FUTURE OF PAYMENTS

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Since 2018, the UK has led the way. So, why has progress stalled?

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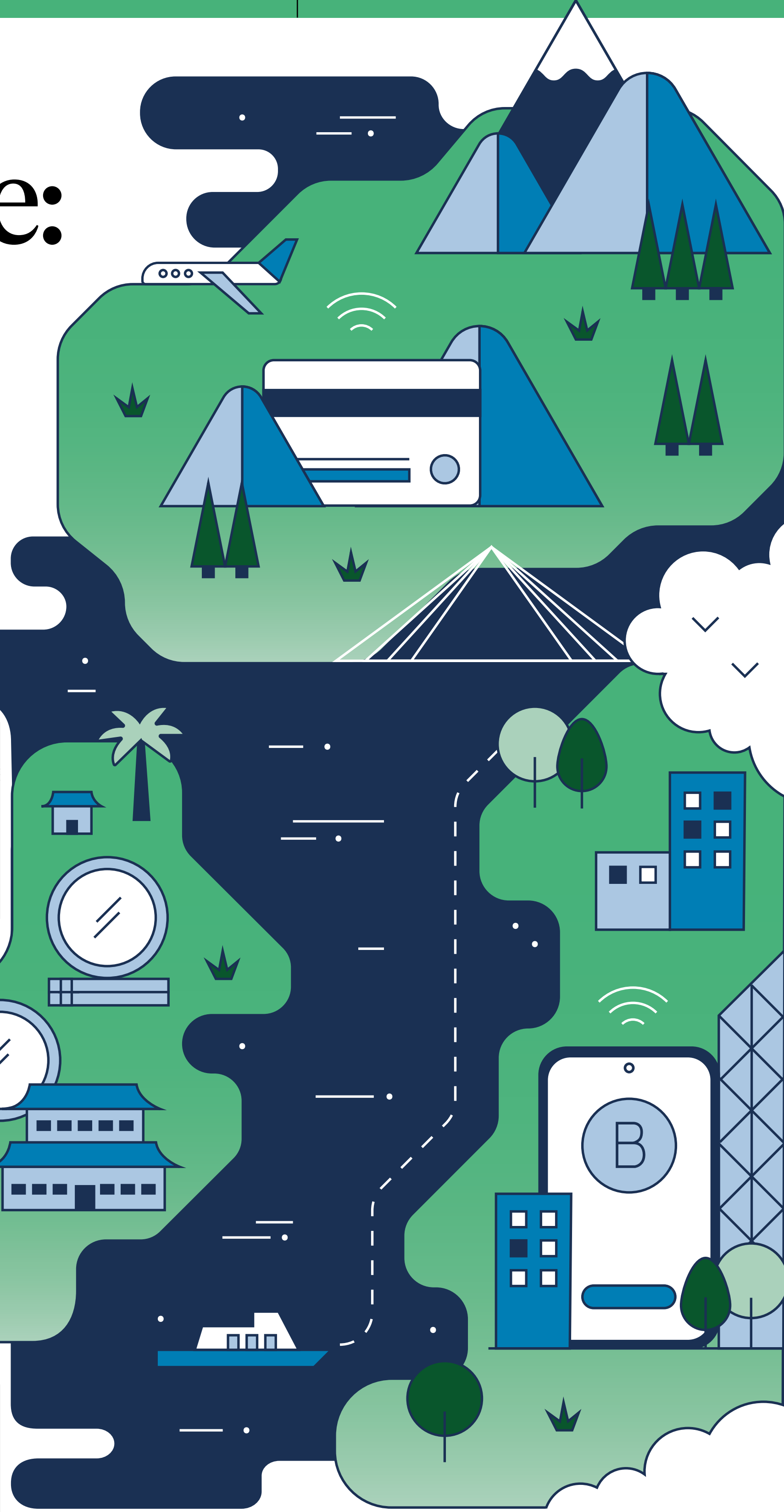
EXPANSION

Check out the difference: why one size never fits all in global ecommerce

Even in neighbouring countries, favoured payment methods can vary considerably. For merchants seeking to expand into new territories, local knowledge is the key to maintaining a smooth purchasing experience

Sean Hargrave



It would be easy for online merchants to assume that the growth of their business in one national market can be straightforwardly replicated in another. The internet is universal, right? All they'd have to do is replicate their existing site in their chosen new territory, offering the same range of payment methods.

Unfortunately, such an assumption – including the idea that accepting most major cards, PayPal, Google Pay and Apple Pay will suffice anywhere in the world – is likely to be a risky one. Any payments expert will tell you that every nation has its own banking system and a unique set of shopping habits and payment preferences.

Indeed, such is the level of difference between markets that some merchants may feel the need to work with regional payment service providers (PSPs) to smooth their expansion into unfamiliar territories.

Gabriel Le Roux is the co-founder and CEO of Primer, a specialist in payment technology integration. He believes that local differences can be so profound that they must be factored in from the start of any new ecommerce initiative. The alternative is attracting shoppers only to leave them frustrated at the checkout. "Payment is no longer an afterthought," Le Roux says. "It's a way to create commerce experiences, and it's how merchants can differentiate themselves, by enabling customers in each country to select their favourite payment option. In a highly competitive industry, getting payments right will help to optimise cost structures and conversion rates."

So profound are the complexities that Ryta Zasiekina, CEO of Latvia-based payment consultancy Fyst, recently produced a world map showing how preferred methods differ from one country to the next.

> "Payment is no longer an afterthought. It's how merchants can differentiate themselves"

"Ecommerce operators need to be aware of the major differences. In India, for example, nearly all smartphones have Android operating systems, so there's almost universal demand for Google Pay there rather than Apple Pay," she says. "In some countries it's relatively hard to withdraw money from PayPal, so the service is not used there as much as it is in the UK and the US. In Europe, many countries have their own domestic payment systems, and other nations use local mobile wallets, such as M-Pesa in Kenya, which people top up with cash in stores in order to put credit on their phones. Every territory has its own set of preferred payment methods, and these are constantly evolving."

Tom Randklev, head of product at CellPoint Digital, believes that it's becoming more and more important for online retailers to pick the right PSP as they look to expand beyond their home markets. This, he says, requires the use of sophisticated machine learning systems to track and identify the most effective PSPs and methods in various territories, in terms of both high authentication rates and low processing fees. If you can get this right, it's not only good news for the payments team, he suggests. It can also give sales volumes a huge boost.

"Research suggests that cart abandonment can be reduced by as much as 40%," Randklev explains. "People need to see that they can use their favourite payment method in their currency of choice. If shoppers get to the final stage and that method isn't there, they'll abandon their cart."

And getting shoppers to stay on your site instead of finding another that offers their favoured payment option is only half the battle. The other is to get as many sales processed as possible, while incurring the lowest possible transaction fees. Again, Randklev stresses that the more local you can go, the better the outcome tends to be.

