

How PayTech innovation is creating new value in MOTO

A whitepaper by Edgar Dunn
& Company, commissioned by
Prommt and Barclaycard



Pay-By-Link is establishing itself as an alternative in the evolution of digital payments. Smarter and more sophisticated solutions are reducing costs and improving the customer experience, helping to increase sales in the remote payments market.

MOTO payments relative to the overall payment market

Traditional MOTO payments are changing.

Encryption, tokenisation and biometric technologies play a pivotal role in today's market by improving the customer experience and trust. They also significantly mitigate fraud which remains a pervasive industry challenge: In 2021, e-commerce fraud in the UK which includes all Card Not Present 'CNP' transactions reached £340m¹. By comparison CNP fraud in the USA totalled USD\$7.8bn².

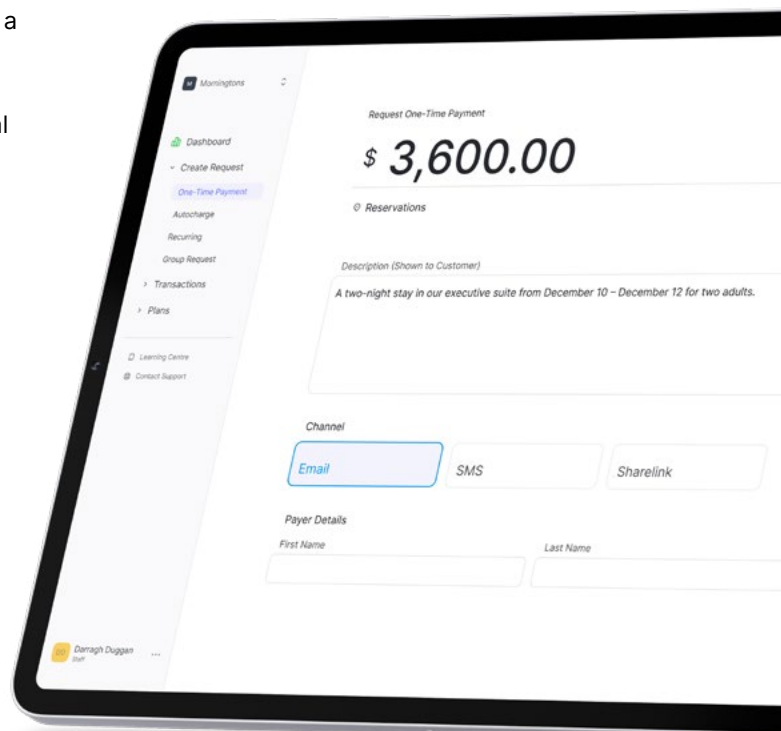
The emergence of the PayTech market has substantially focussed on purchases made via a Point of Sale 'POS' terminal, online payments or bank to bank transfers. One area of the payments ecosystem that has lagged the first round of Playtech innovation is in what was traditionally referred to as mail order / telephone order 'MOTO' transactions. This is where credit card details were given over the phone or written down on an order form and sent in the post.

This segment of the market is now better described as remote payments given that mail order in its traditional sense is now all but obsolete. However, the remote payment segment still represents a significant proportion of the total CNP market. In the USA, these payments amount to some USD\$630bn annually, representing around 16% of the CNP market. Using the US as a benchmark, it is estimated that this amounts to £50bn-£60bn annually in the UK³.

The introduction of Strong Customer Authentication 'SCA' in the EU and UK has helped to mitigate fraud for online and instore transactions, but this has just refocussed the bad actors to prey on the remote payment sector. Pay-By-Link developed from the Request-to-Pay 'RTP' peer to peer lending market around 2013. Within a couple of years it was being marketed in the USA as a retail and business solution.

This easy-to-use process sends the customer a unique digital link that supports all existing payment methods without the need to provide personal card or bank details; and without the merchant being required to store customer payment information. Furthermore, the customer can choose a convenient time to complete the payment.

Advances in Pay-By-Link features now offer a significantly improved customer experience leading to increased merchant sales whilst reducing merchant fees and mitigating fraud and data protection risks.



References:

1. European Region UK Statistical Yearbook 2023,
2. eMarketer - Insider Intelligence,
3. UK MOTO transaction amounts are not separated out from online transactions.

Relevance of MOTO Payments

Remote payments are still prominent in many sectors, and this is unlikely to change. Transactions tend to be for higher value goods and services due to specific customer needs and the types of products being sold. In the US, the average value of these types of transactions is three times higher than the average e-commerce transaction⁴. Remote payment transactions can range from hundreds to hundreds of thousands in value.

Examples of markets sensitive to remote payments are builders' merchants, luxury retail, hospitality & travel, automotive, IT hardware suppliers and professional services to name a few.

What drives the engagement is where the customer requires either assistance or guidance before making a purchase. Typically, this guidance is provided either over the phone or in person and payment is taken in the same channel. These purchases tend to be in specialist areas where there are subtle differences in part numbers or versions; where orders are customised or variable; where styles differ slightly or are unclear; where travel bookings include flights, rooms, transportation and other add-ons that have numerous optionality; where parts perform differently or simply where there is an option of choice of service.

