Understanding a fast-moving payments landscape

Balancing the cost of taking payments with how customers want to pay, to help drive your strategies for growth in 2022

The payment part is just the start

barclaycard

Foreword

Driven by the pandemic, the last two years have seen rapid and significant evolutions in the digital payments landscape, creating opportunities and challenges for merchants and payment providers alike.

A fresh look at key trends

As we examined in last year's *True cost of payment acceptance report*, 2020 was characterised by a rise in eCommerce and the rapid adoption of online payment methods, such as digital wallets, as lockdowns and restrictions reshaped how many customers shop and pay.

So how did these trends continue to develop during 2021, and what insights can be drawn for the year ahead?

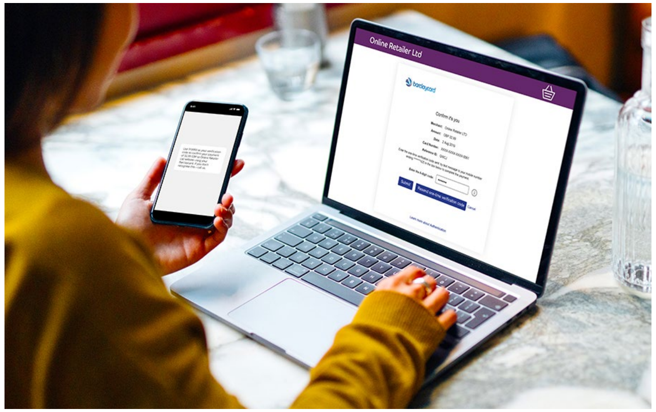
We have conducted new research among 250 UK merchants (now including SMEs as well as corporate businesses)[1] and combined this with analysis of Barclaycard's unrivalled payments data for 2021. We want to help merchants understand their payments choices and how shifts in consumer trends and behaviour could affect their businesses.

SMEs = turnover between **£250k-£6.5m**	Corporate businesses = turnover of **£6.5 million+**

Looking beyond recovery

With restrictions hopefully a thing of the past, consumers are now faced with a steep rise in the cost of living. It's crucial for merchants to recognise the customer's intrinsic need for a smooth and painless payment experience. They also need to stay ahead of consumer trends such as digital wallets and Buy Now Pay Later options.

Understanding consumers and the market, as well as key payments aspects such as security and costs, can help merchants survive and thrive.



> "Accelerated by their experience during the pandemic, customer expectations of how they interact with businesses and pay for goods have changed. Digital is here to stay and businesses have adapted their omnichannel commerce strategy accordingly, allowing them to reach customers anywhere."

Rob Cameron
CEO,
Barclaycard Payments

[1]Merchant research throughout (unless otherwise stated) was conducted by independent research company Savanta in December 2021. The research consisted of an online survey among 250 UK businesses with turnovers ranging from £250k to over £500m.

Keeping pace with change

At Barclaycard Payments, our access to data is unique in the market: we process £1 in every £3 spent on cards in the UK. This enables us to bring key insights to merchants to give them the edge they need in a world where retail and consumer norms are changing rapidly.

Our annual payments survey has once more documented and highlighted the habits, trends and changes in the industry. It keeps merchants informed of the best and most objective strategies for growth in the payments arena – increasingly, this part of the puzzle is key for a successful commerce strategy in today's fast-evolving world.

Our research reveals

Digital wallet adoption is growing

Digital wallets continued their remarkable rise in 2021, even while face-to-face commerce made something of a comeback as lockdowns eased during the year and shoppers were able to get back in-store.

We live in an omnichannel world

Merchants must offer their customers multiple channels through which to do business with them, along with ways to pay that are easy to use, reliable and secure, to create a compelling customer experience.

Payments need to cross channels

An omnichannel approach also means exploring ways of creating a bridge between online and in-store. Digital wallets are one such bridge, as payments can be made through them in both environments.

Click and Collect can bridge the gap

Customers can explore and use a merchant's website, and be encouraged to then go in-store to collect and experience the physical merchandising environment – potentially making further purchases when they do so.

Key drivers in the payments ecosystem

> “Merchants should consider whether the way in which they’re taking payments is meeting the full range of their customers’ needs and preferences, as well as proving cost-effective and efficient for the business itself. Are you effectively turning sales away by not offering a wide enough range of payment options?”

