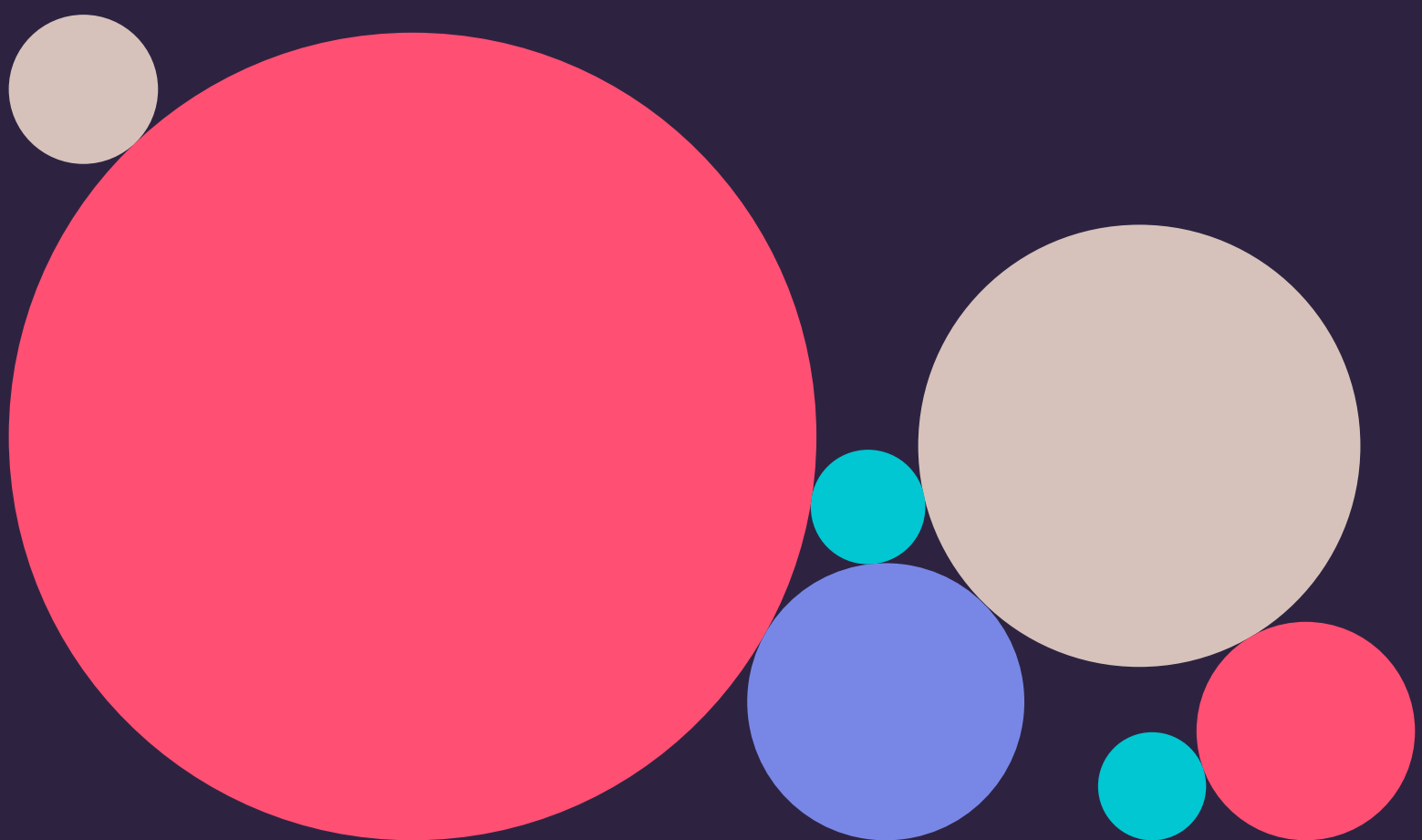


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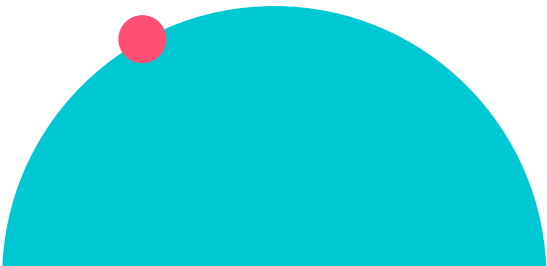
Lost in Transaction: The future of payments for SMBs

Charting a course to success at the checkout



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Lost in Transaction

Introduction

For the past two years Paysafe has been publishing a series of reports examining how the payments industry is evolving. We have surveyed consumers and merchants from across North America and Europe to answer questions such as how attitudes to both old and new payment methods are changing; how strong consumer demand is for innovation at the checkout; if, and when, merchants expect to satisfy those demands; and the competing factors that influence the payment systems merchants choose to adopt.

In this fourth installment in the *Lost in Transaction* series, we take a detailed look at the current payments opportunities and pain points affecting a specific demographic of merchants; small and medium-sized businesses (SMBs).

We asked 900 merchants from five countries to tell us how important it is for them to be ahead of the adoption curve for payment method acceptance, and whether they see payments innovation and user experience as a critical differentiating factor for their business.

We also investigated how both online and in-store SMBs predict their payments offering will change in the next two years; what they see as the major challenges preventing adoption of new payment methods; and how they plan to manage often competing priorities such as increased security of payments and the drive for frictionless user experience at the checkout. One area of particular focus in this report is the appetite of North American SMBs to adopt contactless payments in their stores. With contactless cards and mobile wallets adoption continuing to increase around the world, the US in particular seemingly lags behind this trend and the adoption of new in-store payments technology. But is that really a concern for merchants? And if so, what do they plan to do about it and when?

The merchants surveyed for the report form two segments, and as such the report is divided to reflect both sectors. The 'card not present' or online merchants comprised 601 companies from the US, Canada, UK, Germany and Austria, employing between 1-50 employees and making \$60,000-\$10m in sales. The 'card present' statistics come exclusively from 306 businesses in the US and Canada and the merchants involved are brick-and-mortar businesses with the same financials and levels of employees.

Executive summary

Part one: Card not present (CNP)

Merchants are buying into a fragmented landscape:

In the card not present market, businesses believe they need to rapidly expand the amount of payment types they accept. On average they accept four payment instruments, but expect this to increase to six within two years. 75% of merchants believe this will be essential to succeed in business – not desirable, but essential. Credit cards remain the most prevalent form of payment with 84% accepting them, while debit cards are taken by 73%; in terms of more innovative forms, 43% accept digital wallets such as NETELLER and Skrill, while at the lower reaches 6% already accept cryptocurrencies such as Bitcoin.

There are significant divergences between different countries in the methods accepted. The US is the market leader for accepting credit cards with 89% of companies doing so, compared to Germany's 65%. Germany, however, has 52% of its merchants happy to accept payment on invoice, compared to only 23% in the US. 49% of Austrian merchants accept online cash replacement systems, a marked contrast with the 16% in the UK and 22% in Canada to have adopted this method.

Combating abandoned transactions is now critical:

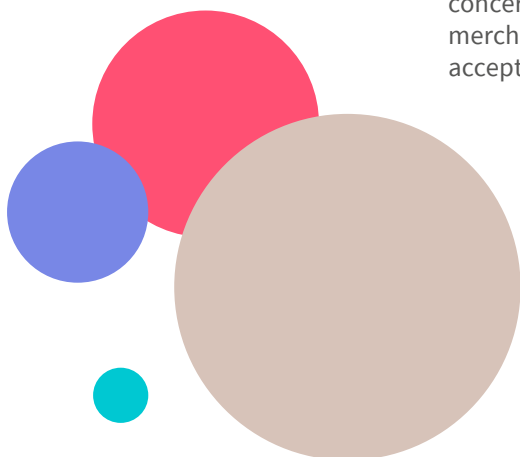
11% of transactions are still abandoned at the shopping cart and this is a universal problem, with 96% of businesses confirming they suffer from this. 30% suggested the customer abandons the transaction because they are not prepared to pay extra fees and 22% are unhappy with delivery options. Noticeably, 21% of merchants cited a lack of payment options and the same number lost sales when the system froze or crashed.