"The global PSPs do an excellent job in giving merchants reach, but you can sometimes start paying high fees once transactions cross borders," he explains. "That's when it pays to have local PSPs. They will generally offer the trusted payment methods for the country in question, and they'll also have a more direct relationship with the domestic banking system. This eliminates complexity, so you can expect to save 15% to 20% on transaction costs. That closer relationship of being well-known in that market can also increase your authorisation rates by as much as 3%."

The key is to learn something about each shopper before serving up their payment choices. By identifying where that person is from and matching them with the best local payment options, merchants stand the best chance of enjoying high authorisation rates and low fees.

All of these considerations become even more intricate when the modern ecommerce trend for marketplaces is factored in. Services such as Airbnb, for instance, place three parties in the payment chain: the buyer, the site and the seller. That means the chosen payment method needs to pay out as well as receive, notes Eddie Harrison, co-founder of fintech firm Paytrix.

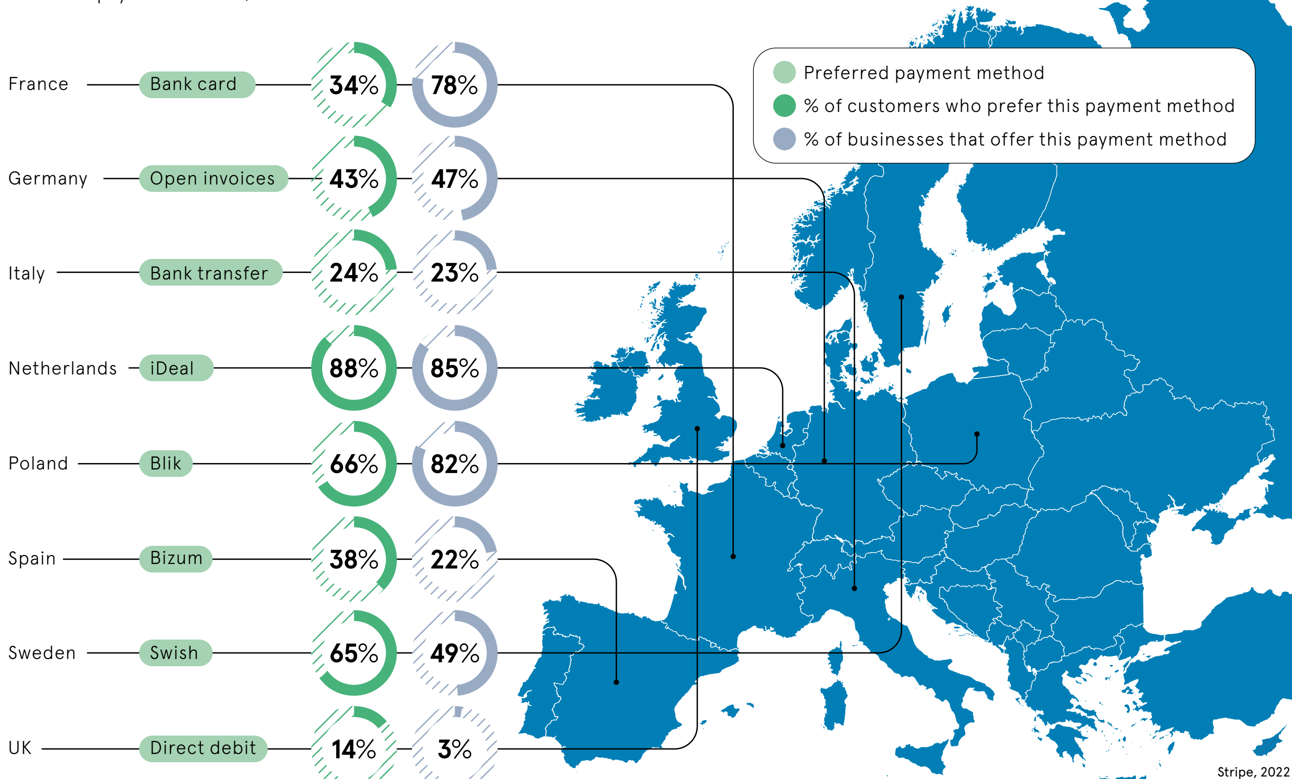
"When there are three in a chain, each part of the payment solution may have to be different," he says. "That complexity magnifies with every territory you add. If you have a buyer and seller in the UK, it's pretty straightforward. But if a marketplace is in Singapore, all of a sudden the money needs to get there from the UK. And in the same way that there are different methods to pay people in different countries, there are also different methods to get paid."

Help may be on the horizon though. These layers of complexity are prompting a new generation of payment orchestration services and fintech firms to explore a tech-led approach to optimising payments. For instance, rather than relying on merchants to pay a room full of analysts and coders to establish the best methods for each region, machine learning is increasingly being applied to identify the right options, leaving the merchant to focus on other elements of their growth strategies. This enables new markets to be penetrated at far greater speed than if a launch were reliant on a team of developers working alone.

Of course, until this tech is ubiquitous, merchants will have to continue adapting their payment methods by hand. Not doing so could be enough to jeopardise any expansion plans they have in mind.

