DIGITAL PAYMENTS
FOR A TRUSTED WORLD

Worldline

WHITE PAPER

5 E-COMMERCE PAYMENT BEST PRACTICES FOR 2021 AND BEYOND

None of us will forget 2020 or the enormous social and financial impacts of the COVID-19 pandemic. In addition to the massive and devastating loss of lives, it has wreaked havoc on businesses, major industries and our economies.

Just like chaos is the mother of invention a crisis can be the vehicle for change. The sanitary emergency has transformed consumer behaviour across the planet, creating a strong momentum for online shopping that is probably here to stay. If the trends we observe see permanent adoption, we will have gained at least two or three years in terms of market share for online commerce.

The “new normal” also presents us with an opportunity to transform and adapt to new practices. The e-commerce acceleration brings with it new demands and pressures. Maximising returns and minimising costs has never been more important, including when it comes to your payment infrastructure.

Precisely how to do that is the topic of this white paper. Let’s start exploring the 5 most important best practices for e-commerce payments in 2021 and beyond.

> *The COVID-19 crisis accelerated an expansion of e-commerce towards new firms, customers and types of products. … Despite persistent cross-country differences,* ***the COVID-19 crisis has enhanced dynamism in the e-commerce landscape across countries*** *and has expanded the scope of e-commerce, including through new firms, consumer segments (e.g. elderly) and products (e.g. groceries). … Some of these changes in the e-commerce landscape will likely be of a long-term nature.*[1]
>
> **e-commerce in the time of COVID-19,**
> OECD

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1 http://www.oecd.org/coronavirus/policy-responses/e-commerce-in-the-time-of-covid-19-3a2b78e8/

BEST PRACTICE #1
THE RIGHT PAYMENT METHODS

With the possible exception of cost, convenience will probably always be the determining factor for an online shopper's payment decisions. But what is important to understand is that the definition of payment convenience is extremely variable.

Consequently, your payment strategy should be shaped by the specific preferences of the demographics you address. The arrival of new consumer segments as a result of the COVID-19 pandemic makes this more important than ever.

GEOGRAPHICAL MARKETS

Many merchants, when they venture outside their home country and its nearest neighbours, start by trading cross-border with a translated website and credit card payment as the only option. Unfortunately, in most cases, this means leaving a lot of money on the table.

In Latin America, for example, only one in three consumers owns a credit card. If you are selling to consumers in Argentina or Brazil with no other alternative than Visa or Mastercard, the majority of potential buyers will simply not be able to pay you.

Even in countries where cards are ubiquitous, consumers often have other preferences. For example, when asked how they like to pay for online purchases, 37 percent of Swedish shoppers answered invoices, while only 26 percent preferred debit or credit card.

In some markets, you may also run into particular legal or contractual obligations. For example, in Hungary (and other Eastern European countries), Mastercard and the Hungarian Issuers have launched a local solution called Mastercard Instalments. Any acquirer processing for Hungarian merchants must support Mastercard Instalments. If your payment service provider isn't connected to the right acquirer which supports domestic requirements in Hungary, you will not be able to accept Mastercard Payments in this market.

When you enter new markets, choose a payment service provider with local experience and expertise to avoid unexpected and unnecessary problems and costs. Keep your long-term goals in mind as well. Partnering with a payment service provider is usually a multi-year initiative. If you are planning to continue to expand, choose a partner that supports a wide range of payment methods in the markets you will want to target.

BUSINESS MODEL AND TARGET DEMOGRAPHIC

Online payment preferences also depend on your business model. Are you an online shop or a marketplace? Do you sell one-off items or subscription-based services? Physical goods or digital products? Understanding the important parameters in your specific payment flows will help you determine the optimal set of payment methods.

Consumers in different demographic groups, particularly age groups, also tend to have distinct preferences. Broadly speaking, older consumers continue to use the cards they grew up with, while millennials and Gen Z are more likely to opt for new payment technologies such as wallets, mobile payments and apps—but again, this can also vary from one geographical market to another. There are no "one-size-fits-all" rules in e-commerce payments.

