Lost in Transaction

Payment strategies for changing consumer behaviours

Volume I & II

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Volume I:

Contradictory perspectives

The most common view about money and payments today suggest impending doom for cash payments.

> On average, 75% of 18-34 year-olds in Canada and the United States said they preferred to shop online rather than going into physical stores.

Hard currency is being phased out as Main Street shopping is over. Bricks and mortar stores are becoming increasingly irrelevant in a consumer market focused on e-commerce. Since 2002, US department stores have lost 448,000 jobs (representing a 25% decline), while the number of store closures this year is on pace to surpass the worst depths of the Great Recession.[i]

Yet, Amazon has opened several physical retail outlets, including the first-ever checkout-free store, and acquired organic grocery retailer, Whole Foods. Black Friday is still every bit as chaotic on the floor as it is online. While *The Wall Street Journal* opines about the struggle to completely replace cash with digital alternatives and *Bloomberg* reports on the Danish government now allowing some shops to refuse cash payments amid its move toward a 'post-cash' society. Consumer card payments surpassed cash payments for the first time in 2016, registering USD $23.1 trillion globally.[ii]

It can be challenging to know which narrative to believe, but one thing is certain: digital payments are standard. The success story for commerce today is about meeting the permutations and combinations of payment methods and customer experience that shoppers have come to expect.

The evolution of payments

A fast-paced and versatile payments environment is taking shape, where cash is evolving to merge with digital formats so that people can spend it easily, both online and in-store.

Developments in this new environment are so fast that some businesses face the risk of becoming irrelevant and potentially obsolete, unless they stay on top of this evolution. Reworking business capabilities, redesigning operating models and managing change to accommodate the new payments environment is the entry ticket to maintaining healthy customer relationships in a global system where attitudes to how one makes purchases with cash, card and credit are fluid.

To get to the heart of what is really going on in this fast-moving, disruptive payments ecosystem, Paysafe Group commissioned an independent research study to investigate consumer buying habits, attitudes to cash and the preferred payment choices across the United States, Canada and the United Kingdom.

Online shopping is yesterday's news: for nearly twenty years, commerce has adapted to the fact that the customer journey is no longer linear and the final transaction isn't necessarily a cash exchange. So, where is the next market disruption coming from?

According to our study, the key trends unfolding include:

- Increased consumer confidence in mobile payments
- A proliferation of new ways to process a transaction
- Consumer behaviour that is increasingly fluent in 'multi-browsing' on the move, that is, walking into a store to buy something and walking right out again if they find a better deal on their mobile phone.

> For travel and leisure purchases, Americans prefer online shopping, but apps are favoured over mobile sites and now dominate online cab bookings.

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Executive summary

Lost in Transaction is a new independent research project conducted by Paysafe in conjunction with Loudhouse, a London-based research agency.

It reveals that attitudes towards buying and payment in Canada, the United States and the United Kingdom are changing rapidly. In all three markets, consumer behaviour, particularly amongst 18 to 35-year-olds, shows a confidence in mobile shopping and a demand for multi-platform payment options. In order for businesses to succeed, they must offer a two-pronged approach to the customer experience: choice, convenience, reach and flexibility in their payment solutions whilst balancing the consumer need for secure transactions.

Read on to learn more about current changes in shopping habits, attitudes to cash, the uptake of new payment methods, and how businesses can meet multi-faceted consumer demands when it comes to an age-old transaction: payment.

Key findings

Security remains a concern for continued contactless & mobile wallet payment adoption for the UK, US and Canada

42%

42% of respondents cite hidden transaction fees and delivery charges as the main reason for abandoning their online shopping carts

46%

46% are dual-browsing – looking for better deals on their mobile while browsing in a physical shop

85%

There's a generational shift to mobile wallets, with over 85% of 18-34 year-olds expecting to use them more over the next two years

54%

54% of consumers expect to stop using cash for shopping in the next two years

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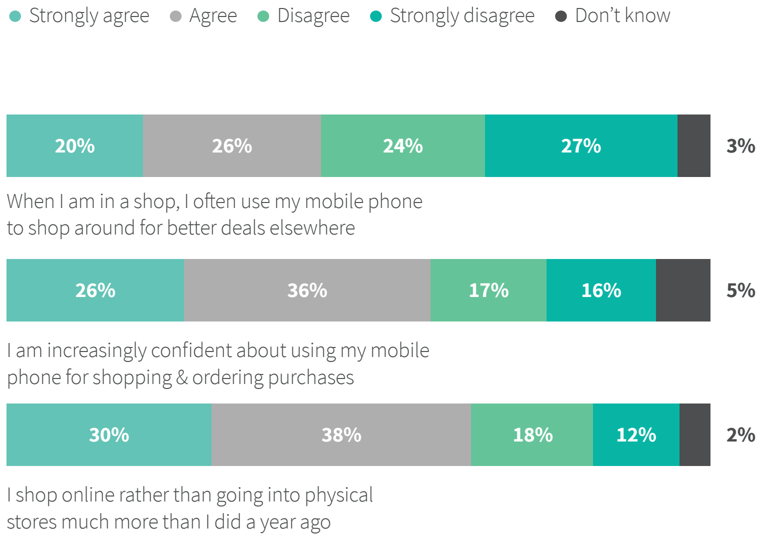
A seismic shift

Businesses thrive or die based on their ability to forecast market trends and to adjust accordingly in order to capitalise on 'the next big thing'. Within the payments industry, businesses are witnessing a seismic shift toward digitised transactions. Five years ago, contactless payments barely existed in the UK, yet today, a third of card payments are now contactless. A total of £4.5 billion was spent via contactless in May 2017, up 12% in just one year.[iii]

At the heart of this behavioural shift is the consumer's desire for greater choice and convenience. Additionally, completing a purchase on a mobile phone is becoming mainstream behaviour, rather than one relegated to early adopters of technology.

> "The world is a different place to the one where traditional hard currency was the only option. Today, people shop in new ways. Mobile is a preferred device and physical stores are showrooms as much as they are outlets.
>
> **Danny Chazonoff, Chief Operating Officer, Paysafe**

Fig. 1: Changes in shopping habits



From dual-screening to dual-browsing

The emergence of dual-browsing – when people browse and buy online, while physically in-store – was inevitable. However, some businesses have prepared for it far better than others. The Apple Store is a prime example of the reimagining of the retail customer experience. The physical store is no longer just a place to buy products, but rather, a space to nurture customers. In May 2017, Apple announced its 'Today at Apple' educational programme, designed to drive brand loyalty by providing creative classes such as photography and coding. This was effectively a shift towards a showroom experience, where customers immerse themselves in the brand, rather than simply buying products off the shelves.

Other stores which have embraced the online shopping experience with the in-store encounter have done more than just survive – they've prospered. For instance, traditional catalogue businesses, such as the 'warehouse' retailer Argos, have maintained or expanded their space on the UK retail map in recent years.

The basic lesson is that new modes of shopping have big implications and they become bigger when audience demographics are brought into the equation. This is primarily because businesses that fail to prepare their ground for the shoppers of tomorrow (whether through ignorance or stubbornness) will almost inevitably miss out on huge opportunities. The iconic Canadian retailer, Eaton's, didn't move with the times and foresee changing consumer taste filed for bankruptcy in 1999. In the United States, popular electronics retailer RadioShack filed for bankruptcy twice since 2015 because it couldn't respond to the competition that online retailers such as eBay and Amazon presented to the market.

Accessing emerging consumer segments

Age plays a significant role in today's consumer shopping behaviour. Across all three markets, those under the age of 34 are the most confident mobile shoppers, comfortable with using a phone to browse while scanning the aisles.

The flip side of this trend is that with just a few modifications to a payment suite (either in-store or online), companies can make their products or services immediately more accessible to these emerging consumer segments.

Within this context there are many disruptors intent on providing new shopping experiences. The Amazon supermarket demonstrates that one can shop in the real world while paying in the digital – turning their original proposition on its head. Target are now following suit with an in-store mobile payment offering. Many more retailers will surely follow the showroom model, while there are others that will lose custom to them.