EVEN JUST WITHIN EUROPE, ONLINE PAYMENT PREFERENCES CAN VARY SIGNIFICANTLY

Preferred payment method, across all domestic transactions



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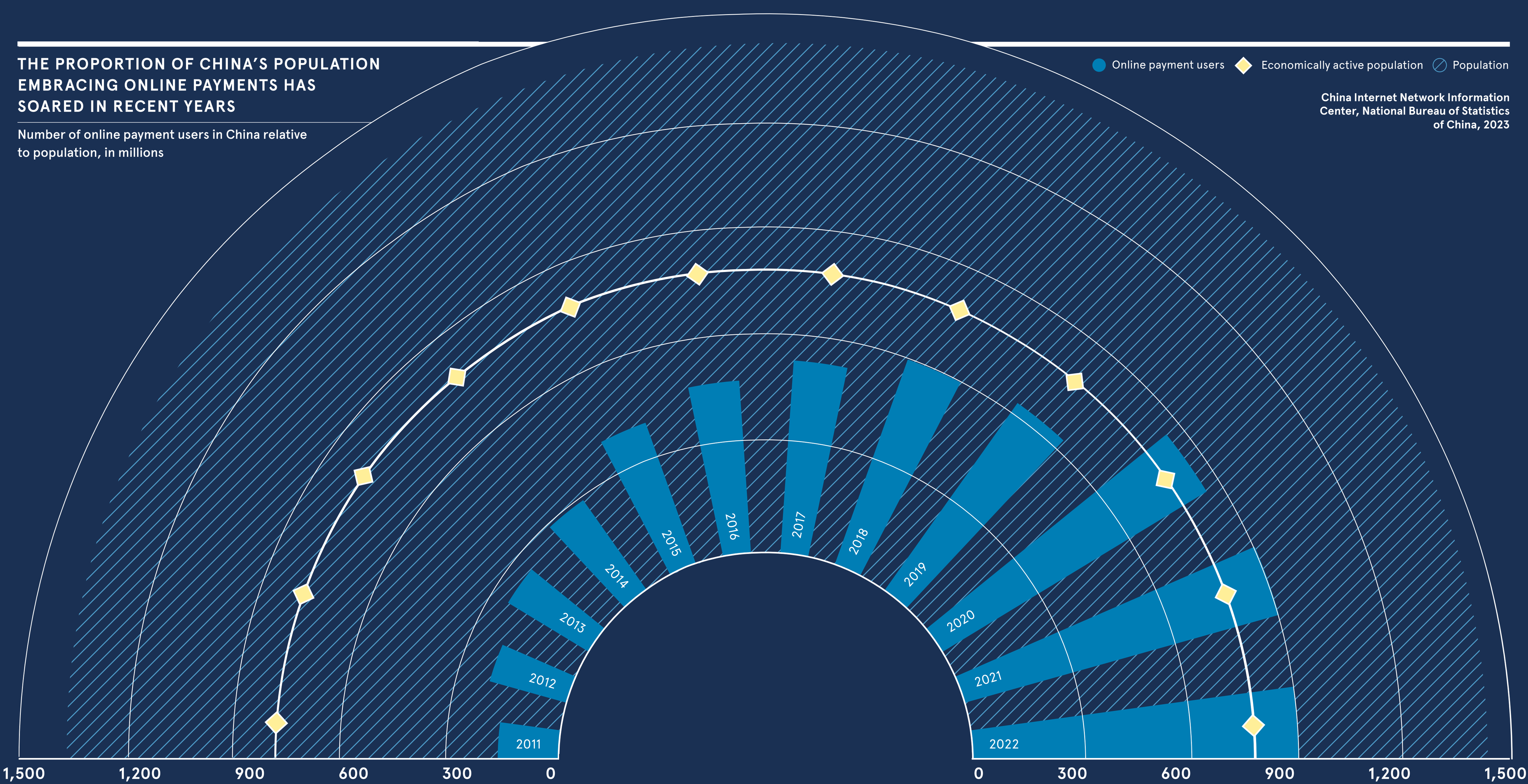
CHINA'S PAYMENTS REVOLUTION

China is years ahead of the rest of the world when it comes to transitioning to a cashless society. Indeed, whereas most Western countries have spent the past few years familiarising themselves with QR codes, mobile payments and embedded finance, China has been quietly consolidating its lead, completing the push which has taken digital payments from the coastal megacities out into the regions. It's a development which has left China's payments almost entirely in the hands of two giants: Alibaba and Tencent

THE PROPORTION OF CHINA'S POPULATION EMBRACING ONLINE PAYMENTS HAS SOARED IN RECENT YEARS

Number of online payment users in China relative to population, in millions

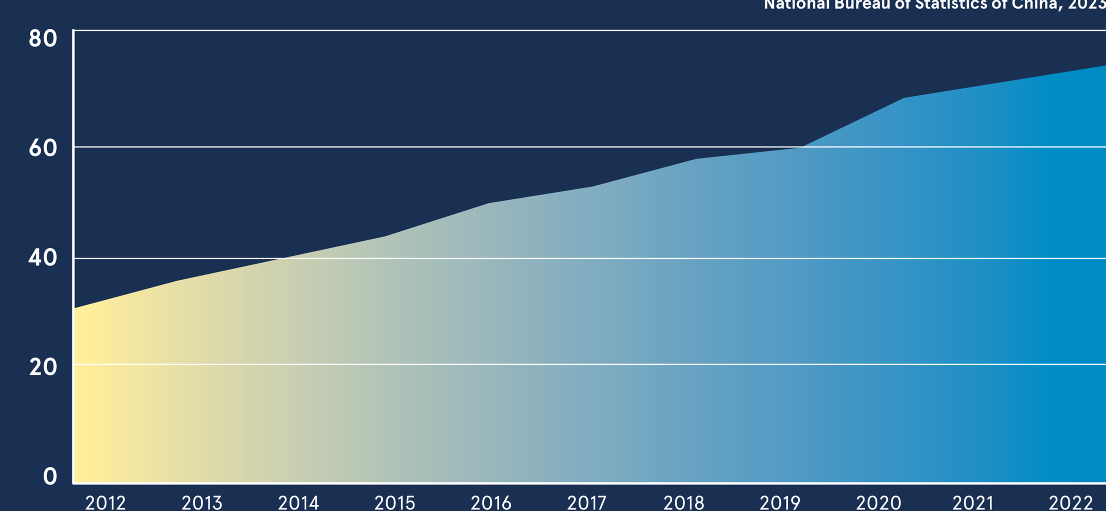
China Internet Network Information Center, National Bureau of Statistics of China, 2023



THE PAYMENTS REVOLUTION HAS BEEN MADE POSSIBLE BY THE RISE OF SMARTPHONES

Percentage of China's population using mobile internet

China Internet Network Information Center, National Bureau of Statistics of China, 2023



A STEADY LEVEL OF USAGE SHOWS ONLINE PAYMENTS ARE NOW EMBEDDED IN DAILY LIFE

Daily usage frequency of online payments in China, 2022

iiMedia, 2022

31.6% 4-6 times

6.7% 7-9 times

7.2% 10+ times

0.2% 0 times

54.9% 1-3 times

ALIBABA AND TENCENT'S PAYMENT APPS DOMINATE THE MARKET

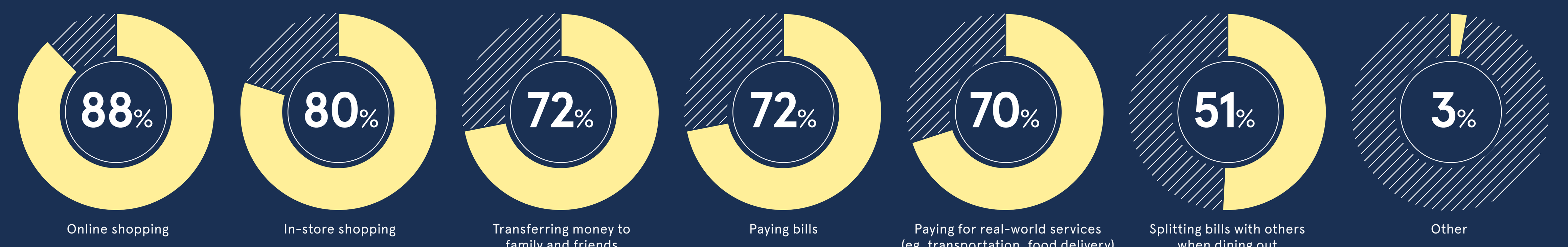
Percentage of respondents in China who have used the following online payment platforms/apps, 2022

Rakuten, 2022

GOVERNMENT BODIES AND RETAILERS ALIKE NOW ACCEPT ONLINE PAYMENTS, BOOSTING ITS ADOPTION

Percentage of adults in China who routinely use online payments, by purchase type, 2022

