billion, while value of payments increased by half.

However, the fastest growing alternative methods, digital wallets and mobile payments are increasing their share rapidly, according to a study by international research firm ystats.com, with an annual growth rate of over 40%, outpacing other payment methods. Put together, alternative payment methods are forecasted to increase their share of online payments to over 50% by 2017.

CASH IS KING

In the Middle East, cash on delivery represents more than 80% of online purchases, followed by cards at 15% and PayPal at 5%, according to a PayPal Insights report. In Saudi Arabia, almost 70% of payments on domestic websites are COD. PayPal notes COD is the main payment method for smartphone users (at 31%) and tablet users (at 36%) in Saudi Arabia as well.

Although cash is king in the Middle East, the PayPal Insights report indicates security and convenience are the most important concerns for consumers. But PayPal contends COD comes with such a high cost in exchange for security and ease of use that it is definitely not a reasonable nor sustainable solution for ecommerce in the Middle East.

PayPal says the ecommerce market will truly grow and benefit merchants when electronic payments are fully embraced by consumers. For example, Italy has seen a decrease in the use of COD from 75% of online transactions in 1999 to less than 5% in 2013, replaced by electronic transactions that allowed for better visibility, trust and planning on both the merchants' and consumers' side, contributing to growth in the market.

COD is the most preferred method of ecommerce payment in India, according to the DHL study. Nearly half (47.5%) of ecommerce consumers there said they pay by COD for ecommerce goods frequently or very frequently, while 28.4% say they use COD occasionally.

Cash on delivery remains the dominant payment method in the growing ecommerce market of Russia, though ystats.com notes the use of credit cards and alternative payment is on the rise there. More than half of online shoppers prefer to pay on delivery with cash, but a growing number now reaching nearly a quarter of shoppers prefers to pay with card either online or on delivery.

FEAR OF FRAUD

The percent of revenue lost to fraud is growing at a faster pace for U.S. merchants that sell across borders than those that just sell domestically, according to the findings of the 2014 LexisNexis True Cost of Fraud Study.

For international merchants, fraud loss as a percent of revenue grew significantly from 0.69% in 2013 to 1.21% in 2014—which is nearly twice that of domestic-only merchants (0.65%).

According to the study, international merchants do believe that reducing fraud will increase sales (53%), although slightly less so than large ecommerce merchants (59%). However, given the high average number of attempted fraudulent transactions (1,288 attempted and 635 completed), more than half of these merchants feel that fraud is inevitable.

One challenge consistently reported by international merchants is customer identity verification. While it has significantly dropped this year (29% of international merchants consider it to be the top challenge in preventing fraud when selling internationally, compared to 39% last year), it remains among the top challenges for international merchants.

Virtual currency acceptance, which promises to play a nuanced role in fraud prevention, is growing quickly among international merchants; 11% accept this emerging payment method, compared to only 1% of domestic-only merchants.

On the one hand, 27% of international merchants accepting virtual currency report that fraud using this payment method has increased over the past 12 months, and only 12% have seen a decrease.

On the other hand, fraud using certain types of virtual currency may be less damaging to merchants. As certain virtual currencies, such as Bitcoin, present a reduced incentive for merchants to verify customer identity—transactions using Bitcoin cannot be reversed, so the merchant is not liable for chargebacks in these fraud cases.

According to the LexisNexis, a lawsuit in early 2012 by Tradehill against Dwolla with regards to chargebacks shows that trust among Bitcoin dealers and processors is low. Virtual currencies are still at a rudimentary stage as a payment method and require a lot of standardization and regulations for consumers to use them as a default payment method and for merchants to accept them without any unforeseen repercussions.

Among all merchants accepting virtual currencies, this payment method still constitutes an average of only 6% of the total volume of transactions. Thus, it will be a long time before trends in virtual currency fraud become major drivers of overall fraud metrics, according to LexisNexis.