Colin O’Flaherty
Head of SME,
Barclaycard Payments

Face-to-face sales vying with digital

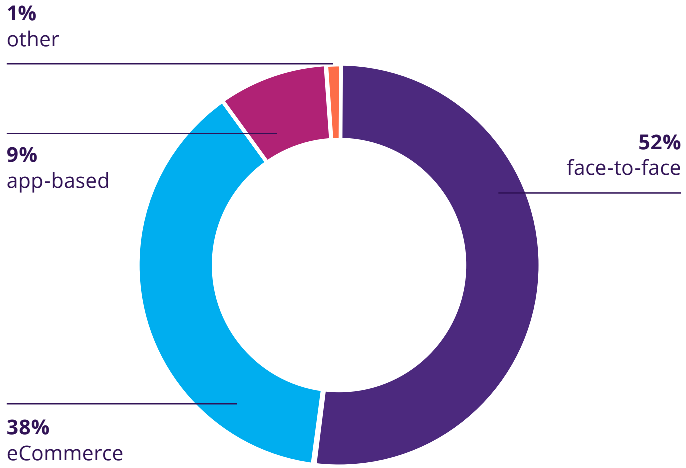
Our merchant research finds that face-to-face sales grew back again in 2021: 52% of payments were made face-to-face compared to 38% through eCommerce.

Both Hospitality & Leisure and Retail show a narrower differential, however, with face-to-face at 47% and 48% respectively and eCommerce accounting for 41%.

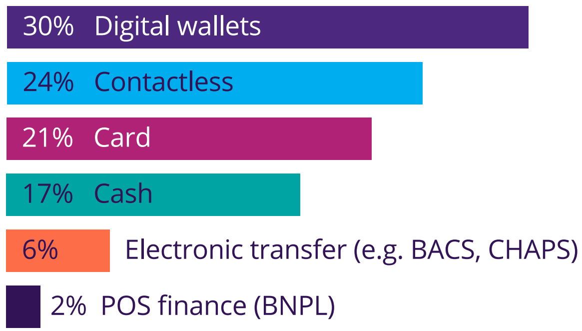
This shows the high penetration of online sales in those sectors. But the proportion has dropped significantly from 2020 when, for larger corporates in those sectors, eCommerce stood at around 80% and face-to-face less than 10%.

Nevertheless, when we consider that in 2019 online purchases stood at around 25% of sales according to Barclays consumer debit data, at 38% the growth of eCommerce in recent years is striking – and to this we can add a further 9% through app-based purchases (rising to 15% among large corporates with turnovers over £500m).

Where payments came from in 2021 (our merchant research)



Proportion of payments using each method (on average)



Digital wallets take the biggest share

Indeed, digital wallets are now accepted by almost as many merchants as cash – a remarkable rise in just a few years. Close to half of businesses receive over 30% of their takings through digital wallet payments. For one in seven this rises to over 40% of takings.

However, some SMEs (turnovers less than £6.5m) are still waiting to be convinced of the merits of accepting digital wallets. In general, SMEs have a higher dependence on face-to-face sales than larger corporates – 66% of sales compared to 23% via eCommerce. Indeed, only 56% of SMEs have an eCommerce capability.

Given today's digital environment, strengthening eCommerce channels should be a priority for many small businesses.

Choice is key

Overall, regardless of business size, merchants are generally providing more payment options than before and offering more choice: an indication that we live in an omnichannel, multi-choice market where consumers expect to be able to choose whichever route and method suits them best.

The case for digital wallets is growing stronger

All corporates accept some form of digital wallets. However, among SMEs, 17% of £250k-£1m businesses and 12% of £1.1m-£6.4m businesses do not. But SMEs are willing to consider taking both Apple Pay (27%) and Google Pay (31%).

SME

56%
of SMEs accept online payments

23%
of all SME payments were taken online

30%
of SMEs accept payments via an app

11%
of the average SME's payments are coming in via an app

Corporate

89%
of corporates accept online payments

46%
of all corporate payments were taken online

30%
of corporates accept payments via an app

7%
of the average corporate's payments are coming in via an app

Trends in eCommerce

Jostling for position: Apple at the core?