Rakuten, 2022

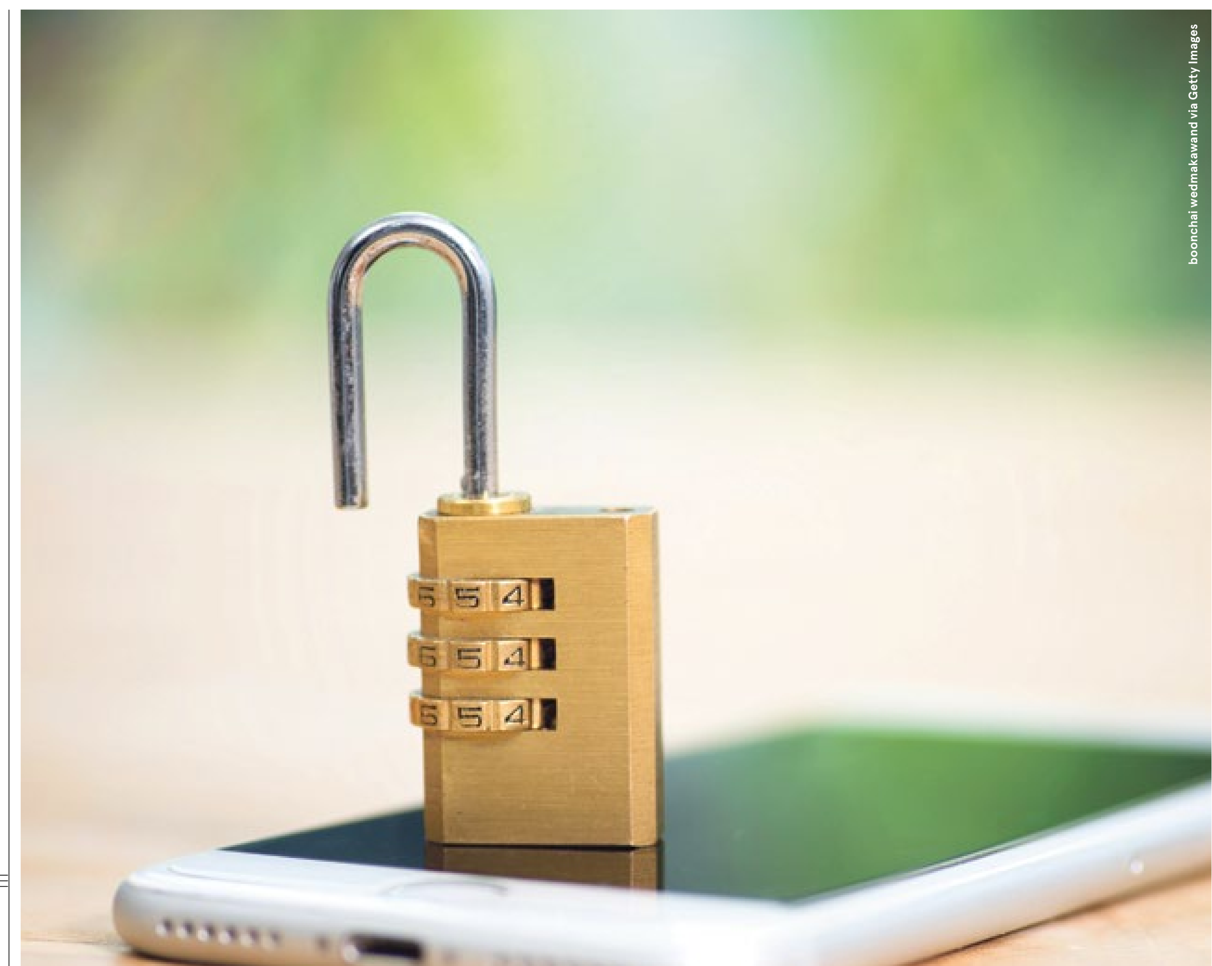


BANKING

Why open banking has been so slow to take off

The initiative was meant to enable an ecosystem of competitive fintech services, but its stately progress over the past five years has left many in the sector disappointed. What needs to change?

Ouida Taaffe



Open banking arrived in the UK in 2018 as an initiative aimed at boosting competition in financial services. The country's eight largest retail banks and the Nationwide Building Society were required to set up application programming interfaces (APIs) enabling customers to share their current account data with third-party fintech firms. The idea was that this would allow them to access a range of innovative services – particularly in payments – without having to open new accounts.

But five years on, open banking remains relatively niche in terms of uptake. The Financial Conduct Authority (FCA) reports that there are just over "7 million active users", which is a long way short of the total the industry had hoped for.

In a bid to improve the situation last year, the government convened the Joint Regulatory Oversight Committee (JROC), co-chaired by the FCA and the Payment Systems Regulator (PSR). The committee, which published its recommendations for the next phase of open banking this April, hopes that there will be "industry action and strong regulatory direction".

"There are two main factors preventing the widespread adoption of open banking," says Tony Craddock, director-general of the Payments Association. "First, there's no strong incentive for consumers to use account-to-account payments instead of card payments. Second, there are concerns about the degree of consumer protection in open banking payments."

He believes that the issue of incentivising account-to-account payments will take care of itself once the transactions are as easy to complete as card payments are, because retailers will naturally prefer the cheaper option. "They are desperate to do it," Craddock says. "Replacing card payments with payments from accounts could reduce their transaction costs by 0.5%."

But what about the business model for the banks, which cannot charge for making account data available? They took longer than mandated to get the APIs in place, and they're still not doing enough to boost open banking, according to some critics.

David Birch, an author, adviser and commentator and adviser on digital financial services, says: "The commercial model for banks should be that you get tough on basic APIs and minimum service-level agreements and give them flexibility on premium APIs, for which they can charge."

He argues that "obvious" premium services include 'this is a real person' and 'this person is over 18' APIs, both of which would boost online security.

However, it may be a while before we get there. After all, even if the APIs were in place, the banks' underlying systems aren't yet geared up for the point-of-sale experience. "The missing piece for open banking is that, at the point of sale, messages from banks concerning whether or not payments have been accepted and processed aren't really flowing," reports Dr Ruth Wandhöfer, who chairs the PSR panel.

Craddock adds that there's at least one other aspect of the messaging system that needs fixing to make open banking as attractive as card payments.

"There is no reason to not have a chargeback and account-resolution facility for at least some account-to-account payments, particularly higher-value ones," he argues. "The next-gen messaging architecture enables that to be supported, but someone still needs to build the system. This pill has yet to be swallowed by all participants, but it needs to be for open banking to thrive."

But who should foot the bill for enabling full-blown open banking? Craddock thinks that third-party payment providers may need to start paying to access open banking and that there should be a merchant fee, albeit less than that charged by card schemes.

How might a pricing structure for that look from the banks' point of view? "The options for pricing open banking transactions include a tiered membership scheme, a pay-as-you-go model or a combination of the two," says Craddock. He adds that card schemes will also need to get more realistic with their pricing as open banking takes off.