Security is now the top priority when selecting a payment service provider:

81% of online merchants believe that it is the responsibility of their payment service provider (PSP) to protect them from fraud; consequently maintaining security is now the outstanding priority for merchants when selecting a PSP. 59% of merchants named security as a critical factor to consider when deciding which PSPs to partner with, ahead of reliability (49%) and cost (47%).

Fraud remains a major issue:

Fraud remains a serious issue for all businesses. Over a third (36%) saw credit cards as the most vulnerable method of payment, and 25% were concerned about cryptocurrencies. Credit card fraud remains the most concerning because so many people accept payment in this way – 84% of merchants accept this form of payment, whereas cryptocurrencies are only accepted by 6% of online retailers.



Part two: Card present (CP)

Striving for contactless adoption:

One area of commonality between the card not present market and the card present merchants is the fact that businesses want to increase the amount of payment methods they accept. In the US, in particular, merchants are pressing hard for the ability to take contactless transactions, with the percentage of businesses offering the facility moving from 37% to a forecast of 60% over the next couple of years; this is becoming critical as the payments landscape fragments. The logical extension of this is to offer a contact-free Amazon Go model; this is a relatively short-term ambition for a surprisingly large number of establishments. Other innovative technologies such as accepting mobile wallets are expected to double over the next couple of years.

The speed of a transaction and its settlement is everything:

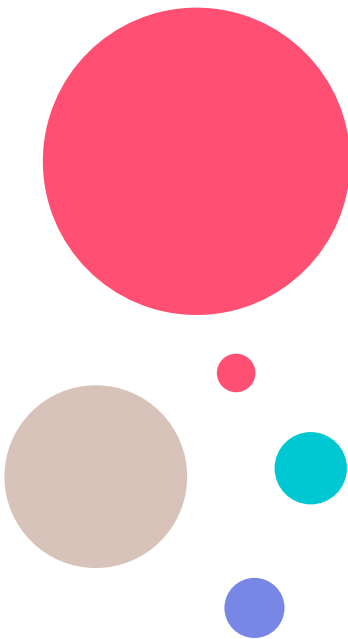
24% of businesses are frustrated with the speed of transactions in their stores. A further 18% cite poor internet connections as causing delays at their checkouts and 15% say cards are often declined unexpectedly, although there is rarely a suggestion that this happened as a result of fraud. 62% are actively looking for a faster checkout process and 72% confirm they are looking for efficiencies overall. Getting customers through the process is one thing; the other side of speed of payments is actually receiving money into an account, and merchants understandably want cash into their banks as swiftly as possible.

The battle between frictionless and security is moving in-store:

A close cousin of the speed of a payment is the ease with which a transaction happens and this is where a certain contradiction creeps in; sellers clearly want friction-free transactions as much as possible but they also want security, when some of the time it's the security that produces the friction.

But in-store merchants don't believe frictionless means fraud:

Offline merchants, who transact when the card payer is present, are less anxious about security than their online counterparts. Only 26% of them think friction-free transactions will simply result in more fraud, while exactly twice that number of CNP merchants share the opinion. This may well be because the in-store business has other assurances such as closed-circuit television and the possibility of preventing someone leaving the premises with goods for which they have not paid. Though a shift to completely frictionless payments (i.e. invisible transactions that take place 'behind the scenes' in apps) could change these priorities.



The shift in buyer demand

The following report should be taken in the context of our earlier work this year on consumer demands and wishes. A previous *Lost in Transaction* volume focused on this segment, rather than the merchants, and the findings were telling. Examples such as Uber and Netflix had already pointed to the desirability of frictionless payments, with consumers happily handing cash over because it was easy. Speaking of cash, although it was finding a new niche alongside the alternatives, there was no doubt that paying with notes and coins was still the preference of a great many consumers.

However, there were also major evolutions on the way. Cash replacement systems were starting to gain ground in Europe even if they hadn't become mainstream; 12% of Germans and 9% of Austrians use these systems regularly for shopping in-store. The UK led the way in contactless payments with 54% of shoppers using it in a month, compared to 3% of shoppers in the US, and the new data from merchants confirms that the US is determined to catch up.

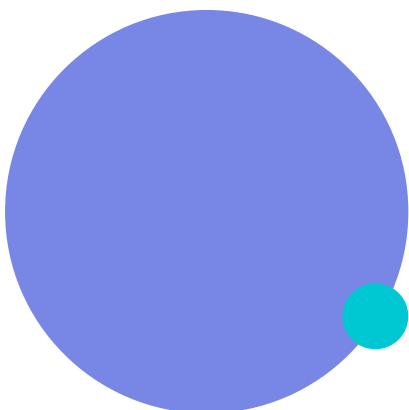
Digital wallets were also doing well. 50% of consumers in the earlier research said they used a digital wallet such as NETELLER or Skrill for this form of transaction and payment on invoice is popular, particularly in Germany and Austria. This is the case for online transactions, or card not present; for the in-person equivalent, using mobile wallets, the figure actually drops. Security concerns and lack of familiarity were the primary reasons for the lower adoption rate. The smartphone, however, is becoming a popular way to pay for things, with 44% of people saying they did so.

In spite of the hype, only 23% had used frictionless payments from companies such as Uber – book the cab and when your ride is complete, the payment is taken automatically. It's possible that this will grow and, as we will establish in this new report, merchants themselves believe they have to be ready. In fact, technology presented a mixed picture, with 44% welcoming smart buttons to re-order things and the same amount rejecting them because they didn't trust them; 33% said they would allow their fridge to re-order food. Fraud was on the rise but the consumers understood it and 66% said they wanted two-factor authorization to make their transactions safer.

The backdrop to this report, then, is that the consumer is on the move. They may not know exactly where they're going but they've seen enough to understand that their lives as customers can be – and should be – easier and more secure.

This new volume addresses what the merchants are doing about it.

Lost in Transaction: Payment Trends 2018 is available for download now at www.paysafe.com/lostintransaction2018





Part one: Card not present (CNP)

Merchants are buying into a fragmented landscape

It will come as no surprise to anyone that if a customer wants to pay a merchant for a product, the merchant will want to accept the payment. This means accepting in the way the customer wants to pay, which is presumably why 75% of businesses overall believe increasing the number of payment methods they can accept is essential to success. Currently businesses in the markets surveyed accept an average of four payments, forecasting an increase to six within two years.

64%

Of SMBs agree customers want more innovative ways to get short-term credit

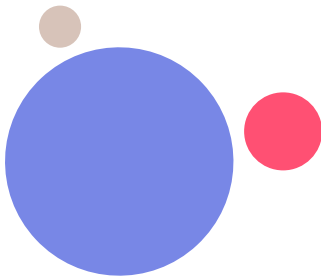
56%

Of SMBs believe a significant number of customers are looking to pay with online cash

Credit cards remain the most ubiquitous form of payment in online transactions as might be expected, with 84% of merchants accepting them. 73% accept debit cards, and then numbers decline significantly. 43% take digital wallet payments (with a further 17% looking to adopt them over the next 24 months), 38% accept prepaid cards with 14% planning to add to their number over the next two years, and 35% accept direct bank transfers, to be joined by an additional 13%. 19% take payment by app. 16% accept installments and this will nearly double, 15% have loyalty cards carrying value and 14% accept e-vouchers. The message is clear: the mainstream payment methods will consolidate and plans are afoot to increase access to those that might currently be categorized as 'minority'.

The geographical split is instructive. As might be expected, the US likes credit with 89% of businesses accepting plastic; the UK and Canada aren't far behind with 87% and 86% of merchants accepting it. Austria has the same acceptance level as the UK (87%), but Germany is a noticeable outlier with only 65% taking credit cards. The US is also the highest adopter of innovative payments such as digital wallets, with 52% of companies accepting money in this way, and 49% of businesses accepting prepaid cards. Acceptance of these cards falls to 29% in the UK and 23% in Germany, suggesting that the international market is undecided.