In some cases, you may be able to gauge the interest for a new payment method directly from your own customers before you actually implement it. Simply add a dummy link to the new payment method to your checkout page. Users who click the link should see a page explaining that the new method is not yet active, directing them to the currently available options. The volume of clicks will give you an idea of the new payment method's potential.

However, the most efficient route to an optimised mix of payment methods is to choose a payment service provider with solid experience in your target markets and your industry, and who can take a consultative approach.

> *"If I can give one piece of advice, it is to involve your payment service provider early on when you lay out your go-to-market strategy. Many merchants focus on website translations, inventory systems, fulfilment and so on, leaving payment almost as an afterthought. But with our local experience, having worked with similar businesses who have gone the same route, we are in a great position to help you work out the best approach."*
>
> **Eline Blomme,**
> Head of Product Management Global eCommerce at Worldline

BEST PRACTICE #2
BACK OFFICE OPTIMISATION

With so much happening on the business side, payment reconciliation and back office optimisation may seem like low-priority “busy work” and overhead. But in truth, it is a mission-critical function. Up-to-date, well-documented records keep e-commerce businesses robust and poised for continued growth—especially when transaction volumes are multiplied and new channels, payment methods and providers keep being added to the mix.

INCREASING COMPLEXITY

E-commerce is a heavily transactional activity, and it takes a network of service providers to successfully complete a sale. No matter how small, the delivery of a single order requires the intervention of multiple intermediaries—payment processors, card issuers, banks, and sometimes delivery companies. Cancellations, refund requests and glitches in the logistics chain will add to the complexity, as will currency conversions and customs duties for cross-border sales.

Ongoing innovations in the payment industry will not make your back office tasks any simpler. Tomorrow’s e-commerce leaders must expect to accept not only mobile payments and digital wallets, but also transactions generated by connected objects such as cards and household appliances.

As the COVID-19 pandemic hit, you may also have had to quickly rethink and redesign your operation, or to rapidly scale your operations. As a result, now might be the right time to take a step back and look at how you can harmonise and optimise your processes.

AUTOMATING RECONCILIATION

With increasing transaction volumes and the multiplication of different order sources, fragmented reconciliation processes leave little room for growth. With thousands or even millions of daily transactions—sometimes multiplied around holiday campaigns or other special events—legacy systems can simply not handle these escalating inputs of data accurately and in a timely manner.

A robust technology framework for unified reconciliation is an important lever for optimising performance management and staying on top of cash flow.

Automating reconciliation also helps you realise productivity gains. Consolidation becomes a continuous process rather than a sporadic, time-consuming exercise. By harmonising your tools and processes, you help the company become more agile.

When you evaluate payment service providers, make sure that you can receive reports in standardised, machine-readable file formats which integrate seamlessly with your order management or ERP systems.

> “*Efficient automation of reconciliation depends on reliable and predictable sources of reporting. A payment service provider that delivers a single, comprehensive report data format across all payment sources, not just cards, contributes significantly to back office optimisation.*”
>
> **Simon Britnell,**
> Product Manager Merchant Enablement at Worldline

BEST PRACTICE #3 PLATFORM SCALABILITY

When you evaluate a payment platform, you probably look at factors such as security, uptime, and cost. But another (often overlooked) criterion is just as critical for your success: we are talking about scalability.

RESILIENCY

The capacity and availability to process transactions is the most basic requirement for a payment service provider. Even a small percentage of payment failures can result in significant revenue losses.

Failures can happen during any of the three main phases of the transaction processing:

- Pre-processing (authorisation)
- Processing (capture)
- Post-processing (reconciliation)

Make sure that for each of these processes, your payment platform offers a failover mechanism which optimises the probability of transaction success.

DYNAMIC SCALING

If your growth ambitions involve entering new geographical markets or introducing new product lines, for example, you must ensure that the new volume of transactions will not overwhelm your payment platform and disrupt your ability to complete transactions.

The ability to *dynamically* adjust capacity based on transaction volumes should be a key requirement. You don't want to overprovision capacity and drive up costs unnecessarily, but you do want sudden increases in processing demand to be met in real time.

Dynamic scaling is particularly critical if you need to process large volumes of time-sensitive payments, such as flash sales or event tickets. But as the current situation has made abundantly clear, dramatic changes in demand can happen overnight in almost any industry.

