

Payments



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All change at the checkout

Whether it is an in-store point of sale or the website checkout, new entrants and technologies are expanding the available options. And, says **Penelope Ody**, it's customer demand that is driving this rapid change

FORGET CASH OR chip and pin, today's shoppers are opting for contactless cards and mobile wallets, with many retailers now happy to accept payments at the till via Apple Pay and its competitors. Online, shopping choices have not yet extended to Bitcoin, yet PayPal is usually listed alongside Visa, Mastercard and Amex, while Amazon Pay is also gaining ground. A few sites even add Skrill, although this is still more widespread in the betting and gaming sectors. These entrants all hope to win so market share, with lower transaction fees creating a more competitive environment.

Apple Pay and the like are all classified as 'pass through' wallets, which provide payment card details direct to the merchant, while PayPal is described as a 'staged' wallet since it handles the transaction and then passes the details to the payment provider on behalf of the merchant. More of both sorts are already appearing. Barclaycard is currently piloting a scheme allowing Chinese tourists to pay with their Alipay wallets in UK shops, while Skrill offers account holders a prepaid Mastercard for use in-store and PayPal has its Access Card acting as a debit card for its members.

Mobile payments now account for around 37% of global spend, largely driven by the growth in mobile wallets, according to Adyen's Mobile Payments Index. Both Apple and Android are adding web-based payments. So, for example, a shopper just has to hit the Apple Pay icon on a website and then authenticate the payment using Apple's

Touch ID fingerprint sensor on an iPhone, iPad or Apple Watch. This means that shoppers can buy online using a desktop machine and still pay with a mobile wallet. Globally, Apple Pay was reporting a growth of one million new users per week earlier this year.

Online, ensuring relevant payment options for each geography a retailer targets remains key and this will only become more complex as web-enabled wallets proliferate. According to Worldpay, for example, the mobile payment system Paylib is already three times as popular in France as PayPal, so should be offered by anyone selling in that market. Payment preferences have always varied significantly between geographies and, so far, these national characteristics have not been affected by globalisation. It's a similar story with fraud protection methods, with many cross-border visitors to UK sites likely to be so confused when a payment screen switches to a 3D-secure page that they may become unnerved and abandon the transaction.

Technology is affecting the payment sector in many more ways than mobile wallets and contactless cards. Financiers talk of "RegTech", with cloud computing, big data, artificial intelligence and blockchain helping to improve fraud control by analysing transactions in real-time to ensure authenticity. Since there is currently no single global payments standard, it can be difficult to identify suspicious transactions that occur across borders, although RegTech providers are



Ten issues to consider

1 ENABLE YOUR TILL:

If you're an omnichannel retailer, make sure you can cope with Apple Pay and the like at point of sale.

2 EXPAND YOUR APP:

Consider enabling your loyalty apps to double as 'pass through' contactless and mobile wallets.

3 THINK LOCAL:

Since different geographies have varying payment preferences, ensure that your website offers them.

4 CAPITALISE ON CONTEXT:

Make it easy for shoppers to impulse buy from your social media sites since redirects can lose you sales.

5 MATCH FRAUD CONTROLS TO MARKETS:

Machine learning is enabling global fraud prevention techniques. Are you making use of it?

6 KEEP THE OPTIONS UP-TO-DATE:

What about newer entrants such as Amazon Pay? Update your payment choices regularly as demand for new methods grows.

7 BE AWARE OF BIOMETRICS:

Authentication systems are changing. Currently contactless cards require PIN entry for every tenth transaction but for a generation eschewing PINs for alternatives may soon be needed.

8 REASSESS PAYMENT PROVIDERS:

With newcomers such as Square now operating in the UK, now might be the time to review your service options and charges.

9 BE AWARE OF BLOCKCHAIN:

More than just a secure technology associated with Bitcoin, pundits are predicting that blockchain is set to become THE new protocol for digital assets, exchanges, contracts, identity and trust. Check the implications for payments to your business.

10 GO ONE-CLICK:

Amazon's US patent for its one-click checkout will expire this year, allowing other online retailers to use similar technology. Make sure that you're one of them.

able to bridge the gap between systems and multiple regulations to reduce risk. Digital technology is also driving the movement towards real-time payments, both for domestic and cross-border transactions.

Looking ahead, more mobile wallet options from smartphone brands and banks as well as retailers adding their own branded versions are inevitable. Such wallets often combine loyalty apps, turning the payments process into a marketing tool (as with Starbucks and Tesco's Pay+) and so delivering discount coupons while at the same time tracking a shopper's purchasing patterns. These are proving popular and, according to Tesco, a Pay+ transaction takes place every three seconds across its estate. Contextual commerce is also on the increase, with social media providers such as Pinterest and Facebook adding an impulse buy button to close the sale immediately rather than forcing shoppers to log into a merchant's website in order to make the purchase.

Increased use of mobile devices is also raising the bar for fraud prevention, since with mobile wallets and near field communications readily available on many smartphones, there is clearly the risk that muggers can steal not only the phone but also instant access to the owner's payment cards.

Yet Visa suggests that 31% of under-35s find PINs and passwords an annoying step in the payment

process, so many in the financial sector are now looking at alternatives such as fingerprint ID and voice recognition to authenticate contactless payments. The new iPhone X, for example, uses face recognition to enable user access. But as always, the greatest stumbling block to any of these types of authentication will be recruitment: how do you securely collect the necessary information from millions of individuals?

Then there are the voice-activated assistants, such as Amazon's Alexa. As digital assistants become more sophisticated, futurists have long predicted that they will handle many of the more mundane household tasks, such as ordering the groceries. Will websites eventually have to enable payments from the next generation of Alexas?

In summary

While digital technology is transforming the payments sector, so too is consumer behaviour. Use of mobile wallets is growing rapidly for both online purchases and in-store, while new payment options are gaining ground. There are new names to consider among payment service providers, too, increasing competition and potentially reducing transaction costs. Offering the 'usual' mix of card choices at the checkout is no longer enough.

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Klarna was founded in 2005 in Stockholm with the aim of making it easier for people to shop online. In the last 12 years, technology has evolved, transforming the world around us, yet our mission remains as relevant as ever – to make paying as simple, safe and smooth as possible. Klarna is now one of Europe's largest banks and is providing payment solutions for 60m consumers across 70,000 merchants in 18 countries. Klarna offers direct payments, pay after delivery options and instalment plans with a smooth one-click purchase experience that lets consumers pay when and how they prefer to. Klarna is backed by investors such as Sequoia Capital, Bestseller, Permira, Visa and Atomico.

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