You could imagine that Germany's rejection of credit cards would make it readier to accept more direct forms of payment and you'd be right; direct bank transfer is accepted by 52% of German businesses (and an impressive 41% of Austrians), 50% offer invoices (43% of Austrians), and 45% accept online cash replacement systems (49% in Austria). Germany also has the highest rate of payment acceptance by loyalty card at 27%, exactly three times that of the US.



There are a number of conclusions to be drawn here. First, and most obviously, merchants are responding to demand from customers for greater flexibility and more choice when it comes to payment methods – and they need a payment service provider (PSP) that can be adaptable and mindful of the bigger picture of solutions as the market evolves. That customer demand is changing rapidly with 56% of merchants saying consumers are looking to pay with online cash and 64% saying their customers want more innovative ways to get short-term credit. Second, and conversely, the traditional means of online payment remain dominant. Even in Germany where credit cards are less accepted than in any of the other countries in the research, 65% of companies accepting them represents a healthy majority. Third, people wanting to trade internationally need to do more than simply switch currencies; they may also need to switch payment methods according to their target market’s preferences, meaning there is a cultural as well as financial dimension to the matter. So for example, if a merchant wanted to trade in Germany they would need to place less emphasis on credit cards, not because the technology isn’t equal to it, but because the culture in that country is lukewarm on paying by that method; if a business wanted to sell into in the US they would do better accepting credit cards than payment by invoice, although as we will see later, payment by invoice is a rapidly growing segment.

The US is ahead of the curve in many alternative payment methods, with digital, prepaid and crypto being more widely offered than in other regions

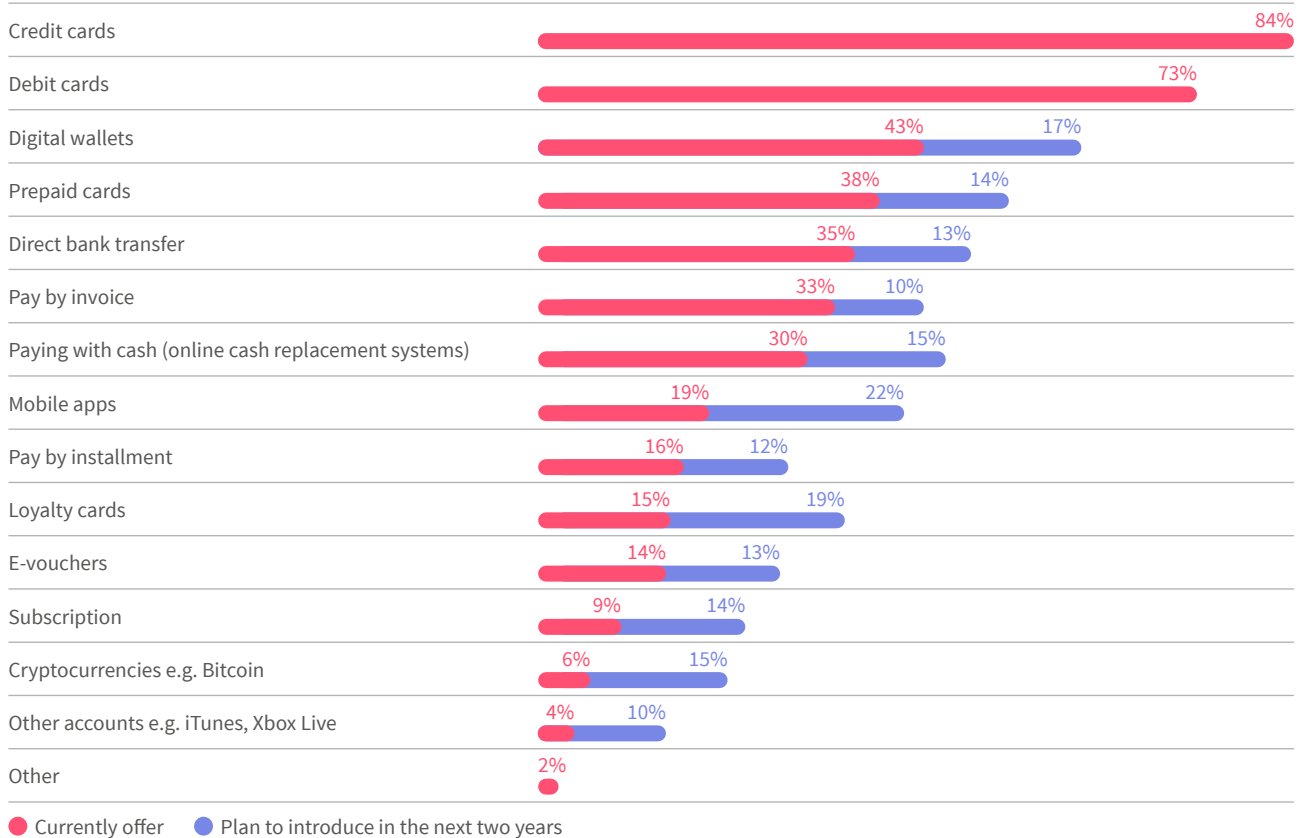
In the US, 52% of SMBs offer digital wallets and 49% offer prepaid cards, with the UK following close at 44%. In Germany and Austria, payment by invoice, bank transfer, and cash online are popular payment methods.

	Total	UK	US	Canada	Germany	Austria
Credit cards	84%	87%	89%	86%	65%	87%
Debit cards	73%	93%	81%	79%	36%	69%
Digital wallets	43%	44%	52%	38%	34%	36%
Prepaid cards	38%	29%	49%	38%	23%	42%
Direct bank transfer	35%	41%	22%	34%	52%	41%
Pay by invoice	33%	29%	23%	32%	50%	43%
Paying with cash online (online cash replacement system)	30%	16%	25%	22%	45%	49%
Mobile apps	19%	18%	17%	15%	15%	31%
Pay by installment	16%	14%	11%	10%	27%	27%
Loyalty cards	15%	9%	9%	12%	27%	23%
E-vouchers	14%	13%	13%	12%	12%	20%
Subscription	9%	4%	11%	6%	11%	13%
Cryptocurrencies e.g. Bitcoin	6%	4%	9%	3%	5%	6%
Other accounts e.g. iTunes, Xbox Live	4%	1%	5%	0%	11%	4%
Average number of methods offered	4.0	4.2	4.2	3.9	4.1	4.9

Online merchants are expanding the number of methods they provide, with mobile apps leading the way

83% plan to introduce new payment methods of some kind.
22% are looking to introduce mobile apps and a further 17% will add digital wallets.

Percentage of online merchants who offer the following payment methods

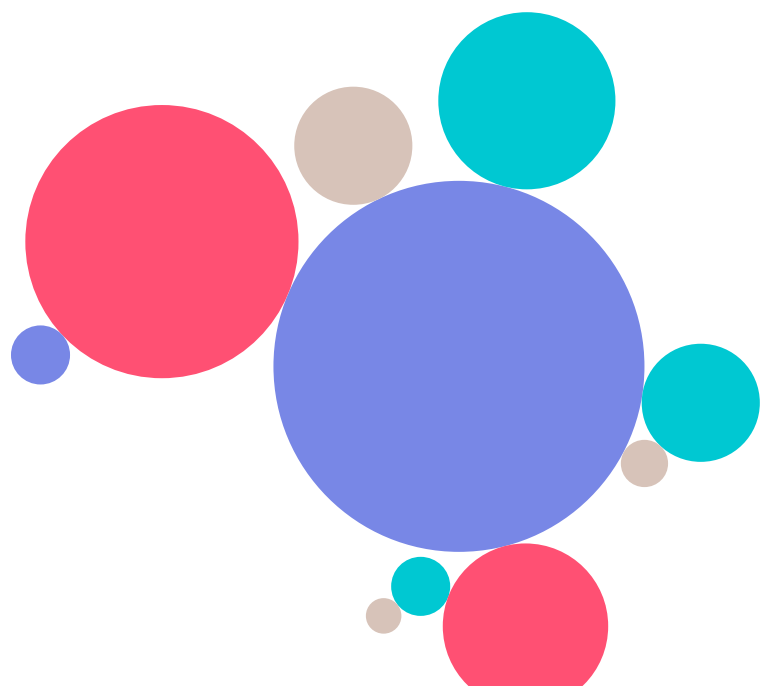


4

On average, online SMBs currently accept four payment methods

6

But this is expected to rise to six within two years



Combating abandoned transactions is now critical

24%

Of SMBs consider not being able to offer multiple currencies at checkout as a barrier to cross-border trade