> *"Our microservice architecture, orchestrated with Kubernetes, enables us to offer automatic scaling without centralised transaction management. By simply adding more autonomous payment processing nodes and more Cassandra database nodes, we can literally scale up to 1,000 times capacity in minutes."*
>
> **Rickard Schoultz**, Principal Architect at Worldline

FUTURE-PROOF ARCHITECTURE

Many payment platforms are built on aging technologies and with monolithic architectures, which offer them limited flexibility. While their systems and processes may be well functioning as designed, they lack the capabilities for efficient scaling which more modern, cloud-based technologies provide.

According to Ernst & Young, the main principles in a modern payments architecture are "a cloud or hybrid model using a modern, microservice-based framework that empowers organizations with scalability, seamless integrations with vendors, and a nimble and adaptive ecosystem."[2]

Whether you are planning for significant growth or simply want to continue to add new features and services to your offering, make sure that your payment platform has the agility to make it happen.

2 https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-payments-modernization-white-paper.pdf

BEST PRACTICE #4
ACQUIRER REDUNDANCY

Because uninterrupted payment processing is so mission-critical in e-commerce, another best practice to consider is acquirer redundancy: the ability to route payments through multiple acquirers (the financial institutions which authorise card transactions and request payment from your customers' banks on your behalf).

Acquirer redundancy can be achieved in one of two ways:

- By using two or more payment gateways, each connecting you to a different acquirer
- By choosing a payment gateway that can connect you to multiple acquirers

Having multiple payment platforms will give you additional flexibility to route transactions through different acquiring banks, depending on your needs. On the flip side, it will make your reconciliation process a lot more complex and time-consuming. For most merchants, one payment gateway with built-in acquirer redundancy is the most cost-effective choice.

LESS DOWNTIME

One of the main benefits of using multiple acquirers is that it provides redundancy in case one of the acquiring banks experiences technical issues or downtime. This is particularly important if you are batch processing transactions: a technical glitch at just the wrong time can quickly turn into a back office and customer service nightmare.

With a multi-acquirer setup, no acquirer is a single point of failure. If one bank's service is unavailable, your transactions can be directed to another—without the buyer noticing a thing.

> *In Latin America, you can't expect the same stability as in more mature markets. By working with multiple acquirers, both local and cross-border, we can make sure that every transaction gets processed and help our merchants win more business. Competition between acquirers also means that we can negotiate better fees.*
>
> **Renato Ito,**
> Head of Product Management LatAm at Worldline

BETTER ACCEPTANCE RATES

Declined transactions are a frustrating fact of life in e-commerce. Your customers click to pay, only to discover they can't. Acquirer redundancy can help improve your card acceptance rate: if one acquirer refuses a transaction, it can instantly be routed to another.

This is especially important if you are operating in an industry or a geographical market where acceptance rates are typically low, and if you have a high volume of transactions. When you are processing millions of transactions every month, even a 1% improvement in your acceptance rate translates into significant revenue.

LOWER TRANSACTION COSTS

The third benefit of acquirer redundancy is that it enables you to optimise your transaction costs. A multi-acquirer payment service provider can ensure that each transaction is routed to the acquirer that offers the lowest processing fee for that particular transaction.

The leading payment service providers are currently developing sophisticated machine learning algorithms to perfect this optimisation process. Ask your vendor not only whether they offer multi-acquirer processing, but also how they are choosing the best acquirer for each transaction.

> *Which acquirer is most likely to accept a given transaction, at the lowest cost? The answer is complex, sometimes counterintuitive. Machine learning enables us to take into account everything we know about a transaction—the card type, the amount, the currency, the geographical distance between buyer and acquirer, even the time of day—and dynamically choose the optimal route for that transaction and maximise the probability that it will be accepted.*
>
> **Julien Carme,**
> Lead Data Scientist at Worldline

BEST PRACTICE #5
UP-TO-DATE FRAUD PROTECTION

Fraud is a complicated issue for payment service providers and merchants alike. On one hand, it is important to prevent and minimise fraud losses. On the other, you want to avoid creating unnecessary friction for real customers. The challenge is to strike the right balance between security and convenience.