Customer service is a significant factor whether in the retail or the wholesale market. Being able to differentiate one's business from the mainstream e-commerce segment is what creates value by providing a high degree of customer satisfaction and loyalty, underpinning referral business.

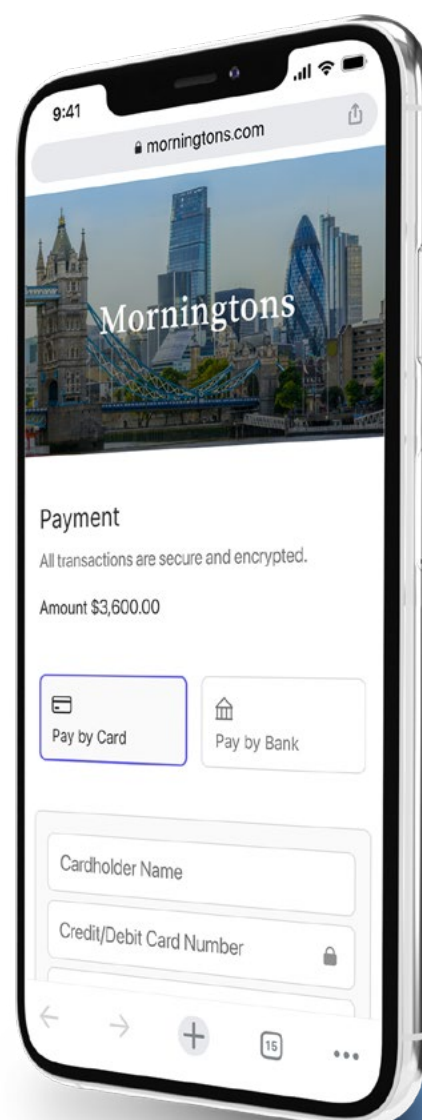
There are plenty of options to buy products online that meet with the exact customer requirements. However, providing a customer that requires engagement with the merchant whilst enjoying a safe and secure checkout experience of an e-commerce transaction is harder to achieve.

Builders' merchant will receive calls to get information on availability, price or guidance on the most appropriate solution. The person calling may not be able to provide payment details over the phone or because they are not responsible for the payment.

In the travel sector, travel agents may build travel packages for families or businesses. Here, the customers will choose between a number of options, eventually settling on the package that best meets the requirements and price tolerance.

Auctioneers in the automotive sector do not know what the final price of a bid until the gavel has sounded. Settlement is required within a defined period and may result in a part payment over the telephone and the balance paid by a bank transfer.

These types of services for both retail and wholesale are specialised and highly likely to remain relevant against the backdrop of online click and buy platforms.



Reference:

4. *Developments in Noncash Payments for 2019 and 2020: Findings from the Federal Reserve Payments Study: 2021*

Challenges for merchants

Taking orders over the phone presents significant issues where 3D Secure and PCI-Level 1 has not, until recently, been possible. Merchants taking remote payments will typically pay a higher Merchant Discount Rate 'MDR'. This is to compensate for the increased risk of fraud.

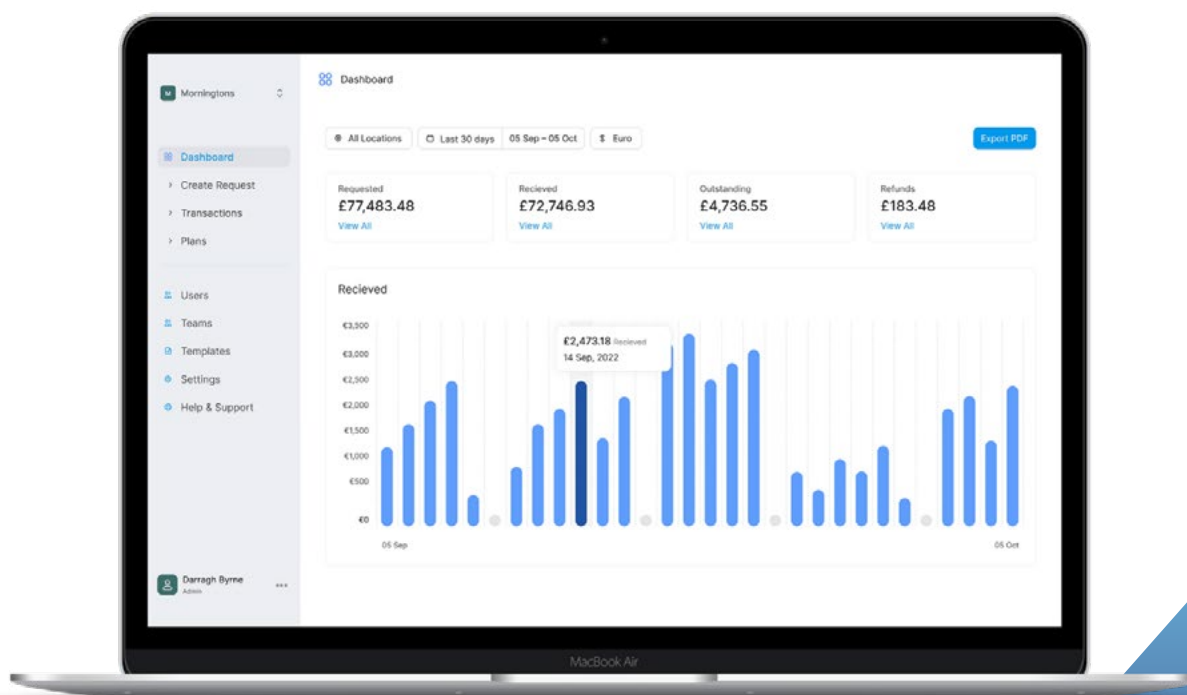
Payments taken over the telephone also increases the false decline rates which are potentially more troubling than fraud losses. False declines occur when a customer's transaction is mistakenly declined by the card Issuer's or Merchant's card processor's fraud models. The CNP channel is disproportionately impacted by false declines, with the average decline rate for CNP transactions hovering around 15% to 20%, versus 2% to 3% for card-present transactions⁵.