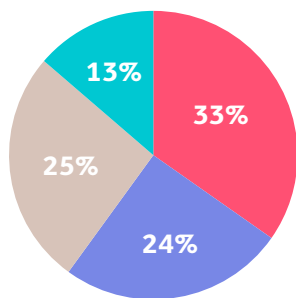
The worst thing that can happen in a sales environment is that a sale just doesn't convert. It stops with no definitive explanation, the customer has just gone away. Frustratingly, for online businesses, this happens in 11% of transactions; businesses can no longer sustain these levels and so need to address the underlying reasons for them. 21% of merchants said a lack of payment options is a significant factor. The impact is severe: 41% declared that abandoned transactions posed a significant problem for their business.

The rate of declined transactions is variable. Just over a quarter of businesses operating online (27%) said transactions are abandoned less than 5% of the time, which doesn't sound severe; 96%, however, confirmed that it happens at least some of the time. Reasons varied; 30% said their customers were unhappy with fees or charges and 22% said their customers were unhappy with the delivery options on offer. Those are arguably problems with the business process itself rather than with the payment process, but there were plenty of queries about that too.

The negative impact of declined transactions substantially outweighs their impact on fraud reduction

33% see the primary impact as loss of sales, and 24% report that it is a burden on customer support. However, 25% view it as a positive, in that it cuts down on fraud.

Primary impact on business



- It causes loss of sales due to customers abandoning transactions
- It increases the burden on customer support due to increasing queries regarding failed payments
- It has a positive impact as it reduces the level of fraud we would otherwise suffer
- None of the above

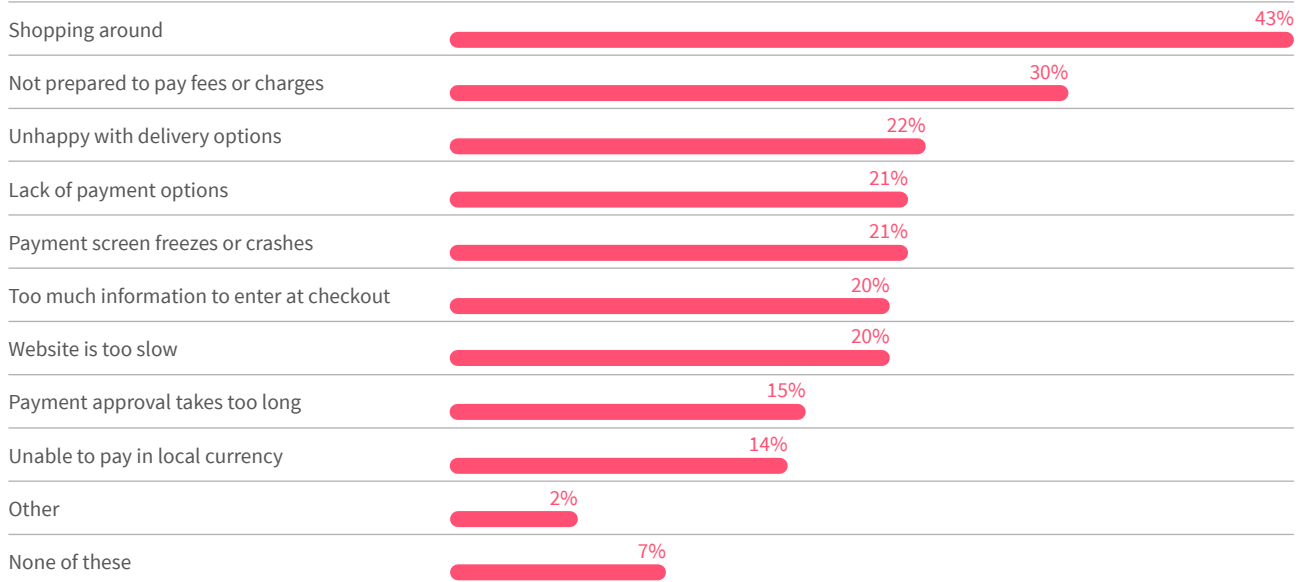
Concerns over process seemed to form a pattern. 20% of companies believe their customers have to enter too much information at the checkout stage. 20% said their website is too slow and 15% suggested verifying the payment takes too long. Noticeably, 14% of companies in the group said customers were frustrated that they can't pay in their own currency, and 24% see not accepting payments in multiple currencies as a barrier to international trade.

Of course, abandoning a transaction may not be the customer's intention but it can happen anyway. According to the figures, 9% of online transactions across the board, regardless of territory, are declined by the issuer. This isn't always because of fraud, in fact in 65% of cases the customer simply uses another means of payment, but the negative impression is felt by 57% of retailers. 33% of them see a loss of sales and 24% suggest it's a burden on customer service. On the more positive side, exactly a quarter believe it's a good thing because it cuts down on fraud but that still leaves a substantial majority thinking otherwise.

Abandoned transactions occur in almost all businesses, and while this is seen as a significant issue, it is also a fixable one

Over a quarter (27%) of SMBs say abandoned transactions occur less than 5% of the time, while almost all of them (96%) say abandoned transactions do occur.

Reasons for abandoned transactions



11%

The average volume of abandoned transactions

41%

Of SMBs say abandoned transactions present a significant problem to their business

Almost one in ten transactions are declined, and although the sale is still likely to go ahead in most cases as the consumer will use an alternative payment option, over half of businesses still see it as having a negative impact.

The Problem

9%

Of online transactions, on average, are declined

What happens next

65%

Of SMBs say customers are most likely to go on to use another payment method

The impact

57%

Of SMBs see declined transactions as having a negative impact on them

59%

Of online merchants state security is a critical factor to consider when choosing a PSP

Payment security is now the top priority

Reassuringly, most of the transactions that get declined appear to be resumed and rescued – only a small percentage of declined transactions are triggered by fraudulent activity. Merchants' concerns about fraud vary depending on the payment method involved. Inevitably credit cards raise the most fears with 36% of merchants worried about them, yet 84% accept them anyway because there's really no choice. Other concerns attract much lower numbers; 15% are also wary of prepaid cards, 14% aren't convinced they will be paid on invoice and 18% aren't convinced by mobile apps. The newest method on the block is cryptocurrency, with 25% not trusting it and, as yet, only 6% accepting it.

Merchants also believe that online channels are the target of fraud to a much larger extent than they were a year ago. 74% believe fraudsters are targeting online businesses more than they were and 55% of businesses confirm that online card fraud is an increasing problem for them. The debate as to who should do something about it is one-sided; 81% feel it is the job of the PSP to keep people safe. This in turn helps the business, though, as 78% found their customers gained a sense of protection from the presence of a professional and competent PSP.

With the perceived increase in fraudulent activity, and the responsibility for protection from this being placed squarely with their PSPs, it is perhaps unsurprising that security is a key driver for SMBs when it comes to selecting a payments partner. However, what is more surprising is just how much importance is placed upon a PSP's ability to keep a merchant secure. 59% of SMBs now cite security as a critical factor when making a decision about whether to partner with a PSP, making this the primary selection criteria ahead of reliability and even cost. We have seen the trend for greater emphasis on security develop for some time now as concerns about how to implement frictionless payments securely spreads, but this is the first indication that security is the overriding priority for merchants when it comes to accepting payments.