It's clear that these retail giants are catering for buyer types emerging from Millennials and Generation Z – people who prefer dual-browsing and consider the convenience it offers as essential to their retail experience. These retailers understand the experiences consumers will expect in five years from now, and are creating prototype versions of tomorrow's technology.

Levelling the playing field

A few modifications to the payments suite can mean that a business will immediately be able to offer the same options at the checkout as established competitors. This is particularly true for smaller companies. And by being able to provide a similar range of payment, pricing and shipping options, a local bookshop can be on the same footing as Amazon.

> New payment technologies are now levelling the playing field. Even smaller businesses can rely on first-rate capabilities in payment, authentication and security. It's a springboard they can use to compete with the big guys.
>
> **Jean-François Noël, CEO of FANS Entertainment and GOLO**

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Fig. 2: How shopping behaviour is changing

18-25 | 26-34 | 35-44 | 45-55 | 56-64 | 65 or over | Male | Female

I shop online rather than going into physical stores much more than I did a year ago

	18-25	26-34	35-44	Male	45-55	56-64	65 or over	Female
UK	81%	79%	76%	70%	66%	61%	49%	73%
US	74%	74%	76%	72%	70%	59%	56%	70%
Canada	76%	75%	64%	61%	58%	51%	35%	61%

I am increasingly confident about using my mobile phone for shopping & ordering purchases

	18-25	26-34	35-44	Male	45-55	56-64	65 or over	Female
UK	81%	81%	76%	63%	56%	38%	20%	64%
US	84%	83%	81%	70%	66%	47%	39%	73%
Canada	70%	69%	58%	53%	44%	36%	16%	50%

When I am in a shop, I often use my mobile phone to shop around for better deals elsewhere

	18-25	26-34	35-44	Male	45-55	56-64	65 or over	Female
UK	47%	63%	49%	45%	33%	20%	06%	37%
US	63%	68%	70%	59%	45%	30%	22%	54%
Canada	60%	58%	47%	45%	34%	22%	12%	39%

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A whole new world

The research challenges businesses to reimagine the shopping experiences and allow for behaviours that were almost unthinkable ten years ago. Particularly because the emerging typologies of shoppers from Millennial and Generation Z demographics will expect it.

It's tough. But there's a parallel in the lesson TV companies learned from dual-screening. It's not about merely tolerating new behaviours. It's about embracing and leveraging them. While Netflix and Amazon Prime created a new normal in viewing behaviours, network television quickly caught on and adjusted the broadcast model to how content is consumed: on demand, on the move and in a multitude of formats.

The payments equivalent of this journey starts with merchants understanding how consumers use money, where they use it and which formats they prefer.

64% of Canadians we surveyed buy their flights online.

What we're buying

The research uncovers some general trends across regions. For example, most people still prefer to buy their groceries in person (94% in the US, 96% in the Canada and 78% in the UK). And even though a taxi service can be paid for in cash, the trend in this payment behaviour is shifting, particularly in the UK where half of those surveyed use an app to order a cab.

However, there are certain regional trends.

UK consumers are the most likely to buy goods such as clothes, furniture and gifts online (either via a PC/laptop, tablet or phone). While in the US, it's becoming common to use an app (19%) or PC/laptop (24%) to order lunch. And Canadians are the most likely to buy flights and holidays on the internet.

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Cash culture clash

To understand a little more about the changing nature of cash, and why this affects consumers and businesses alike, we asked respondents about their relationship with money, what they carry and what they use. A comparison of American, British and Canadian wallets is shown in Figure 3.

One in four Canadians between the ages of 18 and 34 are cash-free. One in five Americans aged between 56 and 64 are also cash-free.

Fig. 3: What's in my wallet?

UK	US	Canada
56% of Brits typically carry no more than £20 in cash	The average American carries $50 in cash	The average Canadian carries under $50 in cash
34% typically visit an ATM just once a month	**54%** typically visit an ATM just once a month	**56%** typically visit an ATM just once a month
45% used cashback in the last month	**54%** have used cash back in the last month	**40%** used cashback in the last month
30% wrote a cheque in the last month	**50%** wrote a cheque in the last month	**40%** wrote a cheque in the last month

> The days of withdrawing enough cash for an evening out are no more, with many happy to pay on a card. There's more trust in new technology and alternative cash payments.

Lorenzo Pellegrino, CEO - Digital Wallets & Income Access, Paysafe

> The US may still favour writing checks, but don't let that mislead you. Americans are embracing new payment methods quicker than most. One in seven have used cryptocurrencies; one in six biometrics. These early adopters are creating momentum for wider adoption and change.

Joe Daly, Chief Operating Officer, Paysafe Payment Processing, North America

> With younger Canadians adopting a less cash-centric approach, the opportunity for innovation is becoming clearer. Contactless payments and mobile wallets are now normalised and growing payment methods.

Daniel Kornitzer, Chief Product Officer, Paysafe

Fig. 4: How much cash do you carry on a typical day?

None – I rarely carry cash

	18-25	26-34	35-44	45-55	56-64	65 or over	Male	Female	Total
🇬🇧	25%	20%	14%	15%	5%	9%	9%	21%	16%
🇺🇸	18%	18%	17%	18%	20%	12%	12%	21%	17%
🇨🇦	25%	26%	19%	16%	14%	11%	16%	22%	19%

These are clear signs that change is afoot. Cash in its traditional form of notes and coins is losing traction among consumers in all markets, and particularly among the younger demographic. As these newer generations become the dominant consumer force, this shift away from traditional cash will become the established order. Savvy businesses will respond with agile operating models and relevant payment methods.

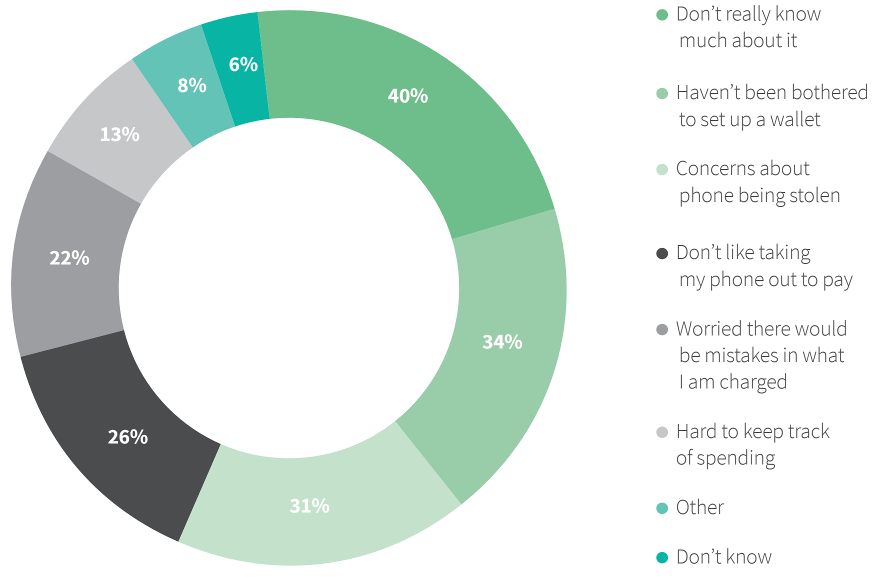
The question for today's businesses is, despite consumers being apparently cash-free, by what means and format are they spending their cash instead?

AltCash: Barriers to entry

While innovators and early adopters are moving to contactless payment and cryptocurrencies, the path towards cash alternatives – or AltCash – isn't entirely smooth for the remaining consumer base. For example, the main barrier to faster adoption of contactless payment is security, according to respondents across the US, UK and Canada (63%, 68% and 64% respectively).

As illustrated by Figure 5, poor knowledge and general apathy are the most prevalent barriers to the wider adoption of mobile wallets. However, with a third of respondents citing concerns about phone theft and a quarter preferring not to take their phones out when paying, security issues are also very much top of mind.

