

**Payment trends 2020:  
The future of pay later  
in the DACH region**

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# Payment trends 2020: Introduction

As part of our payment trends in 2020 series, in this report we take a look at the changing landscape of deferred payments in the DACH region. Here are five key trends we expect to see for payments by invoice and instalment in Germany, Austria, and Switzerland in the next 12 months.

# 1. Cultural comfort with instalment payments

Historically, consumers in the DACH region have been more averse to some forms of credit. For example, German consumers are much less likely to use credit cards than other forms of payment both offline and online.

According to our 2018 research into consumer payment preferences only 36% of Germans habitually use a credit card to make payments in-store, compared to almost half of Americans and British consumers (49% US; 48% UK), and 70% of Canadian consumers. And only 25% of German consumers habitually pay online with a credit card, compared to 34% of UK consumers, 44% of US consumers, and 61% of Canadian consumers.

However, despite this reluctance to rely on credit for spending, there is a shifting attitude when it comes to paying in instalments. To at least some degree DACH region consumers are still wary of entering into sustained credit arrangements by creating longer-term instalment plans, but a short-period agreement is now seen by consumers as less of a credit agreement, and more as a simple mechanism to offer financial flexibility without having to commit to the long-term burden of credit cards or loans.

One statistic that demonstrates this growing level of comfort with extending the deferred payment period to 3-6 months is the increase in the number of consumers that elect to extend an invoice with a 30-day payment period and convert it into an instalment plan.

According to our data, the volume of consumers in the DACH region who are taking this option has grown by over 100% in the past two years. Similarly, not only are consumers more comfortable making a greater number of payments via instalment, they are also more comfortable taking on larger repayment plans.

Where instalment payments had only been used to make moderately sized purchases, consumers now feel much more comfortable with paying by instalment for their more expensive purchases. We can see from our own data that the average basket value of an instalment plan has grown steadily in 2019.

# 36%

**of Germans habitually use a credit card to make payments in-store, compared to almost half of Americans and British consumers (49% US; 48% UK), and 70% of Canadian consumers.**

(Source: Lost in Transaction: Payment Trends 2018)

# 2. Overdue upgrades of the in-store experience

Bringing pay later options to the high street will be on the agenda for many retailers in 2020. There are several reasons for this; perhaps the main one being that that in-store retail generally is losing a significant volume of customers to online shopping globally.

Spending on the high street in the DACH region is not declining at the same rate as countries such as the US and the UK, but this general trend should still be of some concern. One reason for this potential change in consumer preference is that much of the time the shopping experience is more efficient online. Nowhere is this more true than at the checkout; online checkouts not only strive to take as much friction as possible out of the payment process, they also offer more payment methods.

So there is pressure on high street retailers to implement the same upgrades in-store. One response has been the introduction and growth of Amazon Go-style checkout-free shopping; when asked in 2018 for our *Lost in Transaction: The future of payments for SMBs research report*, 72% of in-store small and medium-sized businesses told us that they are looking for efficiencies in the way that they complete transactions, and 62% believe that frictionless transactions will speed up payments, resulting in more satisfied customers.



72%

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62%

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of in-store small and medium-sized businesses believe that frictionless transactions will speed up payments, resulting in more satisfied customers.

# 67%

**of 16-24-year-olds told us that automated payments will mean less time at the checkout and that this would make shopping more enjoyable.**

*(Source: Lost in Transaction: Gen Z expectations at the checkout)*

In our most recent consumer research report *Lost in Transaction: Gen Z expectations at the checkout*, two thirds (67%) of 16-24-year-olds told us that these automated payments will mean less time at the checkout and that this would make shopping more enjoyable.

This trend of stripping friction from the checkout process will extend to facilitating pay later solutions in 2020.

That is because currently, too often setting up a pay later instalment plan in-store is an incredibly labour-intensive process; credit checks often require the time-consuming process of filling out paper forms and then waiting up to thirty minutes for the checks to be completed. Addressing this poor user experience must be a priority for retailers in 2020.

Filling out forms at the checkout while being supervised by a cashier also generates privacy concerns; conducting a credit check in the open air of a store is the opposite of a private eCommerce experience and puts both the cashier and consumer in potentially awkward positions in cases of a decline.



## **These issues will be addressed in 2020, so that pay later solutions do draw interest from consumers and abandoned transactions from poor user experience are avoided. Features of a 2020 best-in-class solutions will include:**

### **Customer controlled applications**

Buyers will be able to upload their own personal data via their smartphone, rather than sharing this sensitive information with shop staff. This not only avoids potential privacy concerns, or the anxiety some shoppers may have about making conducting a credit check in public, it also benefits the retailer that now doesn't have to consume its resources on this process.

### **Digital credit checks in real time**

A comprehensive credit check will always be an essential step in applying for a pay later payment plan, but it is critical that this isn't to the detriment of user experience. This is best achieved by filling out digital forms that can be submitted for an instant credit check instead of excessive paperwork that can often take hours, rather than minutes to process.

### **Plan flexibility**


Consumers must be able to choose their own repayment terms from several options, rather than being offered a single repayment plan based on their application.

# 3. A shift to white-label solutions

In the world of eCommerce, it is no secret that cart abandonment is an ongoing concern for retailers. There are numerous reasons for abandoned transactions, including some that are beyond the influence of a retailer such as a consumer's shopping habits.

However, retailers are also aware that the limitations of their checkout are a contributor to their abandoned transactions rate. According to our research 30% of retailers believe that customers abandon transactions because they are not prepared to pay extra fees or charges on their purchases, and 21% say that a lack of payment options in their checkout is an issue.