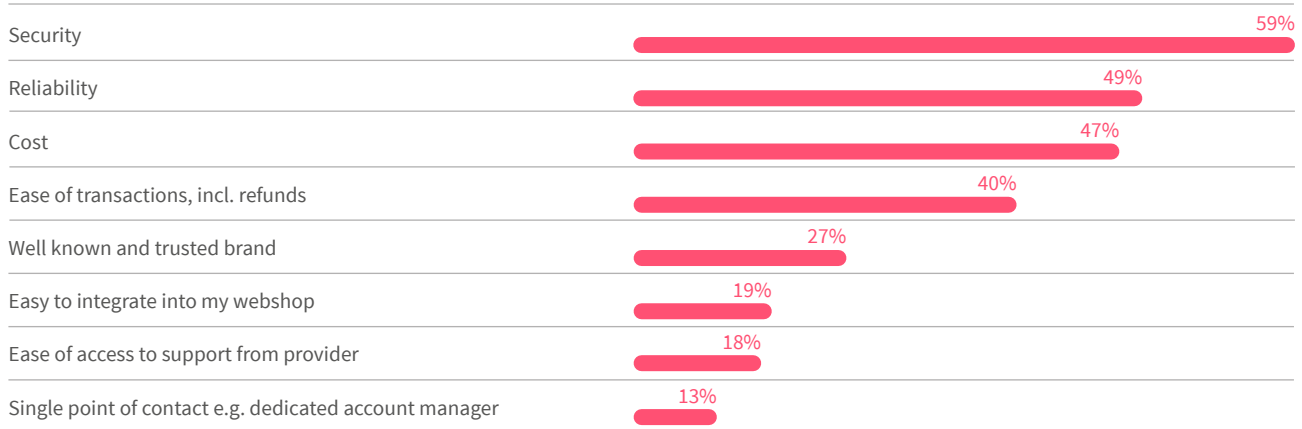
One other notable and inevitable conclusion from this data is that CNP businesses want smoother payments so they can retain as many transactions as possible. Losing a client part of the way through the process is enormously frustrating. However, they also need security while they are transacting and this can slow the transaction down. There is a need for balance and this will be dictated by the technology as it evolves. These attitudes can be tracked through the conflicting priorities from businesses; 78% said that their customers accepted the need for security procedures such as two-factor authentication, when multiple passwords or perhaps a text confirmation or even biometrics are involved; 70% confessed it was hard to find a balance between security processes and making the customer's journey as simple and frictionless as possible; and almost the same number (69%) believed that a longer verification time ran the risk of losing customers. Resolving these competing areas remains a significant challenge for merchants.

One answer may be the emergence of vouchers and online cash, which allow the customer to pay without sharing any financial details. This is an area that's likely to develop considerably as new payment methods emerge and existing ones mature. To reiterate: 75% of merchants said offering multiple means of payment was essential for success and 22% expect to introduce mobile apps in the next two years.

Security is seen as the most important factor to consider when choosing a payment service provider

For 59% of online merchants, security is one of the most important factors to consider when choosing a PSP. Another criteria for selecting a partner is the reassurance of a well-known brand. 27% overall thought this was important, growing to over 30% for companies in the US and Canada.

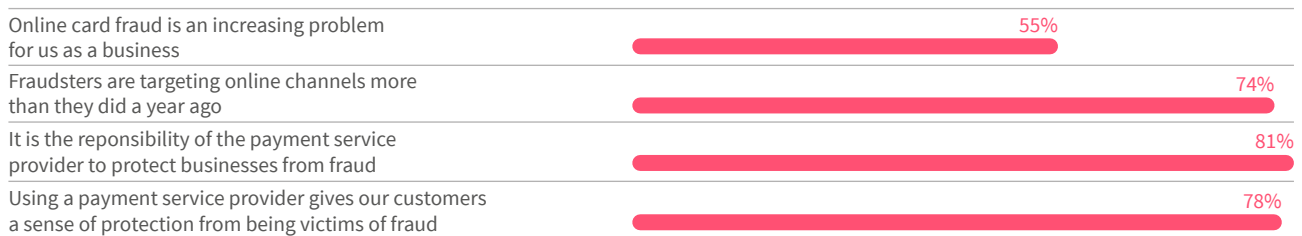
Most important factors to consider when choosing PSPs



SMBs believe online channels are being targeted for fraud more than they were a year ago

74% agree that fraudsters are targeting online channels more than a year ago, and 81% believe it is the responsibility of the PSP to protect the business from fraud.

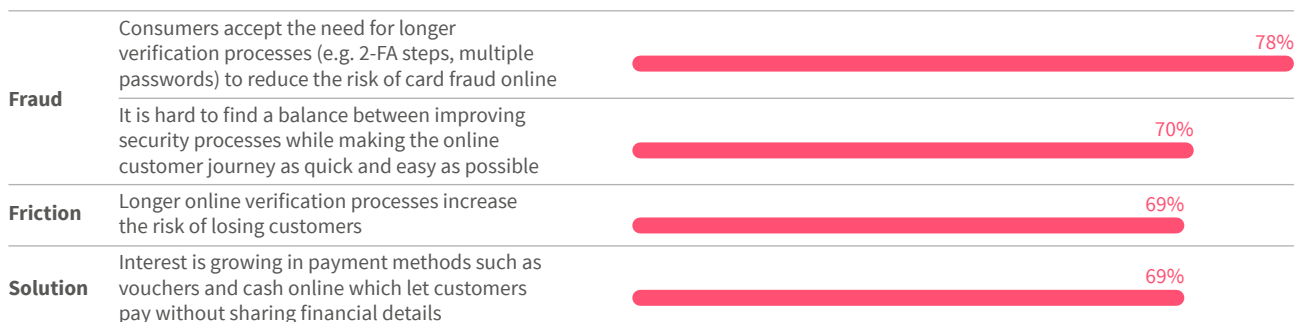
Percentage of SMBs that agree with the following statements



There is tension for businesses between providing less friction and faster payments, while ensuring both they and customers remain protected

While 78% agree that consumers will accept longer verification processes, 69% still believe longer verification increases the risk of losing customers.

Percentage of SMBs that agree with the following statements



Part two: Card present (CP)

Striving for contactless adoption

Unlike the research into card not present merchants, the data for the card present market came exclusively from the US and Canada and it's very clear what the priority is here: the adoption of contactless and even invisible payments.

The backdrop to this is that traditional payment methods are finding a new niche as innovations come increasingly to the fore. 29% of businesses have seen a decrease in people paying with cash as other options become available. 29% offer mobile wallets and more will do so in the next two years. 11% have mobile apps and 30% plan to introduce one. This means the role of the PSP is more important than ever as people effectively hand their security to an intermediary. 60% of in-store merchants feel security is an important criteria in selecting a PSP, only 2% behind cost.

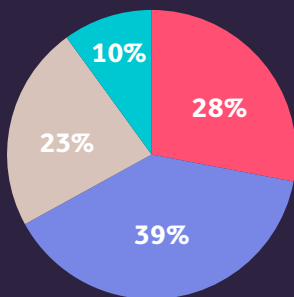
The repositioning of cash in the market is noticeable. Only 16% of US businesses now offer cashback at the checkout with 28% of Canadian businesses following suit, so this has become a minority pursuit. That's the offer; overall, however, only 9% of transactions carry a request for cashback. Not that cash isn't important; 95% of businesses still take it, the same number that take credit cards, while 93% take debit cards. Checks have fallen from favor as contactless payments have risen in popularity, with only 47% taking that form of payment now, breaking down as 55% of merchants in the US and 33% in Canada. Conversely in Canada 49% accept contactless payment compared to only 31% in the US.