Of course, industry incentives are not the only sticking point. As things stand, open banking requires consumers to do quite a lot of clicking and permissioning, which doesn't inspire much confidence among users or give them a good checkout experience. So, is there perhaps a killer product that could help to solve this problem?

> People outside the industry don't understand what open banking is

The JROC is putting its faith in variable recurring payments. These are "really exciting", according to Andrew Boyajian, a former JPMorgan director who is now head of variable recurring payments at Tink, an open banking platform provider.

"They address the pain points in payments by moving strong customer authentication on to a payment mandate level instead of the payment itself," he explains. "If a payment meets all the requirements, it can simply be processed automatically in the background. That makes it feel more like a direct debit, and it has much less friction than open banking payments."

At a more fundamental level, the term 'open banking' has not necessarily helped when it comes to encouraging take-up. "It sounds scary," Wandhöfer says.

Craddock agrees that a better name could have been picked, adding that most people outside the industry "don't understand what open banking is. You could have something like 'pay by bank' or 'direct payments' instead – anything that stops people thinking about branch opening times."

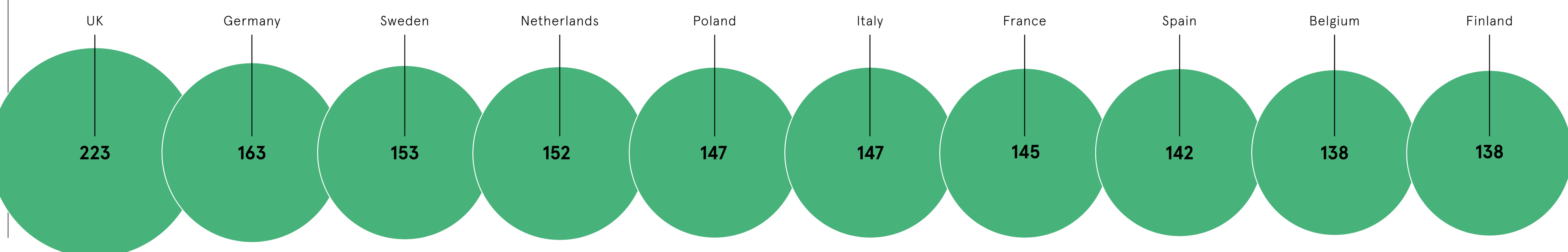
Despite all the hiccups so far, there is general agreement that the next stage of open banking should be an exciting development, and that it's not an end point.

"Open banking is an API-based data highway. In a few years, we'll just call it the digital economy," Wandhöfer predicts. "In the meantime, it needs to be expanded, with better cybersecurity, a digital ID infrastructure and secure API libraries. This will enable the same sort of consent-based data sharing that we already see in fields such as mortgage lending and healthcare."

DESPITE RELATIVELY MODEST TAKE-UP, THE UK STILL LEADS EUROPE IN BUILDING AN OPEN BANKING ECOSYSTEM

Number of active open banking third-party provider registrations, by country

Konsentus, VocaLink, 2022



Commercial feature

Q&A

How cross-border innovation is paying off

New solutions are helping more and more people access fast, secure cross-border payments. **Jérôme Piens**, chief product officer at Swift, explains how better data is the driving force behind industry improvements

Q Cross-border payments are in the spotlight at the moment. Why do you think that is?

A There is tremendous focus and interest in cross-border payments, and I would put that down to three main factors.

The first is that the G20 has made it a priority. They have set targets to enhance the international payments experience by 2027 across a number of dimensions, such as speed, cost and access.

The second is the development of new forms of value, such as central bank digital currencies (CBDCs). Today more than 100 countries are exploring CBDCs, and there is considerable interest in how these digital currencies could be used across borders.

The third factor is related to the second: the pace of technological innovation, alongside factors like geopolitical shifts, is putting new focus on the risk of fragmentation, and how value will move in the future.

Q Swift is synonymous with cross-border payments, so with these developments in mind, what do you see on the horizon?

A We see a significant opportunity. It's important to keep in mind that Swift was created to solve the challenges of sending money across borders, to bridge different currencies, technologies, geographies, time zones and more.

With our community of 11,500 institutions in 200 countries, we've made incredible progress over the years. Today, about half of payments on Swift reach payees within five minutes, and 60% within an hour. Those figures are well on the way to the G20's goal of 75% within an hour by 2027.

> Our strategy is to enable instant account-to-account payments anywhere in the world, not just for high-value payments from corporates, but for low-value ones too

And we're pushing even further. Our strategy is to enable instant account-to-account payments anywhere in the world, not just for high-value payments from corporates, but for low-value ones sent by consumers and small businesses too, through our Swift Go service.

We're also actively preparing for new forms of value like CBDCs. We don't take a view on whether they are good or bad. We're simply focusing on ensuring they will be able to move seamlessly around the world.

We did some groundbreaking experiments last year that proved Swift can be a 'network of networks' - facilitating exchange of CBDCs between different blockchain networks, as well as with regular fiat-based systems. This will enable their use in cross-border transactions even when one party has a CBDC and the other doesn't. That goes to the heart of interoperability, which is a solution to fragmentation and a big focus for us.

Q Billions of payment messages travel across Swift each year. What insight does that give you, and what opportunities do you see ahead?

A Data is a huge enabler of innovation, and we're putting it to work to help our community provide better experiences to their customers. Surprisingly, one of the biggest pain points in the industry is typos. People misspell names or transpose account numbers when they enter payment information, which causes significant costs, delays and frustration.

We introduced a service called Payment Pre-validation, which leverages pseudo-anonymised data from billions of historic transactions on the Swift network to help catch common errors upfront. That provides peace of mind that a payment will get to its destination the first time.

But that's really just the start. A significant data-related milestone occurred in March, when the industry began to migrate to a new, richer data standard called ISO 20022. It's like going from a Mini to a minibus in terms of the amount of data that is carried with each transaction – and, importantly, it's structured data that can be processed automatically.

Richer data is fundamental to the future of payments. It is also at the heart of a new enhanced transaction management platform Swift has built, which will transform how international transactions are processed. So we're really just scratching the surface of what will be possible.

Q The Swift network also supports securities transactions. How can data support improvements in the settlement process?

A Yes, millions of securities messages travel across Swift each day. Failed securities transactions cost the industry around $3bn each year in operational costs, which are often compounded by regulatory penalties. So we're bringing the same level of transparency to securities that we've already brought to payments.

Earlier this year we launched Swift Securities View, a service which utilises a unique transaction identifier to enable end-to-end tracking of a trade throughout the various stages of settlement. This means every participant in a trade – brokers, asset managers and custodians – all have full visibility of where the trade is on its settlement journey, with automated tracking. This is just like when you follow a package from dispatch to delivery. They're then able to spot trades that are at risk of failing, in time to take pre-emptive action.