The pandemic has made lasting changes to how many consumers shop, making them much more digitally savvy. There's a crowded market when it comes to digital payment options – but our merchant research shows that **Apple Pay** is the fastest-growing digital payment method, with high acceptance among both corporates and SMEs. 56% of corporates accept Apple Pay, up from 42% in 2020.

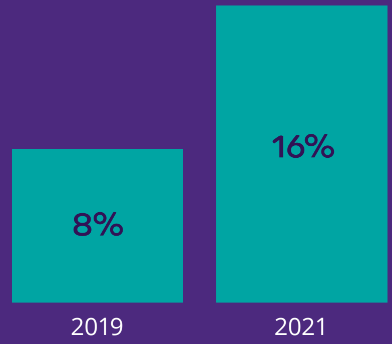
Other payment methods have higher penetration – Visa/Mastercard and, among wallets, **PayPal**. But PayPal's growth has slowed while Apple Pay has grown, even if there was some stabilisation in this in the latter half of 2021.

Clash of the titans: Apple Pay vs. PayPal

Barclays consumer debit data comparing 2019 to 2021 shows that Apple Pay has outpaced the market across channels and sectors. Indeed, the value of Apple Pay transactions has trebled while volume has doubled.

Apple Pay has also seen a shift in sectoral patterns. Before lockdown, its strengths were in Hospitality & Leisure and Transport, but Apple Pay has significantly grown in areas such as fast food and online clothing.

Apple Pay was used twice as much for face-to-face transactions



Growing strength of Apple Pay online

6.7%

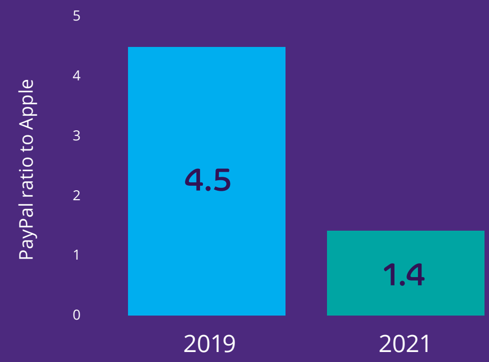
share of eCommerce transactions via Apple Pay – up from 2.9% in 2019

Growing use of Apple Pay across more sectors

13%
share for fast food
(a 7x increase from 2019)

14%
share for online clothing
(up from 4% in 2019)

Apple Pay transactions catching up with PayPal



In 2019, there were 4.5 times as many PayPal transactions online as Apple Pay. By 2021, this had narrowed to 1.4 times more transactions (around 1.9 times the value).

Offering the popular choices

Given such trends, Apple Pay is well-positioned to reach or even exceed parity with PayPal in terms of value and even volume of transactions in the course of 2022.

However, to do this, Apple Pay will need to continue to grow rapidly and build on its omnichannel brand, as in real terms it is still behind PayPal. Our merchant research finds that 28% of payments were received via PayPal in 2021, over double Apple Pay's 13% (although this has doubled from 6% in 2020).

Visa, Mastercard and Amex card payments remain dominant overall at 44%. Other wallets such as Amazon Pay and Google Pay have perhaps been unfairly overshadowed and could offer significant potential for the future as more merchants considering accepting them.

It is important for merchants to review which digital wallets they accept payments from, as aligning with the most-popular and fastest-growing wallets will enable them to take more sales.

> "Merchants should seriously consider accepting Apple Pay and other digital wallet services, if they don't already. From their growth trajectory, digital wallets look set to become ever more widely used by customers. Merchants that don't accept them will increasingly lose out on business."

Linda Weston
Head of Core Product, Product and Propositions,
Barclaycard Payments

> "It is important to keep track of emerging trends in order to stay a step ahead: look at finance options, such as Buy Now Pay Later (BNPL), which are becoming increasingly common and which some customers, particularly younger demographics, now expect to be available. Further regulations expected in this area could fuel their adoption by giving consumers greater peace of mind. Cryptocurrencies may remain further out but are worth getting on the radar. Meanwhile, be aware of Open Banking developments, which have the potential to transform the landscape even further – one day, physical debit and credit cards will probably be a thing of the past."

Paul Adams
Head of Acquiring, Payment Processing,
Barclaycard Payments

Key trends – click below to discover more

The growth of Buy Now Pay Later

It is not only about digital wallets, however. There are other significant market trends that look set to drive eCommerce growth dynamics.