In terms of the more innovative means of payments, prepaid cards are now accepted by 38% of smaller businesses in the US and Canadian markets with mobile wallets taken by 29% (presumably a subset of the contactless payment market as they'll have the technology installed). 19% accept payment on invoice, perhaps unusually for the consumer market, while cash carried on loyalty cards is taken by 13%. 11% have their own mobile apps and once payment by installment, electronic bank transfer (important in the US because of the form of government support offered to in-need citizens) and e-vouchers and cash replacement systems are considered, the percentage of companies offering them is in single figures.

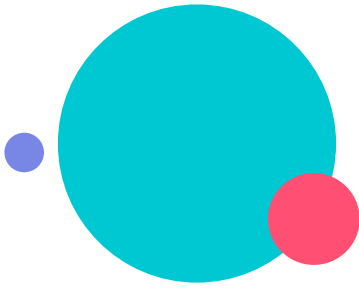
Most small businesses understand that they need to keep up-to-date with payment methods

Only 28% seek to be innovators in the payment methods they offer. But 39% try to offer all of the main payment methods available as soon as possible.

Importance of making new payment methods available to customers



- We see this as a way of having a competitive edge and seek to be innovators in the payment methods we offer
- We try to offer all of the main payment methods available as soon as possible
- We are sometimes a little behind in introducing new payment methods
- We don't see this as something which is a deal breaker for our customers



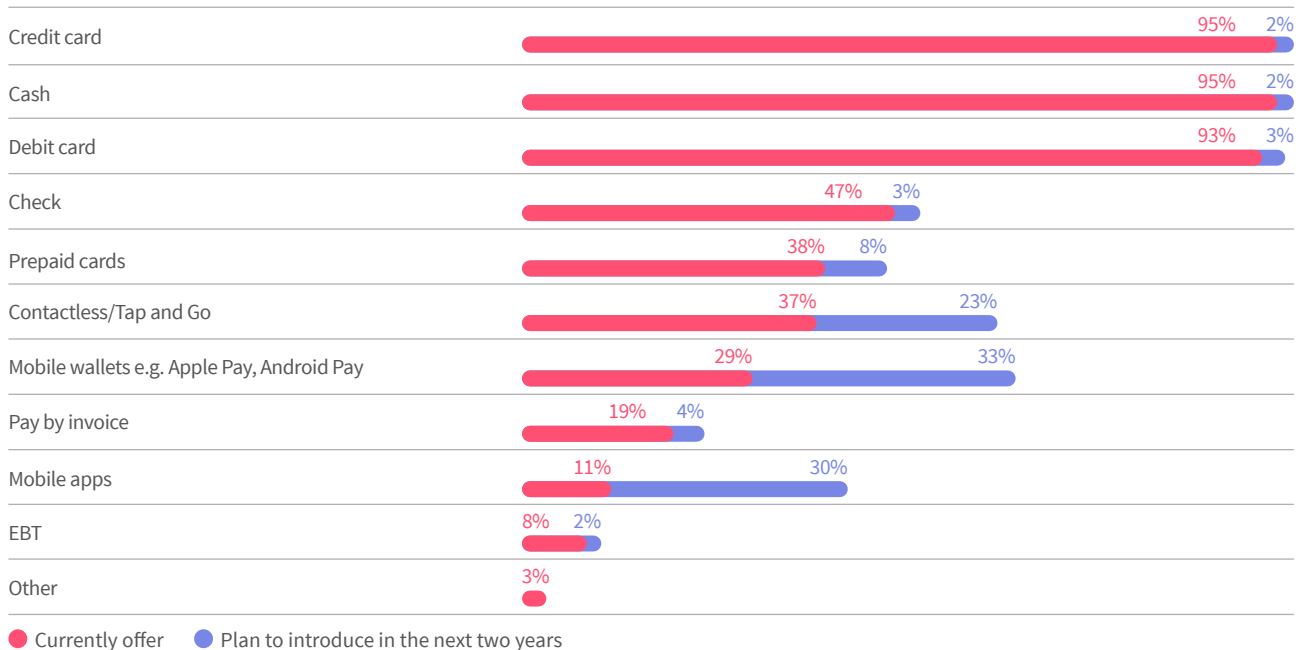
The next two years are likely to see an increase in mobile wallet and app payments, although apps will still be in the minority. Contactless payments will be accepted by 60% of merchants in the US and Canada, a further 33% of businesses plan to start accepting mobile wallet payments and 30% of retailers plan to start accepting money via an app, covering 41% of the US and Canadian market in total if their plans hold good. 28% of the businesses questioned want to be innovators in the payments field as they feel this gives them a competitive edge and a further 39% like to offer new payment methods as soon as possible.

The hardware in stores will need upgrading if plans to offer new methods are going to work. 66% of stores in the US and Canada currently have chip card readers and 60% have a fixed terminal where a customer has to pay; only 36% confirm they use dedicated contactless terminals and only 29% have wireless terminals that can be brought to the customer. Contrast this with the fact that many of the merchants consider it likely that they will have the aforementioned completely frictionless non-checkouts in two years – perhaps an indication of their sentiment as opposed to reality. But still, it is apparent that there is quite a gap to be filled.

Merchants will prioritize introducing mobile wallets, contactless cards and app payment methods over the next two years

74% of SMBs are looking at introducing new payment methods in the next two years. 33% plan to introduce mobile wallets (29% currently), 30% intend to introduce mobile apps (11% currently) and 23% plan to introduce contactless (37% currently).

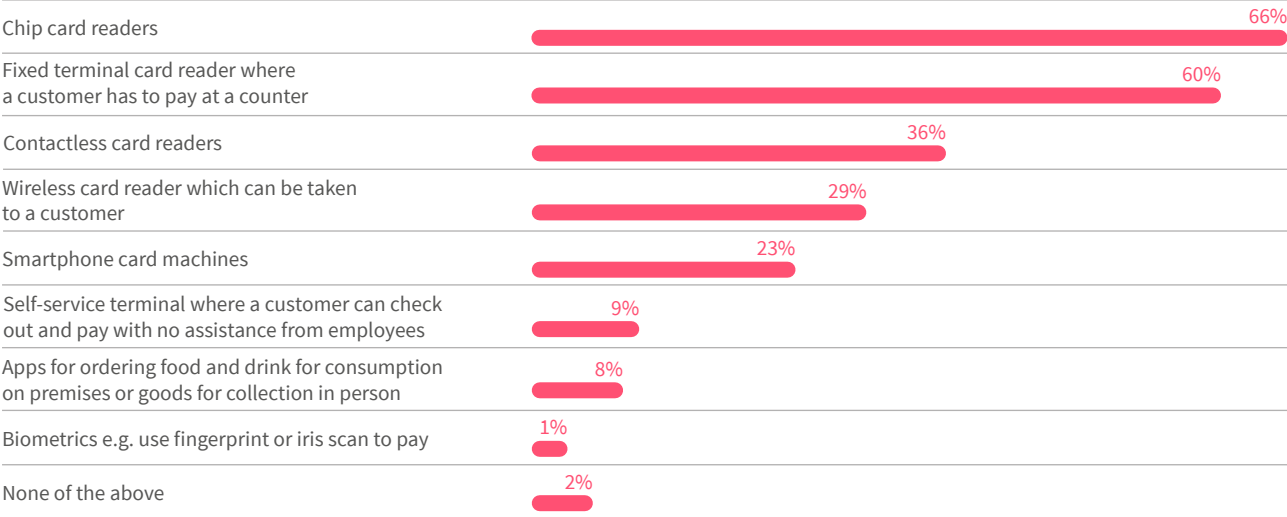
Percentage of merchants offering the following payment methods



At present, many businesses are limited by the POS technology they have for taking payments, but acknowledge more up-to-date methods will speed up transactions

66% of SMBs use chip card readers but only 29% have wireless card readers available. Only 9% offer self-service terminals to their customers.