The identifier is an ISO-standard alphanumeric code of up to 52 characters, which enables us to link all Swift messages related to the same settlement flow in a transaction chain.

This is now being adopted across the securities industry to improve the settlement lifecycle. Swift collaborated with the securities community to evaluate the business case for the identifier, and we've since developed market guidelines for its use in securities trades.

Thirty-four of the biggest financial institutions have already signed up for Swift Securities View, and together they're responsible for 630 million securities transactions each year.

Q What about AI? It's being positioned as transformative for all industries. How do you see its role taking shape in payments?

A AI is developing at an incredible pace, and we know it will impact payments because we're already working with it. We're working on incorporating highly-scalable AI solutions that have the potential to significantly enhance the fraud detection capabilities of our solutions.

Currently, abnormal payments, including those that are fraudulent, are spotted because we have created systems that enable our customers to monitor and intercept suspicious messages before they are sent.

Machine learning algorithms can improve the accuracy of these systems, resulting in fewer wrongly rejected messages. We also foresee a future in which AI can correct errors at source, streamlining payments in many ways.

As AI comes into the spotlight, it's creating excitement and concern around privacy issues. In exploring and developing AI solutions for our community, we will always adhere to principles of responsible AI – accuracy, explainability, fairness, auditability, security and privacy.

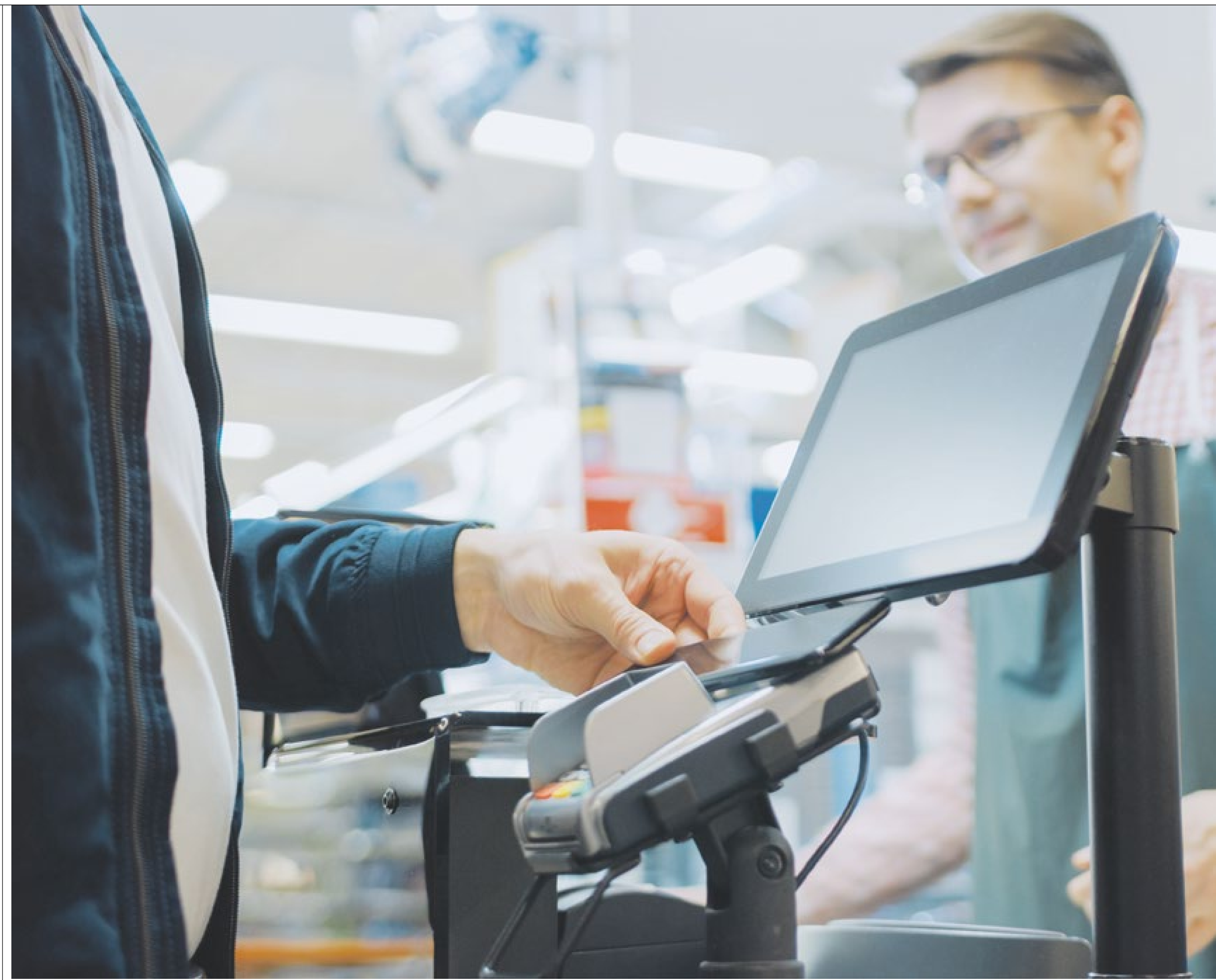
Despite being in its infancy, AI can transcend borders, helping generate insights greater than one institution could gather alone. This is exciting, but it is absolutely essential that this is done responsibly.

To learn more, visit swift.com

Commercial feature

For better customer experiences, merge payments with business-critical systems

To meet modern customer expectations, retailers should connect their payments technology to other business-critical systems, such as their ecommerce platform, ePOS system, stock control, loyalty schemes and data reporting



The payments and commerce landscape looks increasingly complex. There are more channels and more payment methods than ever before, and despite higher customer experience expectations, ever-present security threats have also introduced more friction into the purchasing journey. All of which means it can be hard to see the full picture of customer spending habits. But without this insight, retailers may struggle to understand how their needs are evolving.

For instance, today's customers want to easily move between in-store and online shopping – before and perhaps back again – before making a purchase. No matter whether they shop online or in-store, use a card or a digital wallet, retailers should have real-time data on every transaction customers make, as well as the tools to turn them into excellent customer experiences.

Trust Payments calls this approach to payments and commerce Converged Commerce™. As well as driving efficiencies and better customer experiences, it can help to integrate robust security measures into payment platforms. This can bolster consumer confidence in the business at a time when many are worried about fraud and data breaches.

To achieve this, retailers need to connect their payments systems with other business-critical ones, such as their ecommerce platform, ePOS system, stock control, customer loyalty programmes and data reporting tools. This merger of sales channels, customer journeys and data helps to break down the silos that can undermine the customer experience and ultimately drive growth.

Without a unified platform that spans customer payment channels, methods and data, retailers may also face higher operating costs. "They obviously have a lot more reconciliation to do," says Daniel Holden, CEO of Trust Payments. "They've got a lot more overhead from having to deal with different systems, multiple supplier relationships, multiple technology support relationships and so on."