The COVID-19 sanitary crisis has further exacerbated this complexity. Many new consumers have taken up online shopping for the first time, while experienced buyers have radically changed their purchasing habits and behaviours. And criminals are taking advantage of the unrest and uncertainty.

It is therefore more important than ever to have a fraud protection system that stays abreast of changing fraud patterns.

CURRENT TRENDS IN E-COMMERCE FRAUD

Stolen or compromised card data used for card not present (CNP) transactions remains the leading cause of fraud targeting merchants, especially in Europe. Many of these cases can be attributed to the rapid growth in e-commerce and the limited use of strong customer authentication methods such as 3D-Secure.

Account takeover means that criminals gain access to online e-commerce accounts or financial accounts such as wallets or bank accounts. The purpose is usually to make fraudulent purchases or transactions, but it can also be used for identity theft. A successful account takeover attack against your business can have serious legal, reputational, and financial consequences.

Account takeover fraud has surged since the start of the COVID-19 pandemic. One common tactic is to send fraudulent email and WhatsApp messages claiming to be from the World Health Organisation, tricking unsuspecting consumers into clicking on malicious links or opening attachments.[3]

Friendly fraud can take different forms, but the most common is chargeback fraud. “Friendly” fraudsters buy and receive goods or services, then claim they did not make the purchase or did not receive the goods, and file a chargeback with the intention to receive a full refund.

This type of fraud has also significantly increased due to COVID-19, as guidelines for reduced human contact have led to online purchases often not being signed for. According to our estimates, friendly fraud may account for as much as 40-80% of all fraud losses.

EFFICIENT FRAUD PREVENTION

In the current landscape, efficient e-commerce fraud prevention starts even before the payment has taken place. A good fraud prevention tool creates a risk profile based on all available information about the customer (identity, shopping behaviour, payment data etc.), and can be customised based on your industry, location, and particular business needs.

A SOLID FRAUD RISK MANAGEMENT STRATEGY WILL HELP YOU

- prevent direct revenue losses
- reduce the indirect costs associated with loss of reputation, customer service, etc.
- minimise friction for legitimate customers and preserve your conversion rate
- reduce false positives and avoid declining legitimate transactions.

> “*Fraud attacks have become extremely sophisticated. We have partnered with ACI to provide a fraud management solution which makes use of advanced analytics and multi-layered machine learning. Thanks to vast volumes of data from online shops all over the world, it adapts to new fraud signals in real time and responds efficiently to emerging threats.*”
>
> **Michael Dahl,**
> Product Manager VAS at Worldline

Worldline estimates that online fraud in 2020 will total $25 billion, with 65% occurring in e-commerce operations.

3 https://www.who.int/about/communications/cyber-security

CONCLUSION

Whether you are a household name or a startup working out of your apartment, efficient payment processing is one of the cornerstones of your e-commerce success.

In this white paper, we have discussed the importance of offering customers to pay with the payment methods they like. We have looked at the key requirements for a high-performing payment platform: back-office efficiency, scalability, and acquirer redundancy. Finally, we have seen how the continuous evolution of e-commerce fraud requires extremely sophisticated threat intelligence. We hope to have provided some valuable insights as you continue to plan ahead.

If you would like to discuss your e-commerce payment strategy for 2021 and beyond, our friendly expert team is happy to offer a free consultation. Simply send a few lines about your business and your payment challenges to onecommerce@worldline.com, and you will hear from us very soon.

ABOUT WORLDLINE

Worldline [Euronext: WLN] is the European leader in the payments and transactional services industry and #4 player worldwide. With its global reach and its commitment to innovation, Worldline is the technology partner of choice for merchants, banks and third-party acquirers as well as public transport operators, government agencies and industrial companies in all sectors. Powered by over 20,000 employees in more than 50 countries, Worldline provides its clients with sustainable, trusted and secure solutions across the payment value chain, fostering their business growth wherever they are. Services offered by Worldline in the areas of Merchant Services; Terminals, Solutions & Services; Financial Services and Mobility & e-Transactional Services include domestic and cross-border commercial acquiring, both in-store and online, highly-secure payment transaction processing, a broad portfolio of payment terminals as well as e-ticketing and digital services in the industrial environment. In 2019 Worldline generated a proforma revenue of 5.3 billion euros.

For further information
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