One of these has already 'arrived' and has proved popular in sectors such as retail fashion with a young customer demographic – **Buy Now Pay Later** (BNPL). Although BNPL represented only a small proportion of sales in 2021 overall among the merchants we surveyed, more than 8 in 10 businesses predict an increase in demand in the next 12 months.

Merchants recognise the increased opportunities offered by BNPL, but some are wary of the risks such as defaults if customers fail to keep up with payments. The retail point of sale finance market is an important and growing segment, especially in online sales.

How merchants are thinking about BNPL

"We have to be prepared to offer these [types of payment methods]. It is good for the competitiveness of the business."

Respondent from a small leisure and tourism corporate
(£6.5m-£10m turnover)

"As a business, we would need to think about the additional costs aligned with this payment option."

Respondent from a manufacturing corporate
(£50.1m-£500m turnover)

"The customer would frequent the business more often. However, challenges would emerge if there are late payments."

SME respondent
(£250k-£500k turnover)

Key trends – click below to discover more

1. The growth of Buy Now Pay Later

2. Open Banking changing how customers pay

3. Virtual cards becoming a reality

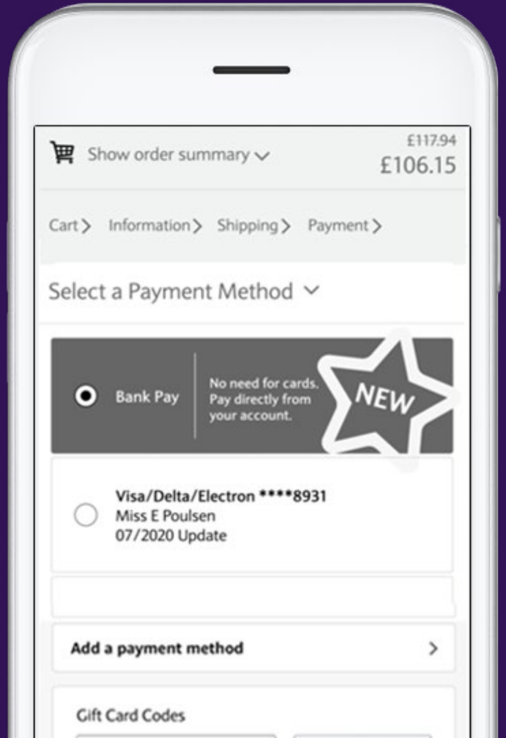
4. One to watch – crypto in the wings

Open Banking changing how customers pay

Open Banking is based on making customers' current account information 'open' and available to other financial service providers. Open Banking technology also makes more data available to the banking industry, supporting product innovation and improvement.

It is burgeoning within the UK fintech sector and is set to increasingly change how customers pay. For example, Barclays Bank Pay utilises Open Banking to provide customers with the option to pay directly from their bank account when making an online purchase. There is no card involved, just a next generation digital payment experience. The customer doesn't need to remember their card details or password, instead they simply log in securely to their online/mobile app banking service in the usual way.

They don't even need to bank with Barclays – they can be with any participating bank. For merchants, the smooth customer experience could lead to more sales (higher conversion rates) and fewer uncompleted transactions (basket abandonment). Open Banking solutions create a win win situation.



bank pay

Key trends – click below to discover more

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Virtual cards becoming a reality

There are other exciting applications arising from Open Banking – such as virtual cards. Research predicts that digital card transactions will increase by 370% globally in five years,[2] due to their simplicity – especially for the business-to-business market.

Barclaycard Payments has just launched Precisionpay Go, which is a virtual card facility that enables employees to pay for their business expenses online or on-the-go using a card number generated via their mobile phone, without the need for a physical card.

This brings convenience, flexibility and speed to employees' ad hoc business payments, while a dedicated portal gives employers increased visibility of all employee spending and greater control.

[2]Juniper Research, June 2021.

Key trends – click below to discover more

1. The growth of Buy Now Pay Later

2. Open Banking changing how customers pay

3. Virtual cards becoming a reality

4. One to watch – crypto in the wings

One to watch – crypto in the wings

Cryptocurrencies are another area to watch. In our research, 7% of corporates say they accept crypto payments already, and more are interested. Customer demand would be the top driver to encourage merchants to accept crypto payments, with speedier processing, lower transaction costs and being an international currency perceived as other factors that could influence change.

