

# Alternative Payment Types are Taking Over

Credit cards have traditionally been the “go-to” payment method for online purchases. However, fears over identity theft and dissatisfaction with the “buy now, pay later” model have an increasing number of people turning away from online purchases that require payment with a credit card. Not only that, but many people are not able to pay with a credit card because they are under age or cannot get credit. All of this adds up to one thing: alternative payment methods. As more and more consumers venture online, many are looking for new, more secure payment options.

## Credit cards: today and tomorrow

While credit cards continue to be the top choice overall, more and more consumers are demanding multiple payment options. A payment industry study showed that 50% of customers will abandon a sale if their preferred payment type is not available.<sup>1</sup> Credit cards still make up 59% of international online purchases,<sup>3</sup> but they are not expected to see the exponential growth being experienced by emerging alternative payment options, such as eWallets. In fact, according to the newest research, credit cards’ share of online payments is expected to decline from 60% today to 44% by 2012.<sup>4</sup> Already, 41% of online consumers prefer alternative payment options over credit cards.

## Fraud is a factor

The primary reason people veer away from traditional credit card payments online is security. Fraud weary consumers are becoming increasingly reluctant to part with their financial information, particularly credit card information. They feel that other payment forms provide greater protection from fraud or misuse and better protect their identity.

The increasing number of alternative secure payment options may be causing experienced online shoppers to jump the credit card ship, but new shoppers who previously refused to use credit cards online are now poised to enter the market, creating a new opportunity for online merchants. The fact is credit cards present a security risk to the merchant as well as to the consumer. Online retailers are forced to depend on remote transactions, or Card Not Present transactions. This reliance leaves merchants open to fraud, disputes and charge-backs. In 2006, fraud in the UK alone was estimated at 535 million GBP – or over 800 million USD.<sup>5</sup>

## Global payment trends

A growing consideration for merchants is the expanding international scope of online business. With many European, Asian and South American markets still emerging, it pays to consider cultural payment trends in these up-and-coming markets.

- In the United Kingdom, more than two-thirds of online shoppers report using debit cards in the past three months with credit cards and eWallets following close behind in popularity
- Online shoppers in France overwhelmingly prefer the flexibility of debit cards but also rely on checks more than any other country in the world
- Germans choose online bank transfers as their first choice for payment
- Italians prefer prepaid cards more than most other nations

With huge potential for market growth, China is a unique and exciting opportunity for ecommerce development. China’s internet consumption hit 398.8 billion CNY (53.89 billion USD) in 2007 and is still growing.<sup>6</sup> An overwhelming two-thirds of mainland Chinese consumers pay for online purchases using Alipay.<sup>7</sup> Culturally, credit-based buying is discouraged so cash-based payment options such as COD or domestic debit cards also have a high penetration rate in China.

In a marketplace where consumers are one click away from the virtual door, choice matters. Failure to consider the nuances of debt payment versus cash-based payment options in different markets

will seriously limit your opportunity for growth. More importantly, you need to give customers the right choices, which change from region to region.

#### Alternative Payments

Alternative payment methods are becoming a necessity for global e-commerce. And while the preference of alternative options varies from region to region, the presence of these alternatives remains a vital online sales tool. As an example, close to 75% of all online buyers now have an eWallet,<sup>8</sup> but even with those numbers, eWallets are only the tip of the iceberg. There are many alternative payment options, and while credit card use is poised to decline, these alternative options are growing. Almost 20% of online users say they use a debit card more now than they did one year ago.<sup>9</sup>

One of the most popular global alternatives to credit cards is the e-Wallet. E-Wallets are one of the safest and quickest ways to pay online because an e-Wallet provides peace of mind for both the consumer and the merchant. With already more than 100 million consumers using e-Wallets worldwide, this option is set to become a leading payment solution. E-Wallets protect important financial information by acting as a financial firewall between the consumer's bank account and the merchant. This allows merchants to capitalize on customers who are unwilling or unable to use credit or debit cards on their sites. Customers can also benefit from e-Wallet payments because they are instant, frictionless, international and available in multiple currencies.

Internet banking is another large player in the world of online payments. An extension of regular banking, internet banking provides consumers with a familiarity that makes them feel safe and gives the security they demand. The catch with internet banking is that in most cases it can take 2-5 days to process a payment.

Research has shown that when customers are given a choice of three or more payment types other than credit or debit cards, there is a 12% increase in sale conversion over simply offering one option.<sup>2</sup> There are many other alternative payment methods available to consumers, including electronic funds transfer (EFT), real-time banking, email money transfers, bank wires and other offline payments such as cash on delivery (COD) and prepaid payment vouchers.

#### Conclusion

What alternative payment solutions you choose to offer will depend largely on your business and the needs of your customers. Familiarize yourself with the options available and the trends affecting your key markets and choose appropriately to maximize the growth and strength of your bottom line.

Look to the International Payout Systems to get streamlined processing capabilities that keep businesses profitable and competitive because you can get:

- A secure payment gateway for card and non-card processing
- An e-Wallet with 100% chargeback protection and built-in loyalty programs
- Over 140 real-time banking options throughout the world
- A competitively priced merchant account service
- Flexible settlement terms to give you the best possible offer
- Fraud monitoring and prevention tools to protect you from bad debt
- Total PCI DSS compliance

#### Foot notes

1 YouGov Independent Survey, 6 May 2009

2 University of Karlsruhe, 2006

3 ACNielsen: Global Consumer Attitudes Towards Online Shopping, 2005

4 Javelin Strategy & Research, Online Retail Payments Forecast 2010-2014

5 "Plastic card fraud goes back up" BBC 12 March 2008

6 China Netguide Survey 2008: Data Center of the China Internet (OCCI) and Internet Society of China (ISC)

7 Understanding Online Payment Preferences In International Markets, Forrester Research Inc.  
8 "Help Your Customers Cut Through The Alternative Payments Clutter" 21 August 2009  
9 Understanding Online Payment Preferences In International Markets, Forrester Research Inc.