Fig. 5: Why not using mobile wallet



NB: Respondents were able to provide multiple answers

Mobility, convenience and catching the wave

Our research shows that contactless payments (Figure 6) and mobile wallets (Figure 7) are popular among many respondents. Three in five Britons and Canadians are using contactless payment, and the younger demographics in each market are twice as likely to use Apple or Android Pay than their older peers.

Both contactless and mobile wallet solutions tick that crucial box of convenience. The majority of those who have used a mobile wallet agree that it is more convenient than carrying cash. And out of those surveyed, only US respondents were slightly sceptical about its convenience (with only 49% rating it as easier to use).

This is the crest of the first wave of behavioural change when it comes to mobile payments. Our research shows that while nearly four in five people carry less cash than they did a year ago, consumers still aren't wholly comfortable with contactless payments – they'd rather pay with their mobile. Across all respondents, we are seeing behaviour that is leap-frogging card payments and going straight to digital wallets.

Fig. 6: Regional differences in cash and contactless behaviour

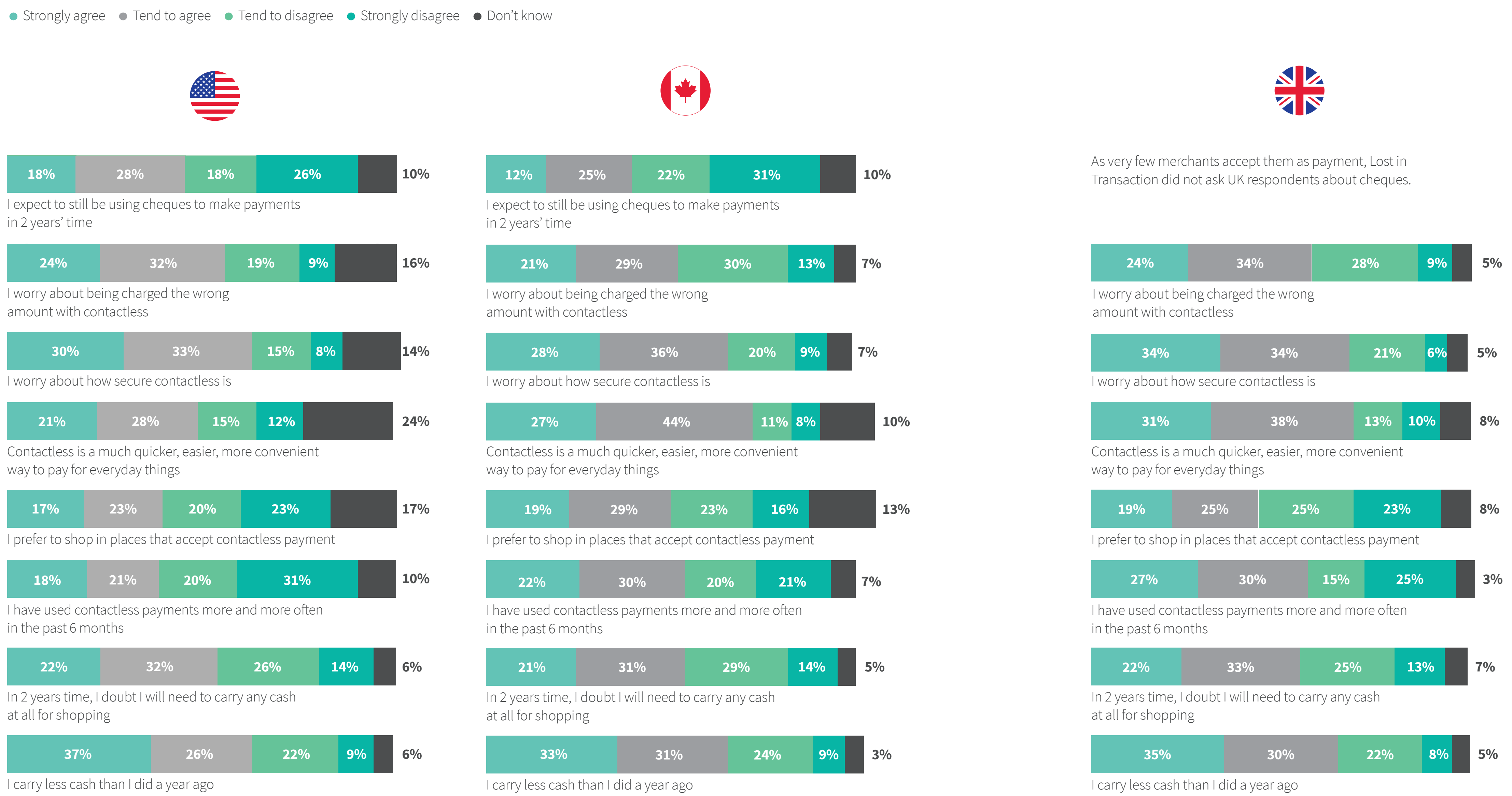
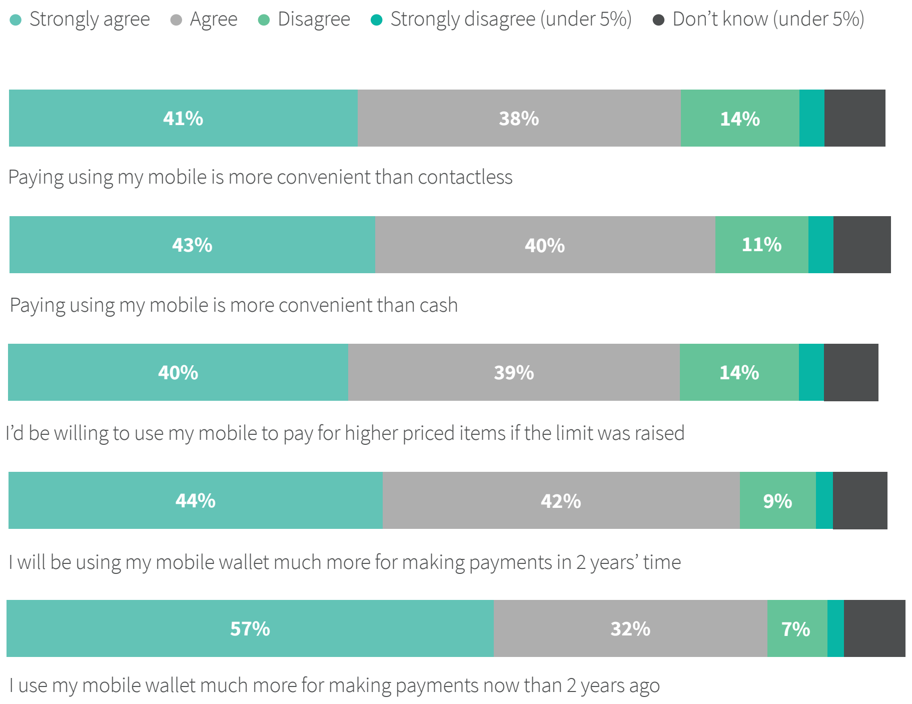


Fig. 7: Behaviours in cash and contactless usage (combined)



Simply the beginning

Awareness of the more cutting-edge payment innovations is – at present – comparatively low. But, given the trends suggested by the research, early adopters set the agenda and we can expect awareness of cryptocurrencies and biometric identity verification to become more mainstream.

If online shopping was the first wave of change that radically transformed commerce, then the mechanism by which commerce is conducted is likely to be the next wave of innovation that takes hold. While Bitcoin is not yet mainstream, nearly half of those surveyed were aware of it, and expect merchants to offer it as a payment option in the near future.