How are merchants thinking about cryptocurrencies?

"As a form of payment, there are multiple risks. However, we have to be more flexible and learn how to mitigate these risks."

Respondent from a large retail corporate excluding clothing and household goods
(£50.1m-£500m turnover)

"For our overseas transactions, this would be a feasible payment method for customers."

Respondent from a business services corporate
(£10.1m-£50m turnover)

"The low fees would be an advantage from a merchant's perspective."

Respondent from a small leisure and tourism business
(£500k-£1.1m turnover)

Businesses are prioritising service, trust and brand

The choice of a payments acquirer is a key decision for merchants. But it's a complex area made up of many facets – customer service, security, settlement times, acceptance rates, transaction costs, value-added services – so what matters most to merchants when choosing an acquirer?

Our research shows that:

8 in 10

merchants name customer service availability as a key influence. This is closely followed by trust, cost and brand as important considerations when choosing an acquirer.

For larger organisations, brand name is a key consideration – indeed it ranks highest – but its score is brought down overall because it matters less to SMEs.

57%

of businesses have same day settlement (31% in 2020) – making it increasingly seen as a hygiene factor alongside acceptance and basket abandonment rates.

78%

of SMEs with a turnover under £1m put data privacy as a key influence on selecting an eCommerce acquirer, which drops to 54% for all merchants.

What merchants expect from payment acquirer services

"Their customer service teams need to be ready to assist; 24x7 support would be appreciated."

Respondent from a retail corporate excluding clothing and household goods **(£10.1m-£50m turnover)**

"We need to trust their service quality and they should be experienced in setting fraud detection algorithms."

Respondent from a hospitality (food and drink) corporate **(£10.1m-£50m turnover)**

"We want payment settlement times to be minimum."

Respondent from a leisure and tourism SME **(£1.1m-£6.5m turnover)**

Regulation and fraud

Despite their emphasis on data privacy, merchants were less likely to show a concern about the strength of an acquirer's fraud management capabilities. Only 22% scored it as an influential factor in their decision, while support around regulatory payment security requirements (Revised Payment Services Directive – PSD2) and Authorisation Rate Optimisation scored lower still.

These findings could reflect expectations among merchants that fraud risks are now automated, reducing manual, time-intensive processes and supporting a customer-centric experience. In addition, with Strong Customer Authentication (SCA) regulation having come into effect in the UK in March 2022 as part of PSD2, most transactions will undergo additional security checks in any case.

Barclaycard Transact has been developed to optimise merchants' payment strategies by protecting the shopper experience while filtering out fraud. We explore issues around security and regulation including PSD2 and SCA, as well as our Barclaycard Transact solution, in more detail in the next section.

"Our research suggests that merchants are looking for a partnership with their acquirers to help them navigate the complex payments landscape. That is why customer service wins as the number one priority: merchants need a payments acquirer that is there for them, helping them optimise the process and addressing any issues that arise.

Another key element is trust, as merchants told us in our research. Ultimately, concerns over fraud, security and data privacy are likely to be wrapped into merchants' need to have a high degree of trust in their acquirer. Certainly at Barclaycard Payments one of our key focuses is on earning customer trust through delivering services that are highly secure, reliable, efficient and safe."

Kirsty Morris,
Managing Director of Specialist Sales
Barclaycard Payments

Size matters when it concerns fraud

Our research shows that while there are many common concerns between large corporates and smaller businesses, they each have different priorities and expectations of their payment acquirer.

SME

67%
rank data privacy to be a key concern when choosing an acquirer

1 in 4
consider PSD2 support to be a major factor in their decision making

8%
would consider the strength of fraud management to be a key influence

Corporate

49%
rank data privacy to be a key concern when choosing an acquirer

<1 in 10
consider PSD2 support to be a major factor in their decision-making

26%
would consider the strength of fraud management to be a key influence

"I feel that they should gather information about potential threats, and subsequently provide advice on how to manage them."

Respondent from a corporate leisure and tourism business
(£6.5m £10m)

Payment security and the customer experience: finding the optimal balance

Stronger authentication requirements

Strong Customer Authentication (SCA) is an integral part of the Payment Services Directive (PSD2) that is designed to protect customers making card purchases across the EEA and which came fully into force in the UK on 14 March 2022.