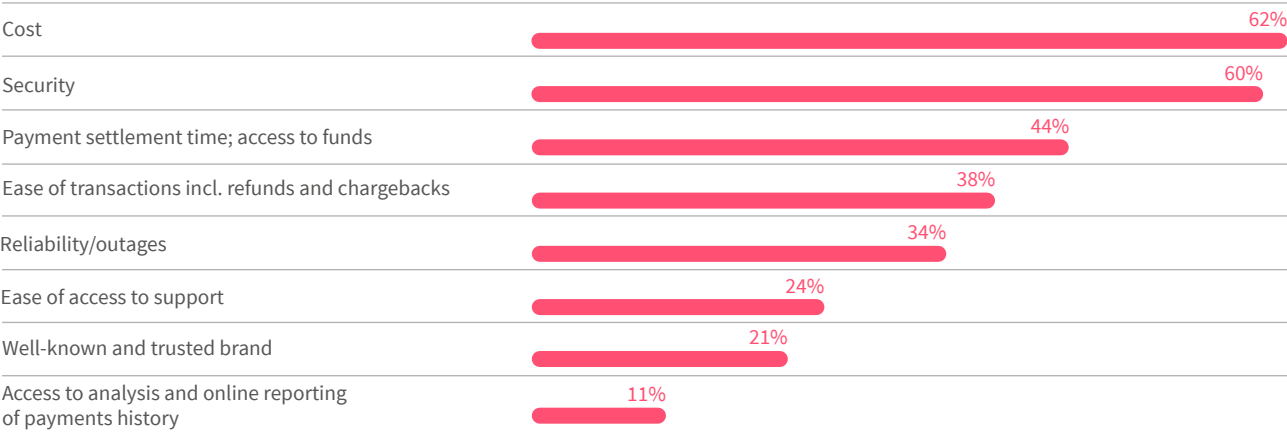
Technologies available for customers to pay on premise



Cost and security are the most important factors SMBs consider when choosing their PSP

When choosing payment providers, 62% of SMBs look at costs and 60% look for security.

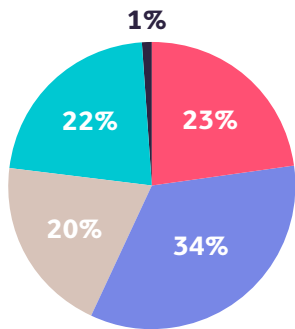
Most important factors to consider when choosing PSPs



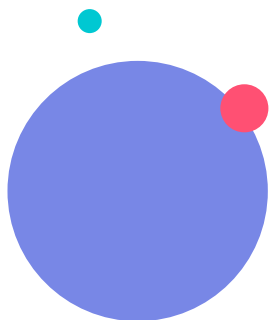
The speed of a transaction and its settlement is everything

Declined transactions are not tolerable for the majority of businesses, despite the role they play in preventing fraud

Impact of in-store card declines on SMBs



- It causes loss of sales due to customers leaving the store
- It is impacting the time taken to serve customers as it makes the transaction process longer
- We view card declines as positive as it reduces the chances of fraud
- None of the above
- Other



Retailers remain convinced that if a transaction is going to happen then it had better happen quickly. First the customer has to feel it has gone smoothly and swiftly, and second the money has to be in the merchant's account as quickly as possible.

This is presumably why the speed of transactions causes concern for 24% of the companies in the survey, with 18% citing a poor internet connection and 15% pointing to unexplained card declines. There is a clear desire for technology and support that will mitigate this sort of risk. One possibility is that the slowdown is due to the EMV standard, which in turn will increase the pressure for acceptance of contactless payments.

There are other frustrations with the efficiency of payments, a number of them echoing those expressed by online merchants. 15% pointed to a lack of payment options, although as we have established these are expected to increase. 13% pointed to outages and 9% were concerned by increased levels of fraud. 14% remain concerned about timely access to the funds after a customer has made a purchase for the reasons stated above. On average it can take two days for a transaction to fully clear into a merchant's account, although this may be improving due to intervention from PSPs who are starting to pay ahead of any bank clearance to help their merchant clients.

Drilling down a little, declined cards are quite a problem with 6% of payments failing in this way. 83% of US and Canadian merchants confirm that the customer is likely to use another card but 23% suggest it results in a loss of business because a customer will leave the store, possibly taking others with them if the card processing systems appear to be down. A further 34% are unhappy with the extra time a slow process will take to serve a customer, although a solid fifth think cards being declined will reduce the levels of fraud.

This is the point at which it's wise to consider that some of those delays the merchants are concerned about are in fact due to security checks. However, this appears to be less important in the offline market than in the online world. Obviously, there are visual checks that can be made and other ID can be checked when someone offers a card. Strikingly, whereas 52% of merchants processing CNP transactions agree that less friction during an online transaction will only result in more fraud, exactly half that proportion think the same in the offline world. They rate speed and efficiency of transactions much more highly than security concerns, because of the different pressures their businesses face.

One consequence is that many in-store businesses plan to offer new and increasingly frictionless payments in the coming two years. 59% believe they will have apps to allow customers to pay for goods automatically and 68% will have smartphone driven systems. 40% even expect to have fully frictionless systems. This is in a market in which only a minority have a terminal that can actually be carried to the customer.

26%

Of offline merchants agree making transactions frictionless will only increase the risk of fraud

VS

52%

Of online merchants agree less friction during an online transaction will only increase the risk of fraud

Innovation to remove friction is growing. 21% of merchants expect to have applications through which customers can pay for goods and services without a checkout within the next six months. A further 37% will have added such systems in the next two years. 21% plan smartphone-driven systems in six months while 42% expect them in two years. Throughout all of this the onus is likely to be on the PSP to reinforce security and reassure not only the retailer, but the customer too.

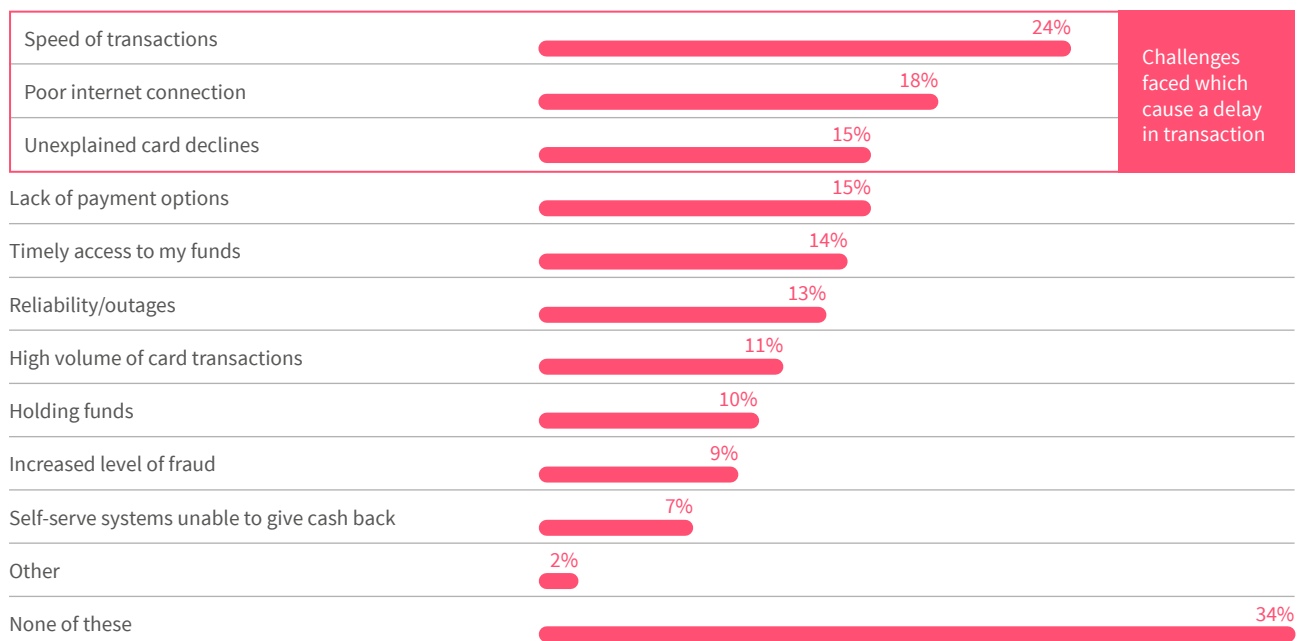
As was the case in the CNP market, there is a balance to be struck between security and being friction free. In the US this has been overcome by companies such as Starbucks, where people can buy their refreshment, have the payment system 'recognize' them on their way out and have the payment deducted from their account without any physical effort. Smoother throughput is going to equate to the scope to serve more customers in a shorter amount of time. As long as the customers are actually there, this should lead to better productivity and greater profitability. Merchants are quite reasonable in pushing for speed – although anticipating a completely frictionless environment when contactless is still an ambitious aspiration rather than a reality. However, these lower risks are linked to the choice of payments partner, with 66% of merchants agreeing that their PSP's robust security procedures had reduced their risk of fraud, though 55% thought that transaction fees from service providers were too high.