Merging payments data with other business systems can enable more detailed updates on inventory too, thereby helping retailers to optimise stock levels and better manage expenditure. "The retailer can find out in real time what's in stock, what's the supply chain length, whether certain things are being sold more than others," says Holden. "There are lots of 'soft benefits' to having these systems all connected."

Better insight

In fact, breaking down silos between payments and other business-critical systems can improve supply chain transparency across the board. This can potentially enhance a firm's efforts to track their carbon footprint and demonstrate the kind of commitment to sustainability that consumers are increasingly looking for. What's more, it could also help to reduce waste and costs. "If they're adapting stock levels based on demand, that's actually a much better use of resources for the retailer."

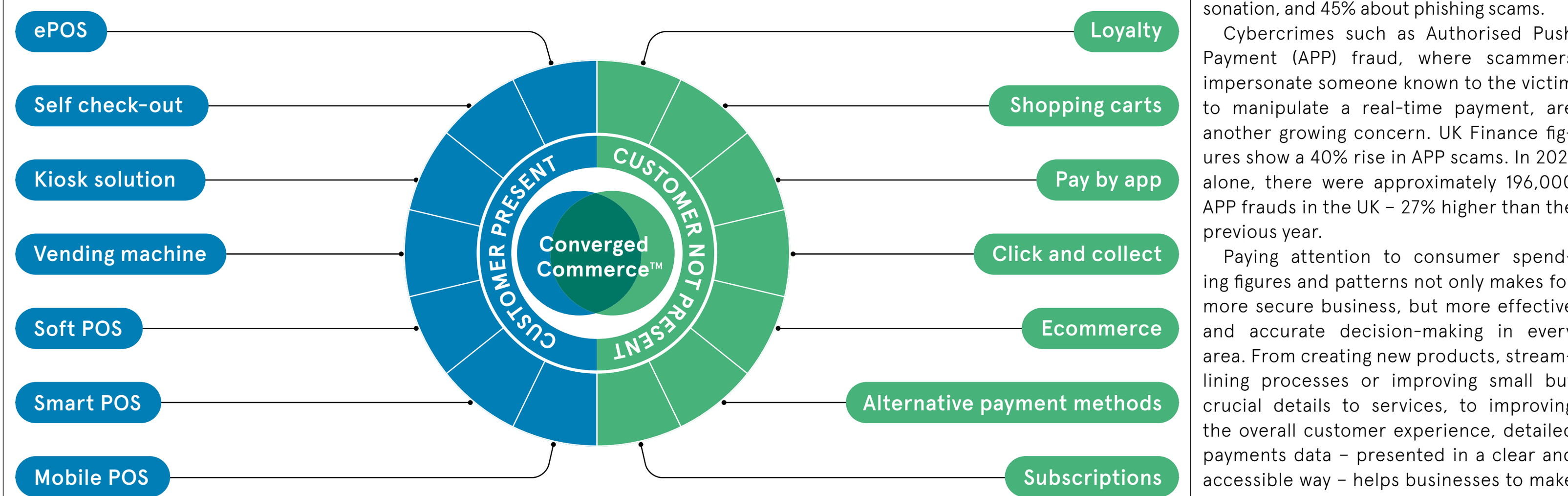
Data dashboard tools can also merge payments data with information from other business-critical systems, helping retailers to unlock the kind of simple, actionable insights they need. For example, it can help them to gain a better handle on customer preferences – including their preferred payment methods, purchase history and shopping habits. This information can be used to trigger real-time communication, content and offers at precise moments in the consumer journey.

For instance, a retailer could use payment data to offer personalised product recommendations based on a customer's purchase history or location. Alternatively, they might seek to improve customer retention by developing loyalty programmes that reward customers based on their recent transactional history, without the need to carry a plastic card around.

Without this level of insight into customer journeys, it's also hard to spot payment problems or gaps – let alone rectify them. But by monitoring payment performance metrics such as acceptance rates, authorisation rates and chargebacks, retailers can identify areas for improvement and develop strategies to optimise their payment processes.

DRIVING GROWTH AND VALUE WITH CONVERGED COMMERCE™

Trust Payments' integrated products are based on a flexible, modular approach, which enables retailers to meet their increasingly complex customer demands through either combined or standalone solutions



> Without a unified platform that spans payment channels, methods and data, retailers may face higher operating costs

Merging payments data with business-critical systems can unlock many other benefits for retailers too, such as connecting their loyalty programme to a customer's payment card to deliver "card-linked loyalty". In other words, it allows them to track customer behaviour and assign loyalty points, no matter whether their customers are shopping in-store in London or online in Paris.

Personalised experiences

If your payments are centralised in this manner, it's easier to capture sales that might otherwise be lost – for example, by sending a secure payment link to a customer via email. Retailers can form a much closer relationship with the customer too, thereby achieving the kind of experiences normally associated with the luxury goods market.

Holden says: "If you walk into a luxury store, they may not know you to start with. But afterwards the sales agent may send you a text saying: 'How was your experience? I hope you're enjoying your new handbag. Is there anything that we can do to help?' That builds such an amazing connection with the brand... and those types of experiences are becoming more relevant for people's everyday buying patterns."

In short, customers want to be treated as individuals – and that's difficult unless you have deep, easily accessible data on your interactions with them. "Expectations of what retailers are there to provide are increasing," says Holden. "To meet them, you need connected and converged systems."

Converged Commerce™ helps to address consumer concerns over payments fraud. Recent research conducted by Trust Payments found that three in 10 British consumers (31%) have concerns over online payments. What's more, around 74% are worried about identity theft, 54% about bank impersonation, and 45% about phishing scams.

Cybercrimes such as Authorised Push Payment (APP) fraud, where scammers impersonate someone known to the victim to manipulate a real-time payment, are another growing concern. UK Finance figures show a 40% rise in APP scams. In 2021 alone, there were approximately 196,000 APP frauds in the UK – 27% higher than the previous year.

Paying attention to consumer spending figures and patterns not only makes for more secure business, but more effective and accurate decision-making in every area. From creating new products, streamlining processes or improving small but crucial details to services, to improving the overall customer experience, detailed payments data – presented in a clear and accessible way – helps businesses to make smarter investment and policy decisions.

Converged Commerce™ also helps to deliver the kind of seamless omnichannel customer experiences that customers now want and expect. This means that even as the payments landscape becomes more complex, businesses can ensure that wherever their customers are, however they wish to pay, and no matter what device they're using, they'll always have a great experience.

To find out more about Converged Commerce™ visit trustpayments.com

trust payments

Q&A

It's time to embrace digitalisation by thinking beyond just payments

Daniel Holden, CEO of Trust Payments, explains how Converged Commerce™ can help retailers of all sizes to deliver better customer experiences and embrace digitalisation

Q What is Converged Commerce™?

A Historically, if you walk into a shop, you are completely anonymous. Unless you're part of a loyalty scheme, no one knows who you are until you've made a payment. The retailer doesn't know your buying patterns, they don't know your preferences, they don't know what you want to buy.