SCA requires businesses to use two independent authentication elements to verify online payments, also known as two-factor authentication. The industry standard for authenticating card payments is known as 3D Secure (3DS). The latest iteration of this is 3D Secure version 2 (3DS2), which supports better fraud prevention and is adapted to mobile and in-app experiences.

“Merchants should look to use the benefits of SCA and balance the customer experience and risk. This means screening all transactions for fraud before sending them to the payment networks, then using the most effective exemptions to mitigate the need for SCA on qualifying low-risk transactions.”

Paul Adams,
Head of Acquiring,
Payment Processing,
Barclaycard Payments

Identity challenge: more European customers asked to prove themselves

As useful as 3DS2 is for many businesses, it could potentially result in more customers having to go through 'intrusive' authentication steps when making an online purchase. This has been the experience in Europe, which is further along than the UK with its implementation of SCA.

In markets across Europe, the 'challenge rate' – when customers are asked to verify themselves before the transaction can proceed – can be more than 80%. To put this in context, challenge rates in the UK during our pre-SCA phase were around 12%.[3] The high challenge rate in Europe is leading to basket abandonment rates of 12% on average in markets where SCA is live as customers give up on their purchase rather than going through the identification process – a potentially harmful loss of sales for merchants. The UK has been used to abandonment rates of around 2%, six times lower than that being seen in Europe.

[3]Source: Visa update, November 2021.

For EU-issued cards, more than

8 out of 10

purchases require the cardholder to actively confirm their identity through authentication steps.

What merchants said about payments security

"When we use multiple providers to complete a single payment, there are chances of fraud. If most services can be provided by the acquirer, we would be lowering risks as well."

Respondent from a manufacturing corporate
(£10.1m-£50m turnover)

"If a payment acquirer can share security procedures and reports with us, it would be of help. Information about their privacy and security measures, their fraud prevention methods and settlements would help us make an informed choice [when choosing a payment partner]."

Respondent from a small leisure and tourism business
(£500k-£1m turnover)

Exemption solutions – Barclaycard Transact

It is possible to apply exemptions from additional customer authentication for low-risk transactions through what's known as transaction risk analysis (TRA). Data shows that there are significantly higher acceptance rates for transactions where TRA is applied.

Our solution is Barclaycard Transact. It's a fraud prevention tool that incorporates TRA and helps businesses convert more sales by protecting the quality of the shopper experience. It makes it possible to fight fraud intelligently, while more genuine customers pay quickly and stay safe.

Transact uses a TRA exemption on low-risk transactions, helping more customers skip 3DS2 authentication and reduce their payment journey time. This can help merchants see lower rates of cart abandonment and more customers completing their purchases. Transact is highly secure – it only puts low-risk transactions in the fast lane. It assesses customer payments against a number of risk factors and decides on the appropriate level of risk.

"Barclaycard Transact has been designed to help merchants do just that – delivering a smoother payment experience for customers, with fewer declined transactions and minimal disruption, all within a solution that smartly identifies higher-risk transactions where further checks are needed."

Linda Weston
Head of Core Product,
Product and Propositions,
Barclaycard Payments

"We sell more than 90,000 different products through our digital channels and strive to ensure that every online transaction is smooth, secure and seamless. The full SCA roll-out makes that more of a challenge.

With the support of Barclaycard Payments, we're using Barclaycard Transact to reduce the friction that SCA creates, and even harness machine learning capabilities to better detect incidents of fraud. Our goal is to make the checkout process as easy and safe as possible.

Barclaycard Payments' data reflects our own findings: that a complex or lengthy checkout process leads to consumers dropping out, and this can have a sizeable financial impact on any organisation."

George de Heer
Head of Development,
The Range

Making sure the cost of acceptance adds up

The costs of doing business

The cost of accepting payments may not be a front-running concern for some merchants, but nevertheless it is an important part of the equation. It's only by understanding costs and charges that a business can have the complete view that's needed to make informed decisions around payment options.

Our research shows that in 2021, on average merchants paid around £2,300 per month for eCommerce transactions and £1,900 for face-to-face – but this is an average and the figure is two to three times higher for big corporates/retailers. Unsurprisingly, face-to-face costs in 2021 rose significantly compared to lockdown-affected 2020, when the average monthly cost was around £750.