Protecting customer data is also a challenge for merchants who transact over the phone. Many customers are uncomfortable or refuse to hand over their card details, especially if the customer is in a public space. This can lead to delayed sales or drop-offs. Some merchants may hold card details on in-house systems which the merchant is obligated to protect securely and attest regularly in accordance with the card scheme rules as well as data protection regulations.

The process of providing customer service support with the right level of skills is expensive. And the quality of the sale representative may lead to frustration on both sides. Errors resulting from incorrect order specifications can result in costs of spoiled goods and returns; not to mention the cost to brand and reputation.

In 2015, the European Union established the Interchange Fee Regulation 'IFR' preventing the discrimination against customers preferred choice of payment method. Whilst the customer does not see the cost of processing the payment, the merchant does.

Assuming the sale completes, the process of settling the order then requires payment details either need to be provided over the phone or via the suppliers' website (often after having to create an account to add payment details online) or setting up a bank transfer. This offers a poor customer experience and only adds friction to the customer journey and risks abandonment.



Reference:

5. AITE, *EMV 3-D Secure:*

The PSD2 Toolkit for European Issuers, Dec 2018

PayTech innovation - Pay By Link solutions

Basic Pay-By-Link services are a single payment solution using established payment processing methods which are helpful for small retail merchants. Whilst most payment gateway providers now offer a basic service, vendors such as Prommt partner with Barclaycard Payments to support businesses which have more complex and sophisticated requirements.

The next stage of Pay-By-Link innovation is being delivered via Software as a Service 'SaaS' propositions. This approach builds value added capabilities on top of basic Pay-By-Link services. These innovations provide for advanced features such as tailored branding, omnichannel messaging, payment orchestration capabilities that can flex between card and open banking payments dependent on transaction value and managed payment rules. Providers of these services sit between the customers, merchants and payment service providers.

Smart Pay-By-Link SaaS offers many advantages over existing payment methods for the remote payment segment. These new services are designed to afford the same level of protection to remote payments as used in online transactions. Moreover, Pay-By-Link can interact securely over multiple channels including email, social media apps and messaging platforms: such as Whatsapp and SMS.

There are many benefits of a more sophisticated Pay-By-Link solution. These include:

Improved Risk Management

- Mitigation of fraud risks by adherence to PCI-Level 1 compliance and GDPR regulations.
- Credit limit management of customer account named nominees to manage exposures.
- Improved credit management via the automation of follow up links.
- Easy processing of refunds without manual intervention.
- A customer portal to fully support financial controls, reconciliation and reporting.
- Ability to integrate to a customer's internal systems via an open Application Programming Interface 'API'.

Improved Customer Experience

- Branded payment omnichannel requests sent from the merchant's domain and protected by a Secure Socket Layer 'SSL' certificate.
- Links can be time limited and or scheduled depending on the merchant's policy or time zone of the customer.
- Links can be forwarded to a different person to complete the payment.
- Significant reduction in false decline rates removing friction from the customer experience and potential sales abandonment.
- Providing orchestration configuration promoting either pay by card, pay by bank or both where a customer may want to pay in part on a credit card and the balance from their bank account, all in one process. This is also useful where the balance of payment is to be paid in instalments.
- The ability to support abandoned sales at checkouts, where payment details are not added, offering an alternative route to complete a transaction.

Reduce Merchant Costs

- Utilising best practise payment security methods significantly reduces the MDR as well as offering improved loss protection.
- Reduce acceptance costs by orchestrating payments to promote pay by bank over a card payment, or only allow pay by bank, for higher value transactions.

Conclusion

With SaaS Pay-By-Link solutions, the time has come to resign MOTO to the history books. Fraud and the protection of customer data provide an ever-increasing challenge for the payment industry. Evolving Pay-By-Link solutions offer significantly improved protection and peace of mind to customers and merchants offering high value goods and services. It not only protects and supports the entire payments value chain, but it provides a high level of customer experience offering significant advantages for merchants to safely drive and increase sales in specialised markets.

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