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Fig. 8: Awareness of emerging payment and security technologies

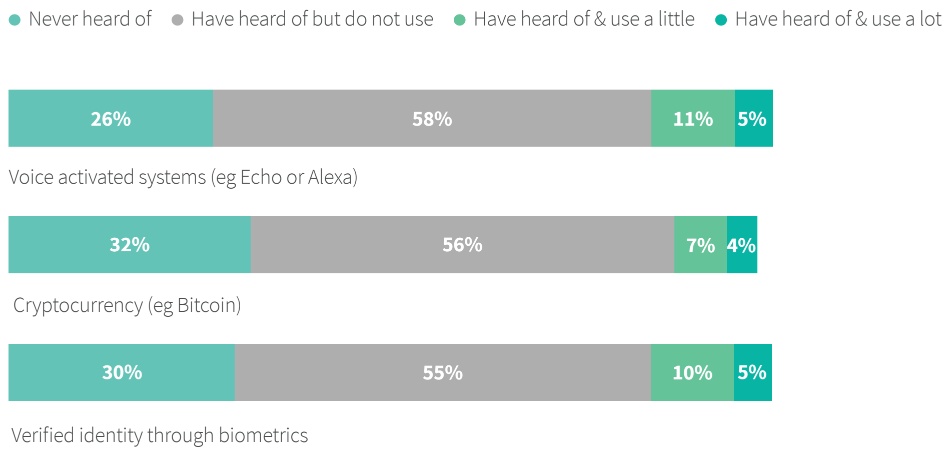
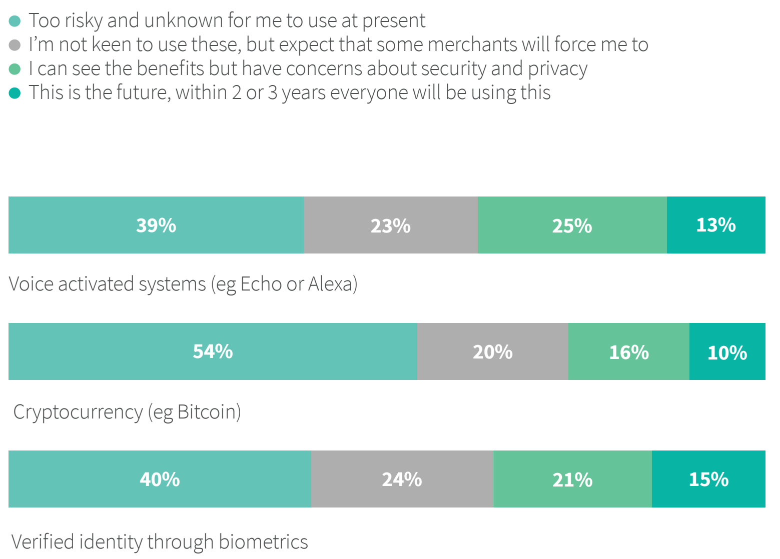


Fig. 9: Attitudes to emerging payment and security technologies



The payments trend

With the research showing a generational trend towards mobile wallet usage (86% of 18-25 year-olds and 89% of 26-34 year-olds think they'll be using it more in two years), the future of alternative cash payments and mobile wallets becoming the norm is clear.

As the evolution of cash continues to accelerate, so too will the demand for businesses to ensure their payments offerings keep pace in terms of choice, convenience, speed and accessibility.

Why people don't buy

Not surprisingly, if there's a payments challenge every merchant wants to solve, it's the abandoned cart. Of those we surveyed, 67% of people had abandoned an online shopping cart in the last month.

While we know the migration to online shopping has grown markedly in the last few years (an increase of 54% since 2000), the fact is that carts are still being abandoned at an alarming rate. The average consumer performs an online walkout twice a month, with 38% of 18-25 year-olds and 39% of 26-34 year-olds prone to ditching their shopping two to three times a month. And almost one in five 18-25 year-olds will do so once a week.

The question any business should ask themselves is, why?

Fig. 10: In the past month how often have you left a merchant's online website with items still in your shopping cart?

	Mean	Have not done in last month	Once	2-3 times	4-5 times (ie about once a week)	6-7 times	8-10 times (ie at least twice a week)	11-15 times	More than 15 times	Don't know
UK	2.03	32%	17%	30%	10%	3%	1%	1%	2%	5%
US	2.5	25%	14%	36%	12%	4%	3%	1%	2%	3%
Canada	1.9	33%	16%	30%	10%	2%	1%	1%	1%	5%
Total	2.14	30%	16%	32%	11%	3%	2%	1%	2%	4%

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The root cause of abandonment

Customers are fickle, with 40% citing their main reason for cart abandonment is to shop around elsewhere. Retailers who will win their custom therefore need to have the perfect product, website functionality, price point and service. And any business that tries to make buyers incur 'hidden' fees will find their carts abandoned in favour of those who don't.

It's not hard to imagine why. The research shows that regardless of age or region, customers find hidden transaction fees both confusing and annoying. Such fees are a particularly hot topic in the UK at the moment, where the government has recently announced that charges for paying by credit or debit card, which can be as high as 20%, are to end. Similar conversations in the US are also underway.

However, as Figure 11 and Figure 12 show, hidden fees are not the only reason for abandoned carts. Inconvenient delivery, poor website performance and a lack of payment options are also cited as problems.

Fig. 11: Which of the following have prompted you to abandon your shopping cart/trolley

	UK	US	Canada	Total
Hidden transaction fees and delivery charges	43%	37%	45%	42%
Decide to shop around further	35%	45%	40%	40%
Product not in stock, delivery will take too long	29%	31%	24%	28%
Inconvenient delivery times	26%	25%	22%	24%
Can't decide what I want	18%	26%	27%	24%
Website is too slow	24%	19%	16%	20%
Lack of payment options	20%	17%	20%	19%
Problems or excessive fees	12%	13%	23%	16%
Security or payment approval	11%	12%	9%	11%
Website is not easy to use on a mobile	10%	11%	7%	10%

Fig. 12: Shopping cart abandonment reasons (by age)

Reason	18-25	26-34	35-44	45-55	56-64	65 or over	Male	Female	Total
Hidden transaction fees and delivery charges	42%	38%	40%	43%	50%	48%	39%	43%	42%
Decide to shop around further	39%	39%	37%	45%	44%	47%	32%	46%	40%
Product not in stock, delivery will take too long	32%	29%	29%	23%	30%	25%	32%	46%	28%
Inconvenient delivery times	30%	30%	24%	16%	17%	9%	28%	22%	24%
Can't decide what I want	31%	25%	18%	24%	21%	26%	16%	29%	24%
Website is too slow	22%	18%	22%	19%	19%	14%	22%	18%	20%
Lack of payment options	26%	21%	17%	17%	12%	11%	20%	18%	19%
Problems or excessive fees	19%	19%	15%	9%	15%	10%	19%	13%	16%
Security or payment approval	13%	13%	10%	10%	10%	6%	13%	9%	11%
Website is not easy to use on a mobile	16%	10%	9%	8%	6%	5%	9%	10%	10%

The future of payments

The consumer environment is changing. Society has nearly achieved fluency with online shopping and we are now moving towards new possibilities. Future consumers will embrace these new possibilities with gusto. Improved authentication methods and cryptocurrency will enhance security, therefore encouraging people to pay anytime, anywhere and anyhow.

However, as payment options increase, many businesses will inadvertently exclude themselves from reaching those consumers who choose not to use credit, or choose not to provide their bank details online. To stay relevant and accessible to this customer base, businesses must offer the alternative cash solutions these customers prefer.

Tomorrow's success relies on businesses being able to flex their payment capabilities and reflect the evolution of cash. Because cash-free is not the same as cash-less. At the same time, many businesses will need also to call into question what purpose, if any, a physical presence serves them. They also must accept that shopping behaviours will always be in flux, and that the customer journey will never again be a linear process.

And finally, the proliferation of different payment methods means that customers expect to be catered for when parting with their money. Those merchants who seize the opportunities provided by this new normal will be best placed for the next big wave in omnichannel retail.

> Cash-free is not cash-less. Consumers have more ways than ever to spend cash online, but businesses are not keeping pace.