The cost of payment methods also matters to customers themselves as fees are often passed on to them, one way or another – so it's in merchants' interests to promote the most cost-effective payment options, making them easily available and visible in their eCommerce channels for their customers.

“The cost of accepting various payments methods (wallets, BNPL) is a vitally important consideration to your business.

It has direct implications for any payments strategy: which payment forms might you want to encourage more and which ones less? Are you getting good value in terms of transaction and gateway costs, and planning for the future to get ahead of your competitors? Discuss this with your payments partner(s) – are they giving you the right balance of service excellence and value for money?”

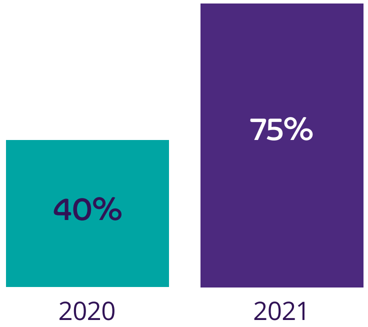
Harshna Cayley,
Head of Gateway,
Barclaycard Payments

Merchants educating themselves

So how well do merchants know and understand the relative costs of different payment methods?

When asked directly, it appears that knowledge has increased sharply from a year ago. There has also been a rise in the percentage of merchants who say they frequently compare charges (from 63% to 74%) and shop around for a better deal (from 65% to 73%).

Rise in businesses reporting they understand the overall cost of eCommerce transactions



When asked to rank payment services in order of cost, merchants rightly perceived digital wallets as the cheapest and BNPL as the most expensive. Most respondents believe that BNPL admin fees are higher than traditional card payments and pay more than 3%.

In terms of the most influential costs that affect their decision, transaction costs were the primary factor (56%) followed by setup costs (46%). Gateway costs (24%) and chargeback costs (13%) were some way behind.

Our merchant research found that 81% of transaction costs were between 1%-2.5%, with the average rate being 1.8% across all sectors.

SME focus

58%

of SMEs say they are likely to shop around (vs. 78% of corporates), but there's little difference between SMEs and corporates in how many say they compare payment acquirer charges or understand costs and the way they break down.

What merchants said about the costs of acceptance

"Cost-effective products and services are essential in supporting our business going forward."

Respondent from a retail SME excluding clothing and household goods **(£1.1m-£6.4m turnover)**

"To make an informed choice, we need information about the cost, the value for money and any further maintenance charges."

Respondent from a large retail corporate excluding clothing and household goods **(+£500m turnover)**

"We don't like to select providers that have hidden charges. We will be checking the cost features and the value-add."

Respondent from a hospitality (food and drink) corporate **(£10.1m-£50m turnover)**

Conclusion

All to play for

In a fast-moving market, understanding key trends and customer demands is critical to success. We've seen some major shifts in the last couple of years, some of which may be permanent and some of which may revert, at least partially, to prior trajectories as our economy reopens in 2022.

For merchants, it's all to play for. Providing multi-channel options is key. Face-to-face has grown back again – but eCommerce looks set to continue to boom. As noted earlier, there are some potential crossovers and 'bridges' between the two, such as Click and Collect, which continues to be an important part of many merchants' strategies.

Digital wallets, app-based payments, Open Banking services and new retail finance solutions like BNPL are with us to stay. It will be fascinating to track the ongoing trends within these as consumers vote with a click or a biometric smile for whatever suits them best. And will 2022 be the year that Apple Pay takes PayPal's crown as the most widely used digital wallet?

With SCA now fully implemented, getting the balance right between prudent security and intelligent exemptions for low-risk transactions will also be crucially important for merchants. The experience in Europe – challenge rates and basket abandonment at many times the levels seen in the UK – may not be directly transferable to our market, but it does underline the potential risks. Applying exemptions is a key part of the solution, and it's why we have designed Barclaycard Transact.

At Barclaycard Payments, we're here with you on the journey, creating smart, cost-effective payments solutions that keep the customer experience high while safeguarding security and trust.

Speak to our payment experts today to find out more

Visit barclaycard.co.uk/business
Call us on 0800 096 8237
Monday-Friday, 9am-5pm

Calls to 0800 and 0808 numbers are free from UK land lines and personal mobiles, otherwise call charges may apply. Please check with your service provider.
To maintain a quality service we may monitor or record phone calls.

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