The impact on business goes beyond the retailer. Addressing speed and ease of transactions has a material effect on the choice of PSP. 44% of in-store merchants pointed to settlement time and access to funds as very important when selecting this sort of partner. It's reasonable to expect that they will also be influenced by readiness to assimilate newer forms of payment as they evolve.

Speed of transactions and card declines are key challenges – possibly caused by poor internet connections

66% of in-store SMBs are currently facing challenges with their payment systems. 24% are frustrated with the speed of transactions, and the internet connection is an issue for 18%.

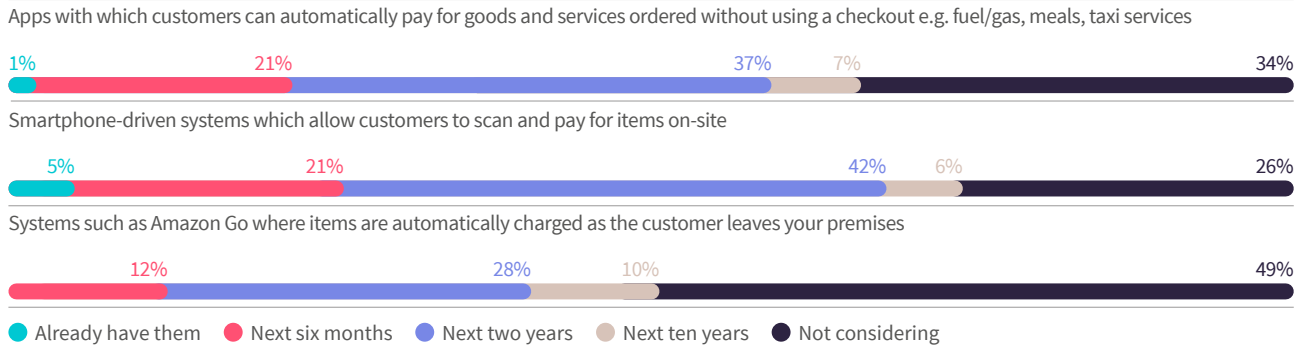
Challenges with payment systems



Many SMBs expect to introduce more frictionless payments in the next two years – although fully frictionless is further away

Within the next two years, 59% of SMBs expect to have apps with which customers can automatically pay for goods, and 68% will have smartphone driven systems. But only 40% expect fully frictionless systems.

How soon do you anticipate that you will be able to offer the following types of payments?



66%
agree

Using a payment service provider has reduced our risk of fraud due to more robust security procedures when taking payments

55%
agree

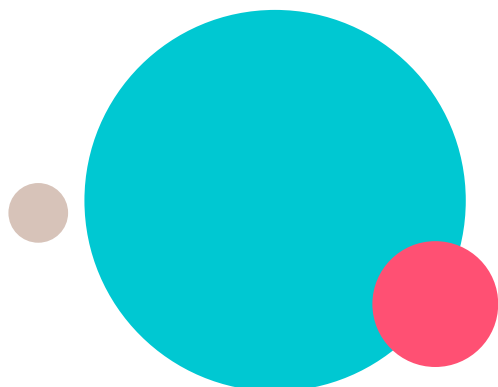
The transaction fees that our payment service provider charges are too high

72%
agree

We are looking for efficiencies in the way we take payment and complete transactions in-store

62%
agree

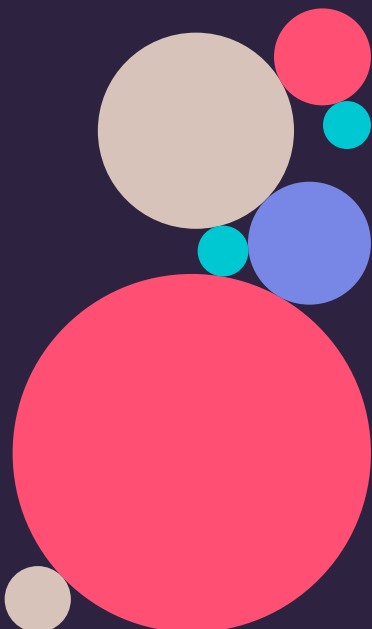
Frictionless transactions will speed up payments, resulting in more satisfied customers



The roadmap to futureproofing: Two years to evolve?

As this report demonstrates, SMBs not only appreciate that the payment landscape is shifting, they understand that it is critical to not be left behind as retail technology evolves. Changing buyer expectations means that futureproofing the checkout in order to remain competitive with industry leaders and retail giants is now essential, and due to the current pace of innovation in payments it appears as though the next two years will be critical for SMBs in achieving that.

- **Two major hurdles for online retailers:** The two greatest hurdles to overcome are satisfying consumer demand for greater flexibility in the way they pay, and offering a slicker, more seamless checkout experience whilst giving the customer peace of mind that the payment is secure.
- **More choice at the checkout:** In the next two years the average number of accepted payment instruments is expected to jump from four to six across all of the markets surveyed, and 83% of SMBs claim that they will add new payment methods to their checkout in that time. This shows that offering more choice at the checkout is a ubiquitous trend that an online merchant will not be able to fall behind on delivering without risking becoming uncompetitive. That the number of merchants who expect to be accepting cryptocurrencies as a form of payment within the next two years is a 250% increase on those that accept it today is just one striking example of how merchants think payments will become more varied, and how different the checkout may look in two years' time.
- **Find a balance between frictionless and security:** As is the case with consumers, online merchants are wrestling with the competing drivers of making payments smoother but also ensuring maximum levels of security are maintained. Over half of merchants still believe that removing friction from payments increases the risk of fraud, but nearly seven in ten believe that a longer security process increases the risk of losing customers. Finding the right solution is absolutely essential for businesses.
- **Security is more important than cost when selecting a PSP:** In addition to 70% of SMBs admitting that they are struggling to find the right balance between a smooth customer journey and tight security, one clear message this report delivers to the payments community is that online merchants are placing the responsibility for solving this issue at the door of their payment service provider. It is therefore unsurprising that security is more critical to merchants than cost when it comes to selecting a PSP.
- **The US is going all in with contactless:** It is clear that store owners are now fully behind the adoption of contactless, and in fact it could be argued that they see contactless card and mobile wallet acceptance as purely a stepping stone to offering an even more seamless payments experience. That 40% of North American merchants believe they will be in a position to offer checkout-free, invisible payments within two years is exceedingly ambitious; whether this becomes reality is debatable, but it certainly shows the level of determination stores have to not fall behind the innovation curve.



About Paysafe Group

Paysafe Group (Paysafe) is a leading global 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 \$80 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.

Visit us at www.paysafe.com

About this survey

Lost in Transaction is an independent research project, conducted by the London-based agency Loudhouse. The data behind this report is based on interviews with two separate merchant sectors. The 'card not present' or online merchants comprised 601 companies from the US, Canada, UK, Germany and Austria, employing between 1-50 employees and making \$60,000-\$10m in sales. The 'card present' data comes from 306 businesses in the US and Canada and the merchants involved are brick-and-mortar businesses with the same financials and levels of employees. The interviews were conducted using an email invitation and an online survey, and took place in September 2018.