Oscar Nieboer,
Chief Marketing Officer,
Paysafe

> Inclusion is key. For consumers without bank or credit cards, the ability to convert cash into e-money via voucher based systems is critical to their ability to participate in the e-economy.

Udo Muller,
CEO of paysafecard,
Paysafe

Volume II:

Introduction

More than two decades since the advent of the web, successful digital business strategies remain an elusive target for many e-commerce operators and vendors.

Intense competition, an increasingly complex blend of marketing channels, cross-border challenges, fraud, risk, and a multitude of digital distractions all conspire to make life difficult for merchants – not least when it comes to payments, the critical component in successful sales transactions.

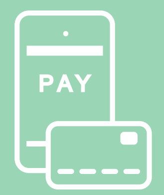
Today, the primary battleground for attracting customer spend is the so-called customer experience. Make life easy and enjoyable for customers, the argument goes, and the money will inevitably follow; a mantra currently driving design and implementation strategies across the whole continuum of digital retail environments.

The big question for retailers is how well these strategies really translate into greater sales volumes. Innovation around customer experience is clearly a vital factor in attracting and keeping customers. But many other factors continue to play a critical role in converting experience over to transactions. Concerns about fraud in particular and the safety of merchants' payment methods in general remains a serious barrier to completed transactions. The abandoned shopping cart, in particular, has long been a thorn in the side of digital vendors, representing not just lost immediate sales but future growth and advocacy too.

Finding the right balance between customer convenience and confidence in transaction security is one of the greatest challenges that merchants face. As payment methods proliferate and customer preferences shift accordingly, that balance will become even harder to maintain.

In *Volume I*, we looked at the trends in payments methods, and how consumer preferences are changing. *Volume II* looks at how businesses can meet challenges set out by a fast moving payments industry and ever-evolving consumer demand. In particular, it examines the reality of consumer expectations around experience and security; why merchant attitudes towards payment methods might not be sufficiently well aligned to those expectations; and, ultimately, how they may be losing significant business and revenue as a result.

67% of people have abandoned an online shopping cart in the last month



Key findings

The most significant finding from this report is that convenience matters less then security to the majority of consumers.

The widely-held belief that consumers value convenience above all is a potentially dangerous one; investment in customer experience is undoubtedly important, but not at the expense of trust and security.

The second key finding of this study is the sense that security and trust customers have for a merchant is directly correlated to how their data is protected. High-profile stories of major brands suffering data breaches – credit monitoring agency Equifax and payday loan company CashNetUSA are just two of the most recent examples – continue to dent consumer confidence. So too has growing public awareness of the threat of identity theft. The practical impact of these threats is a real and measurable one; our research shows that most consumers would readily accept more stringent methods of payment security, including two-factor authentication, if it could lead to a reduction in fraud.

Thirdly, there is also a high correlation between trust in merchants and the payments methods they use, even if that trust is misplaced. Merchants offering trusted payments mechanisms are seen as secure by extension, despite the fact that even the most well-known payments brands are vulnerable to fraud – 8% of consumers surveyed here were victims of fraud through digital wallet usage in the last year.

Finally, fraud reduction must be a priority for merchants across the board. While many merchants are investing in experience, they must also continue to invest in payments methods that not only make consumers feel safer but which actually are more secure. Reduction in the incidence of fraud in particular must be a key objective for any merchant conducting transactions online. Failure to do so will lead to financial losses for companies and consumers alike. Conversely, the merchants that successfully reduce fraud and demonstrate robust security will have more trusted relationships, greater frequency of purchases, and fewer customers lost in transaction.

> “Customers have spoken. It's not about making paying online easier anymore. It's about making it safer. Businesses need to listen.
>
> **Oscar Nieboer, Chief Marketing Officer, Paysafe Group**

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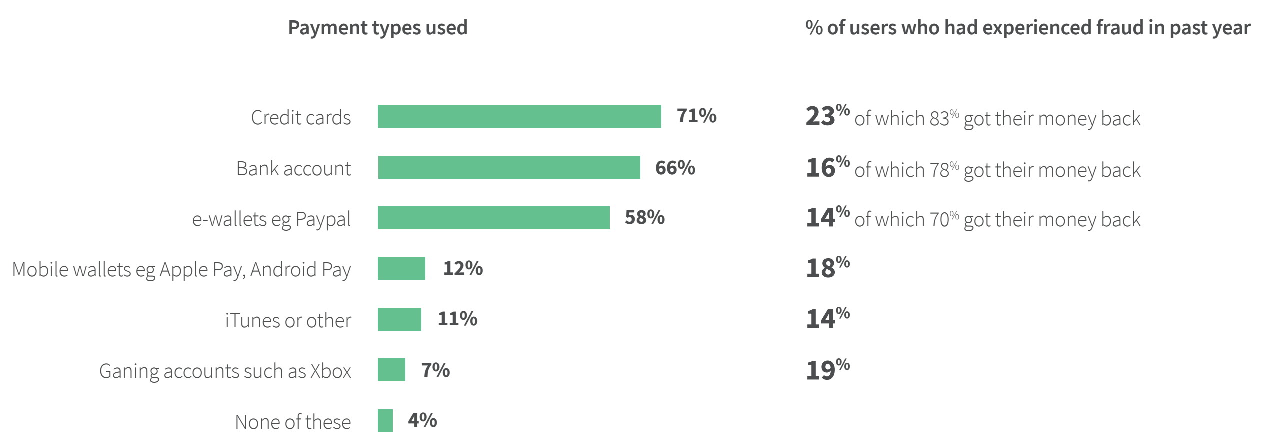
The Consumer View

An inevitable risk?

Online fraud is hardly a new phenomenon. Since the beginning of the e-commerce explosion in the late 1990s, the web has been a fertile ground for hackers and fraudsters targeting consumers with weak security defences. What is new, however, is that consumers now view fraud as an inevitable part of shopping online. Consumers are more conscious of, and educated about, fraud than they ever have been; in surveying three key retail markets (US, Canada and the UK,), our study found that around half of the consumers in each country see fraud as an inevitable risk if they use online retailers1. At the same time, 81% of consumers avoid shopping via unsecured or public networks, a clear behavioural response to the very real threats of fraud.

Of those who do fall victim to fraud, many eventually recover their losses – 83% of credit card users, 78% of bank account users and 70% of digital wallet users. Across those three payment channels, however, more than one in five shoppers suffer permanent losses, often running into hundreds of dollars or pounds. Even those who are reimbursed are likely to have a negative view of the whole experience – not just the merchant involved but the payment method used too. For example, the 70% of consumers who have experienced fraud via a digital wallet are likely to have greatly diminished trust in both the retailer and the payments platform from then on.

Fig. 1: What payments systems do you use? / Have you suffered from fraud and, if so, did you recover your losses?



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Right the wrong balance

It is unsurprising, then, that consumers are starting to favour security and fraud protection over the convenience of quick and easy online purchases. Exactly how businesses are responding to this trend is less clear-cut. Just over half (54%) of merchants believe their consumers are not fully aware of the risks of fraud according to this study – and 36% fear their customers will resist further fraud reduction measures that might compromise convenience.

This dichotomy is illustrated by the imbalance between buyers and sellers in terms of their acceptance of better security.

58% of consumers said that they would be willing to accept whatever security measures are necessary to eradicate fraud, with two-thirds being open to a two-step authentication process – a clear challenge to the idea that all consumers want password-free, one-click payment methods rather than more secure processes that, by their very nature, take more time. Yet only 36% of merchants say that they would increase security regardless of the impact on convenience.

This balancing act is now at the heart of every modern digital business.

> “We’re all guilty of saying one thing but doing another. Consumers say they’re up for extra security measures but will they continue to be engaged when if, for example, they encounter double authentication?
>
> **Daniel Kornitzer, Chief Product Officer, Paysafe Group**

Merchant Payment Methods

Navigating the payments landscape.