Reducing shopping cart abandonment, as well as empowering consumers with greater flexibility to financially plan, is one of the most significant benefits of enabling pay later solutions for eCommerce merchants. But this is often easier said than done; a trend for digital commerce in 2020 will centre on making this more efficient. Specifically, the most significant change we expect to see in the next 12 months is the shift in preference for white-label pay later solutions over branded payment types.



**“More businesses will convert to white-label solutions in 2020 in order to offer a best-in-class solution but also protect the brand that their consumers expect to interact with”**

White-label payment solutions enable the merchant to maintain full control over the appearance and user journey at the checkout and beyond, throughout the invoice or instalment experience. More businesses will convert to white-label solutions in 2020 in order to offer a best-in-class solution but also protect the brand that their consumers expect to interact with, in order to avoid the change of brand at the checkout causing abandoned transactions.

White-labelling can also transcend to include the dunning process, where eCommerce businesses contact their customers to manage collections on outstanding accounts, and notify them when a due payment hasn't been completed. Through white-labelling this key communication process merchants also have the ability to personalise the messaging for each customer, and in doing so enhance the brand connection and user experience.

# 4. Rejecting one-size-fits-all solutions

And as well as preserving brand presence throughout the checkout, a priority for merchants in 2020 will be to move away from one-size-fits-all pay later solutions, and instead adopt more tailored solutions.

No two businesses are the same, yet many pay later solutions offer a single product to all merchants. Alternatively, a fully customisable pay later solution enables merchants to tailor the payment option to suit their business and their customers.

# **The level of control merchants have over their pay later solutions differs considerably, but here are some of the customisations we think will become more important to merchants in the next 12 months:**

## **1. Payment due on delivery**

For merchants that sell customised goods that are made to order, consumers may have to wait a substantial period of time for their purchase to be shipped. And this period may even be extended if the merchant is depending on a supply of materials to fulfil the order and this is delayed.

With many pay later solution providers the repayment period automatically begins once the order is placed; however, customising so that the repayment period only begins once the goods are shipped is becoming more important to merchants as there may be a substantial and unpredictable length of time between the order being placed and the product being delivered. For businesses supplying custom goods this makes a significant difference to overall customer satisfaction.

## **2. Buying down consumer pricing**

Often the cost of making payments on instalment for the consumer are fixed; it is set by the payment services provider, so the merchant has no influence over this. Increasingly merchants are demanding the ability to elect to absorb a portion of costs normally passed onto the consumer by payment services providers as a business strategy, thus reducing the payment rate for their customers.

## **3. Temporary absorption of penalty fees**

During periods such as the holiday season, merchants are now demanding the ability to give consumers an extended payment period. The reason for this is that not only does this give customers some leeway with their payments during a stressful time of year but also avoids customer complaints about being charged for late fees if their order is incorrectly fulfilled, which is more likely at this busy time of year.

# 5. Integrating pay later solutions with cash

**Payment by instalment and payment by invoice will grow as alternative payment methods in the DACH in their own right in 2020.**

But additionally, one further trend we predict we will see come to the fore is an integration of pay later solutions with other alternative payment methods, and most notably for the DACH region integrating invoices with cash. This is because cash is so central to consumer spending in Germany, Austria, and Switzerland.

According to S&P Global, in 2017 almost half (47.5%) of all transactions in Germany including online payments were still conducted in cash. According to Deutsche Bank 74% of retail transactions are still made using cash in Germany.

And consumers in Germany and Austria carry more cash on them than consumers in virtually every other country in Europe. According to Deutsche Bank the average German carries €107 in cash; separate reports have stated that the average German carries €103 and the average Austrian carries €89.



€107

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According to Deutsche Bank the average **German** carries €107 in cash



€89

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According to Deutsche Bank the average **Austrian** carries €89 in cash

# 74%

**of retail transactions  
are still made using  
cash in Germany.**

*(Source: DeutscheBank)*

This dependence on cash is also borne out in the statistics on contactless card adoption. Whereas 54% of UK consumers told us that they habitually make payments using a contactless card, the same is done by only 32% in Austria, and only 29% in Germany.

So it is understandable that enabling consumer who prefer to use cash to pay invoices this way is a strategy for growing the pay later market that we will see more merchants adopt in 2020. This can be implemented in a number of ways, including placing a QR code within a paper invoice that can be scanned by a smartphone and linked to an eCash solution such as Paysafecash.



# Final thoughts

**For both digital retailers and high streets stores, re-thinking how they offer consumers the ability to defer payments at the checkout should be a priority when it comes to improving the customer experience in 2020.**

This is because consumers are increasingly comfortable with, and even demanding, the financial flexibility of a short-term, pay by instalment, credit agreement. But they're also more demanding when it comes to a good experience at the checkout, be that a smooth, non-intrusive experience when interacting with sales staff in-store or maintaining contact with the brands they love when making a payment online.

Partnering with a pay later solution provider to ensure delivery of best-in-class instalment and invoice solutions is the most efficient and effective way for retailers to succeed with pay later; merchants must be confident they are working with a pay later partner that not only understands the issues retailers face when looking to maximise the revenue potential of pay later, but also specialises in personalising the solution provided.

The future is bright for online and in-store retailers that manage that partnership effectively.



## About Paysafe Group

Paysafe Group (Paysafe) is a leading specialized provider of end-to-end payment solutions. Its core purpose is to enable businesses and consumers to connect and transact seamlessly through industry-leading capabilities in payment processing, digital wallet, card issuing and online cash solutions. With over 20 years of online payment experience, an annualized transactional volume of over US \$85 billion, and approximately 3,000 employees located in 12+ global locations, Paysafe connects businesses and consumers across 200 payment types in over 40 currencies around the world. Delivered through an integrated platform, Paysafe solutions are geared toward mobile-initiated transactions, real-time analytics and the convergence between brick-and-mortar and online payments.

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