Life for today's digital merchants is complicated by the sheer number of online payments options that consumers demand. Inevitably, cards continue to dominate the landscape – despite the fact that nearly 40% of merchants would like to see less use of both credit and debit cards, according to this research. One notable feature of this breakdown is the difference in adoption rates of digital and mobile wallets. Despite the dominance of mobile devices in consumers' lives and the dramatic increase in so-called commuter commerce, adoption rates of cloud-based digital wallets such as PayPal still greatly exceed that of device-based mobile wallets among retailers (77% versus 55% respectively). Perhaps the most surprising trend here is the presence of blockchain-based systems such as Bitcoin, already offered by 23% of retailers we surveyed – an indication that cryptocurrencies are rapidly getting a seat at the table.

Fig. 2: Online payment methods offered

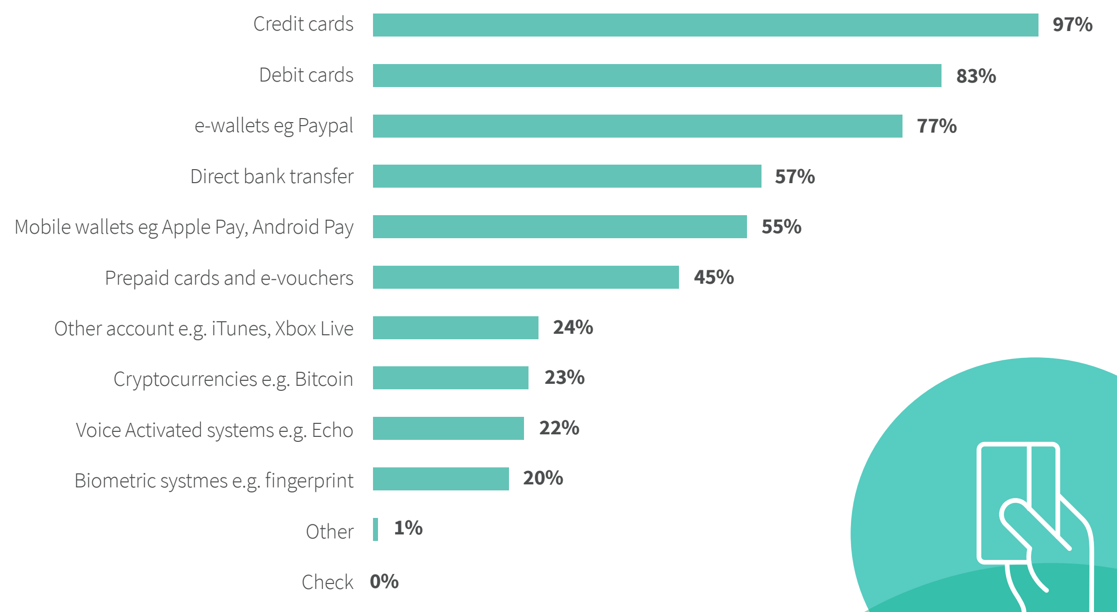

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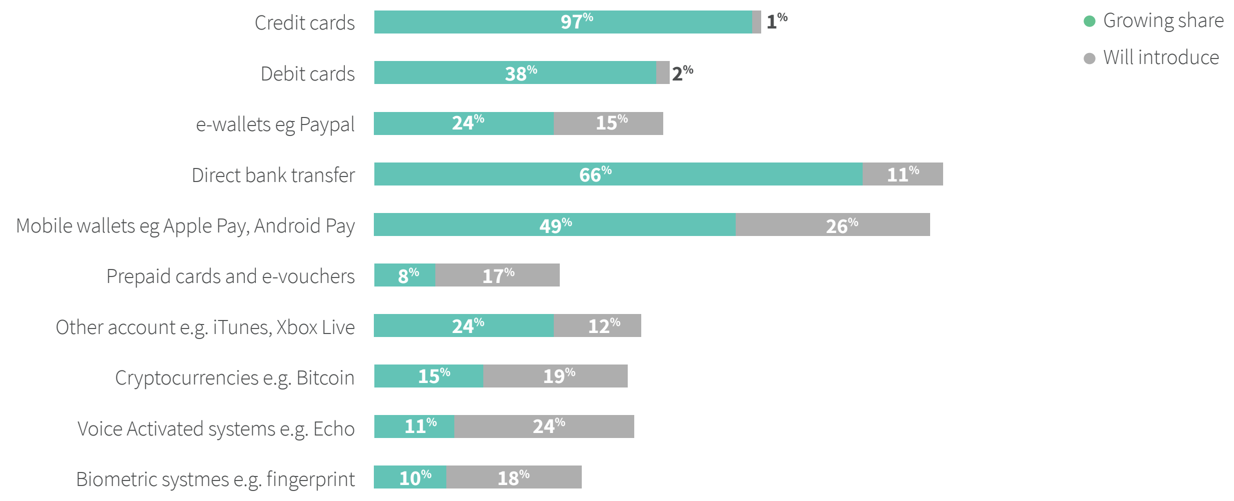
Fig. 3: Payment methods offered by country

	Online			Offline		
Credit cards	96%	98%	98%	79%	77%	65%
Debit cards	88%	94%	68%	77%	82%	72%
Check	-	-	-	74%	60%	57%
Prepaid cards and e-vouchers	42%	43%	51%	41%	29%	39%
e-wallets e.g. Paypal	74%	80%	77%	35%	30%	24%
Mobile wallets e.g. Apple Pay, Android Pay	62%	59%	45%	35%	37%	30%
Other account e.g. iTunes, Xbox Live	24%	20%	28%	-	-	-
Direct Bank Transfer	57%	60%	55%	41%	46%	29%
Crypto Currencies e.g. Bitcoin	23%	22%	23%	11%	13%	17%
Voice-activated systems e.g. Echo or Alexa	21%	18%	26%	-	-	-
Biometric systems e.g. fingerprint	18%	20%	21%	16%	18%	13%

How will this picture evolve over the next two years? *Lost in Transaction: Volume I* showed that 89% of people believe they will be using their mobile wallets much more in two years' time, and that a quarter (23%) agree that cryptocurrencies such as bitcoin are a key element in the future payments landscape. Both of these findings are supported by the merchant adoption plans highlighted in this study. Merchants expect significant growth in traditional card-based methods, but Figure 4 shows that the big news is in wallets; both digital and mobile wallets are expected to make increasingly important contributions, with retailers either prioritising their use, introducing them or (in the case of digital wallets) both.

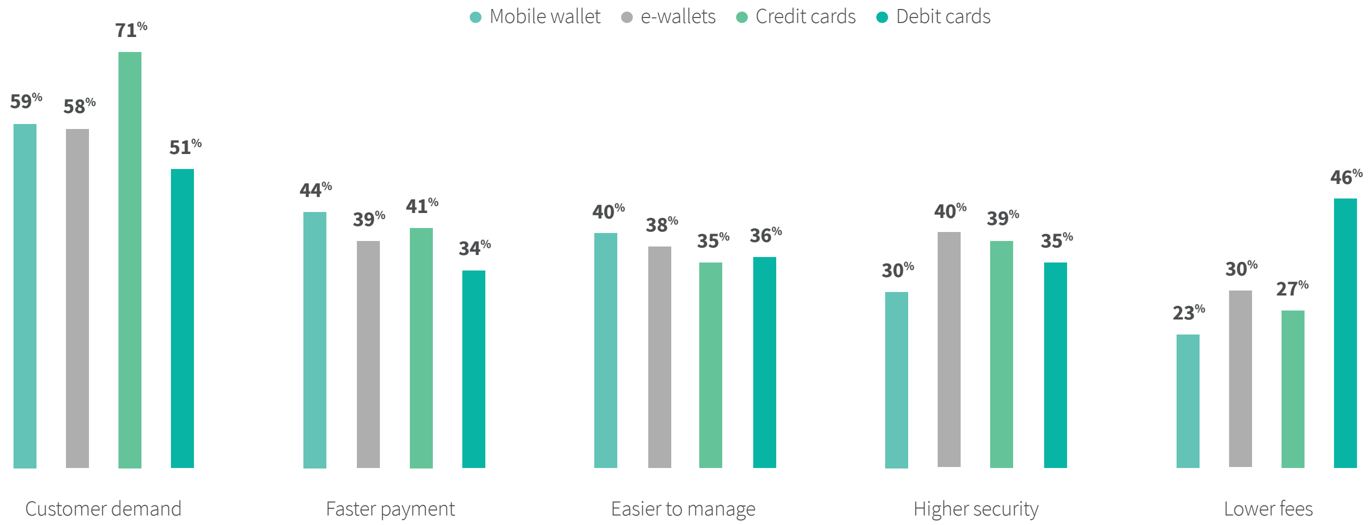
Voice-activated systems like Amazon's Alexa, too, will become more widespread, with 24% of respondents planning to adopt them by 2019; and the growth in cryptocurrencies is set to grow too, with one in five retailers planning to introduce them over the same period. The key challenge for merchants adopting these still emerging technologies will be to ensure that they meet consumer expectations around security and trust – still an unknown quantity at large scale in the retail world.

Fig. 4: Which of these payment methods do you currently accept and expect to see growing over the next two years? And which do you plan to introduce in the next two years?



It's not just consumer demand that is driving these adoption patterns. This study shows that several other factors – fees, ease of management, speed and – crucially – security also come into the picture for merchants assessing the suite of payment methods they offer, as Figure 5 shows.

Fig. 5: What is driving the growth in usage of payment methods?



Fighting Fraud on Three Fronts

One critical factor for consideration when adopting new technologies is their susceptibility to fraud. Only once that is fully understood can merchants make accurate assessments about the balance of risk and convenience to consumers. The reverse is also true; by determining risk, they can also make better decisions about which technologies to phase out.

As part of this research, Paysafe sought to identify a link between specific payment methods businesses are looking to phase out and how susceptible they are to fraud.

Traditional cards are at the top of the list of methods that retailers are looking to retire; nearly two-thirds (60%) of businesses think credit cards are most vulnerable to fraud.

Just as important are the types of fraud committed, and how these are intrinsically linked to certain payment methods. Figure 6 explains which forms of fraud businesses are most likely to suffer from. Chargeback fraud is causing the greatest global impact overall, and is hitting US businesses the hardest. On the other hand, clean fraud is having a significant impact on Canadian businesses.

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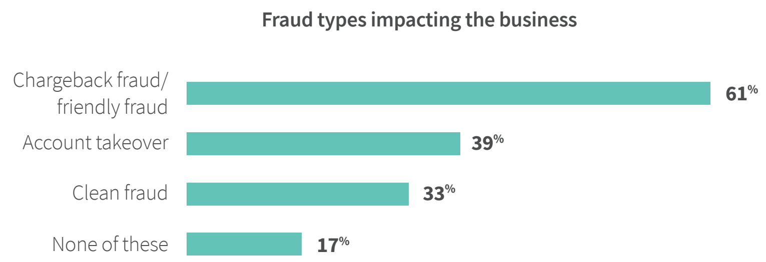
Fig. 6: Which of the following types of fraud are currently impacting your business, and which is having the greatest impact on your business?



Greatest impact			
46%	49%	45%	44%
24%	27%	26%	20%
30%	24%	29%	37%

As new technologies develop to improve consumer experience, so too will new types of fraud. To maintain the balance between security and convenience, fraud detection methods and processes will need to adapt accordingly – and they will need to do so quickly.

> "A sense of fraud control is just as important as convenience to consumers; something that merchants haven't ranked as highly in the checkout experience.
>
> **Andrea Dunlop, CEO Acquiring & Card Solutions, Paysafe Group**

The Three Key Types of Fraud

1 **Chargeback/ Friendly fraud:** Friendly fraud occurs when a merchant receives a chargeback because the cardholder denies making the purchase or receiving the order, yet the goods or services were actually received.

2 **Account takeover fraud:** The use of limited personal information such as a name and credit card number to conduct payment fraud. In this scenario, a fraudster poses as a genuine customer and gains control of an account, changing a few details, such as email or address, to allow them to make transactions.

3 **Clean fraud:** A method whereby a fraudster has been able to carry out a purchase by using a complete profile of stolen data that makes the transaction appear legitimate, rendering the merchant unable to identify that fraud has been committed.

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How prepared are today's merchants?

Fraud readiness at the front line.

How prepared are merchants to combat fraud? This study measured their readiness by examining three critical factors: what verification factors they use, how often they review their IT security and the level of their anti-fraud investment.

Figure 7 looks at the verification measures used by country. Conventional fraud detection techniques such as bank account checks and address verification systems are still the most widely-used, although the growing amount of data available about individuals is having a significant impact on the availability and usage of fraud detection methods; biometrics, social media usage and geo-location are all in use by merchants, most prominently in the US.

Fig. 7: Which of the following identity verification techniques does your organisation currently use?

Note: figures in green indicate above-average usage; figures in red indicate below-average usage

	Used			Used to target mobile		
	US	UK	Canada	US	UK	Canada
Fraud rules	53%	63%	53%	28%	37%	32%
Bank account checks	57%	65%	33%	29%	32%	12%
Address verification systems	48%	56%	36%	16%	28%	18%
CVV checks	49%	49%	42%	30%	29%	22%
Email checks	36%	53%	46%	14%	22%	20%
Device checks	33%	40%	41%	18%	27%	27%
Geo-location checks	27%	24%	27%	11%	15%	14%
Social media	24%	21%	23%	8%	11%	12%
Biometric screening techniques	25%	20%	17%	15%	14%	14%
Voice recognition systems	20%	19%	17%	11%	11%	14%
BIN number validation	20%	19%	16%	9%	13%	9%
3DS	12%	15%	10%	4%	8%	5%

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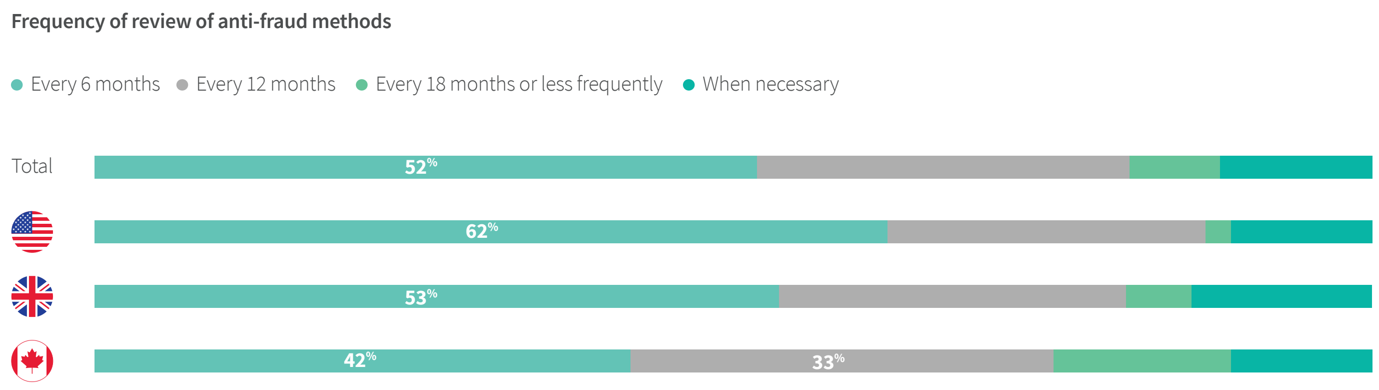
Figure 8 shows us that just over half (52%) of businesses across our three surveyed markets review their anti-fraud measures every six months. More worryingly, 36% of respondents review their fraud measures only every 12 months or less – a potential problem given the rapid evolution of fraudulent behaviour and activity in the digital realm.

More than 40 percent of all businesses surveyed report that more than 5 percent of their transactions are fraudulent.

Fig. 8: How often do you review your anti-fraud measures?



> The evolution of big data will make payments smarter and easier and help to redress the balance between security and convenience. Big data will be the ultimate key to tightening up security at POS, online and bricks and mortar environment.
>
> **Todd Linden, CEO Paysafe Payment Processing North America**

The anti-fraud paradox

Part of the difficulty in making sensible decisions about fraud reduction is that its resolution often conflicts with business targets. While there is widespread agreement that it's a serious problem – 71% of respondents say that transactional fraud is a top priority at board level – there are conflicts over how best to deal with it. Three-quarters (74%) of businesses say that there is pressure to reduce fraudulent transactions through more effective verification methods; yet a nearly equivalent number (65%) say that there's pressure to increase transaction volumes by reducing ID verification thresholds, thereby exposing the business and its consumers to greater risk.

There is already significant pressure on businesses to put the consumer first when addressing this paradox. Merchants who do not utilise measures such as AVS, CVV2 and 3DS/VbV will have their consumers' transactions seen as high-risk by card issuers. Their systems will then likely automatically decline their transactions, so that 'easy merchant checkouts' equals 'quickly declined transactions.' Good merchant anti-fraud measures actually increase transactions success, and thus customer satisfaction and long-term retention.

	Overall			
There is pressure on our business to produce more effective verification measures in order to reduce fraudulent transactions	74%	78%	76%	66%
There is pressure to increase transaction volumes and customer sign-ups by reducing risk thresholds for ID verification in our business	65%	69%	67%	60%
Transactional fraud is a top priority of boardroom discussions	71%	77%	73%	62%

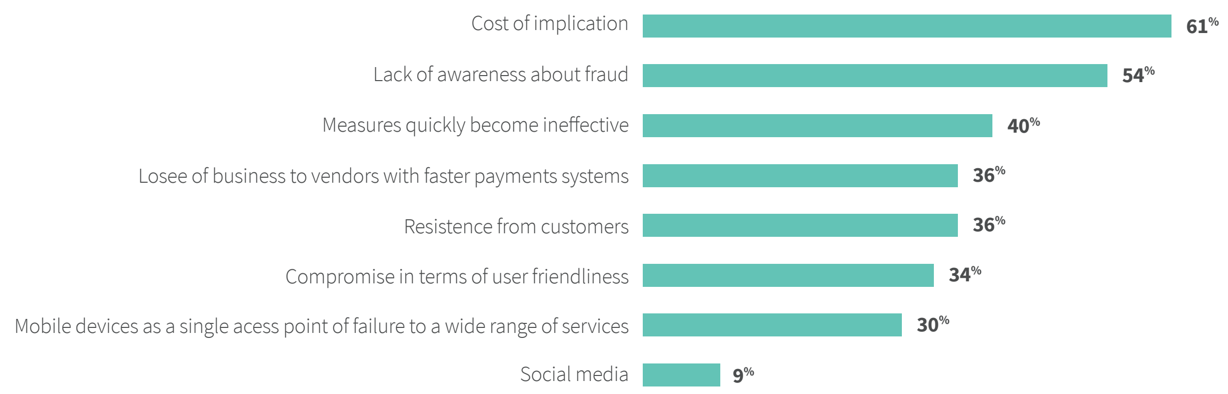
> Fraud mitigation measures aren't optional in today's business environment – they're a critical part of building and maintaining good long-term reputations with consumers.
>
> **Shaun Lavelle, VP Risk, Payment Processing, Paysafe Group**

Challenging a fixed mindset when it comes to fraud

The good news is that most businesses agree. Eight in ten businesses intend to increase their anti-fraud spend by at least 10% in the next 12-24 months. Nearly two thirds (64%) of them have a positive view of anti-fraud expenditure, viewing it as a strategic means to reduce losses to the business and increase profits. More worryingly, though, only 35% think the business itself benefits from fraud prevention, viewing it principally as a measure which impacts the bottom line – not a fundamental basis for building trust with consumers and the increased prosperity that results from that trust.

One likely factor contributing to this cynical view of fraud prevention is the sheer difficulty and complexity of managing fraud in retail environments. While there is widespread agreement that anti-fraud implementations are expensive – identified by 61% of respondents as the most significant challenge to managing fraud – many other perceived barriers exist. Lack of consumer awareness about fraud (54%) combined with their resistance to anti-fraud measures (36%) are seen as potential obstacles; so too is the risk that measures quickly become ineffective due to the constant and rapid evolution of fraudulent activity (40%). Just over a third of those we interviewed placed high importance on a good user experience and see anti-fraud capabilities as part and parcel of the full customer journey.

Fig. 9: What are the top three challenges of identifying, managing and protecting against fraud across different payment methods?



Conclusion

Finding the balance: winning payments strategies for businesses and consumers.

Today's smartest merchants are abandoning long-held assumptions and rebooting their thinking about customer desires and expectations. Our research across both volumes of Lost in Transaction shows that new payment methods are on the rise; customers increasingly love e-wallets, mobile payments and cryptocurrencies, and there are clear signs that early adopters are quickly embracing these.

Trends like these clearly suit businesses too. New digital payments methods avoid the potentially hefty charges that are associated with taking credit card payments, but they can also avoid the most obvious and unavoidable type of fraud that occurs when cards are stolen – both critical factors in the rate of adoption of new technologies requiring more robust authentication measures.

The shift to new forms of payment comes not just with new security requirements, but broader concerns too. Lost in Transaction: Volume One showed that consumers were increasingly worried about security, especially around lost phones and contactless cards. But they also want convenient modern payment methods; not just contactless cards and digital wallets, but cryptocurrencies and voice recognition too.

Prevailing industry wisdom suggests that convenience should be the winner in this battle. That idea is the driving force behind today's experience-focused retail channels designed for minimum friction and maximum throughput; channels that put the fewest possible barriers between buyers and their good as possible.

Lost in Transaction: Volume II shows how important both sides of this equation are. In particular, it demonstrates the need for merchants to balance experience and security extremely carefully. However easy customers want their lives to be, they also want them to be secure and private; and that means robust, thorough security, even if speed of service is impacted. The challenge for merchants is how to utilise new payments technologies in a way that offers the right balance of convenience and security.

Finding that balance is not just about investing in technology. As this report shows, many variables are in play for merchants seeking to maximise their revenues while optimising experiences for customers – not least a coherent strategy around anti-fraud measures which takes full account of their value as a foundation for trusted business, not just another burden on the bottom line. The reality is that all payments methods carry some element of cost and risk; the trick for merchants is to accurately assess those factors before adoption, so that its impact against convenience can be accurately measured.

As the number of payments methods and technologies proliferates, the challenge for businesses in assessing and implementing them grows accordingly. Making good decisions about which to invest in – and, inevitably, which to phase out – is no longer a decision that can be made by web designers or finance departments alone. It's a strategic, business-critical decision that needs to be made alongside experienced payments partners with the expertise and insight to take full account of specific business needs.

Paysafe is one of those partners. For more than twenty years, we've been helping our customers find the right balance of risk and convenience for their business and their customers. We're firmly entrenched in every aspect of the digital payments environment, from conventional card to digital and mobile wallet-based technologies and beyond; from blockchain to voice recognition, we're investing heavily in emerging technologies that will become critical components of future payments models that come to fruition next year or in the next decade. We're still culturally tied very closely to the physical world too, as part of our direct relationship with a truly global merchant and consumer community around the world. Whatever challenges lie ahead in commerce, Paysafe is already working to help you solve them.

> "The challenge facing merchants is clear. It's about achieving the right balance between delivering the most frictionless consumer experience possible, while enhancing verification methods to reduce risk thresholds. The interplay between risk and convenience is about more than just technology.
>
> **Danny Chazonoff, Chief Operating Officer, Paysafe Group**

Research methodology

Lost in Transaction is an independent research project, conducted by the London-based agency Loudhouse. We spoke to 3,038 consumers and 300 businesses in the UK, Canada and the United States about their online shopping behaviours, payment habits and attitudes to security. Respondents came from six different age groups and a variety of professions.

Other sources:

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