But if you think about it, the opposite is true in an e-commerce environment. When you buy something, you're tracked with cookies, your preferences are tracked, you may log into an account... so there's a lot more data and information in an online transaction.

Those two worlds are fundamentally merging. And when we talk about Converged Commerce™, we're talking about the end-to-end experience that a consumer has when they're engaging with a retailer. There's a whole range of services and interactions that happen before and beyond the payment transaction that must be considered.

Q How does it define your approach to business?

A Of course, we have an incredible core payments offering, combining both technology and merchant services (fully licenced and Principal Members of Visa, Mastercard, Discover Global Network and JCB). This connects physical POS payment terminals with e-commerce and mobile, and consolidates all reporting in Tru Insight. But we now also offer Trust Retail, a suite of services for the retail and hospitality sectors, including a proprietary ePOS system, leading inventory management and a loyalty programme, all delivered via mobile-based apps. Retailers can use it in modules or as a combined 'out of the box' solution, if they wish.

Q So it's about hardware as much as software?

A Converged Commerce™ is not just about the services that a retailer needs to provide to a customer. It's actually about the convergence of hardware as well, because retailers don't want separate payment terminals, separate stock management systems and separate back office systems. So, while their hardware provisions may not have the same manufacturer, they should still have interoperability.

The Android-based ePOS application offered by Trust Retail (the retail-focused company within the Trust Payments Group) is designed to facilitate this kind of connectivity. It's compatible with any hardware, including mobile, tablet, kiosk, self-checkout or a fixed register. You can load it onto any Android-based device, so it's cheaper for the retailer.

Q Can Converged Commerce™ help to make payments more secure?

A Fraud levels, given the technology available, are completely unacceptable, so a lot more can be done on fraud protection. The systems are there, the systems do work. But retailers don't always want to employ them because they're time-consuming to set up or they're sometimes difficult to administer. This is something we aim to counteract by making solutions easy for any business to install and use.

Q How does it benefit SMEs?

A SME and mid-tier retailers are currently really underserved in the market. The enterprise clients have the money, the time and the resources to support good experiences. But we want to bring those experiences and services to a much wider, broader base of smaller retailers in a packaged and easy-to-use way.

Q Could it help smaller retailers to embrace digitalisation?

A Certain industries have led the way for digitalisation, such as travel. You can buy a flight on an app, the app gives you a QR code to scan at the gates, it's linked to your loyalty points and so on. The whole customer journey is fully digitised, and those types of solutions are going to become the norm. For many smaller businesses, digitalisation is just a buzzword. But we are helping to make this transition easy.

CURRENCIES

Fit coin? What Nigeria's digital currency roll-out can teach us

Nigerians haven't warmed to the enaira since the country's central bank minted it in 2021. It's a case which highlights some of the key implementation risks facing any nation seeking to follow suit

Ben Edwards

When Nigeria suffered a shortage of cash earlier this year, in the wake of an ill-fated attempt to remove old naira notes from circulation and replace them with new ones, it was a chance for the country's recently launched central bank digital currency (CBDC), the enaira, to shine.

Transaction volumes did increase in Q1 2023, and the number of new e-wallet accounts opened leapt from 1 million at the end of 2022 to about 13 million, but total usage remains stubbornly low for a country with a population exceeding 220 million.

The reasons for the enaira's slow adoption – even though the lack of paper money led to violent protests across the country in February – offer lessons for other central banks thinking about issuing CBDCs.

Varun Paul worked for the Bank of England for 13 years, latterly as head of its fintech hub. Now CBDC and market infrastructure director at software developer Fireblocks, he points out that part of the problem in Nigeria was that the supporting infrastructure for the enaira wasn't fully ready when it was launched in late 2021.

"When they rolled it out, they hadn't spent months lining up merchants to accept it or understand exactly what it was," Paul says. "Even when retail customers wanted to use it, they found that they couldn't use it everywhere."

Babs Ogundeyi, co-founder and CEO of Nigerian digital bank Kuda, also points to a general lack of public awareness. While he has used the enaira to transfer funds, his two efforts to transact with it so far have proved unsuccessful.

"The first time was at a bakery and the second was at an outdoor market kiosk," Ogundeyi reports. "These were very different types of merchants. The bakers were in a more highbrow area and they knew what enaira was; they just didn't accept it. At the kiosk, they had never even heard of it."

Such responses can in part be attributed to the Central Bank of Nigeria's lack of communication with the public before making the enaira available.

"There wasn't a market-wide interaction to sensitise people or obtain feedback, so its creators didn't get enough criticism beforehand," says Zelda Akindele, a partner at law firm Templars in Nigeria. "The launch came hard and fast: 'This is the enaira – everyone start using it.'"

There was also a perception of mixed messages. Not long before the plans for the enaira were announced, the government had banned commercial banks from trading in cryptocurrencies.

"For the many people outside the tech and finance sectors, the enaira sounded very much like a cryptocurrency, so there was a lot of confusion," Akindele says. "Some wondered whether this was the government trying to stifle competition and be the only one in the crypto game. Before the enaira had even launched, that meant there was a little bit of distrust."

Some observers aren't surprised that Nigeria has been slow to take to the enaira, given the challenges of introducing a digital currency in a country where cash has long been king. To increase uptake, more resources would need to be devoted to promotion and education, particularly given the need to improve financial inclusion – one of the stated purposes of the enaira.

"Unless the Central Bank of Nigeria becomes more proactive in its approach, greater adoption is not going to happen," Akindele predicts. "More and more fintechs are coming into this market and launching products that are making financial inclusion a reality, so there's no real incentive to use the enaira at the moment."

However, there may well be an opportunity for collaboration here. Kuda's Ogundeyi believes that the central bank might be able to boost enaira uptake by getting fintech firms involved in the education process. Noting that the under-30s make up about 70% of Nigeria's population, he says that while "traditional banks do have lots of credibility, fintechs cater for the majority and speak their language. When you're communicating with a large, young audience about digital money, you need to be fluent in it."

One key lesson arising from Nigeria's enaira experience, then, is that launching a CBCD requires a carefully coordinated and properly resourced marketing campaign. As Paul says: "You can't just put something out there and expect it to be adopted."

The broader socioeconomic problems that swept Nigeria this year when ATMs across the country ran out of cash also highlight the need for central banks to treat any currency change with extreme caution.

> They hadn't spent months lining up merchants to accept it or understand exactly what it was

"We have seen in Nigeria that, if you fiddle with something that's core to society, you can cause riots. Any central bank should be very careful about messing around with that," Paul says.

Getting the regulations right is also vital when you're trying to build trust in a new CBDC, Akindele adds. That's particularly true if these appear to be inconsistent with any crypto rules that have been enacted.

"Central banks really must balance their approach," she warns. "You can't be seen to be in conflict with your own regulations."

Although the enaira has got off to an inauspicious start, Ogundeyi believes that it will still be some time before any definitive conclusions can be drawn about the success – or otherwise – of the currency.

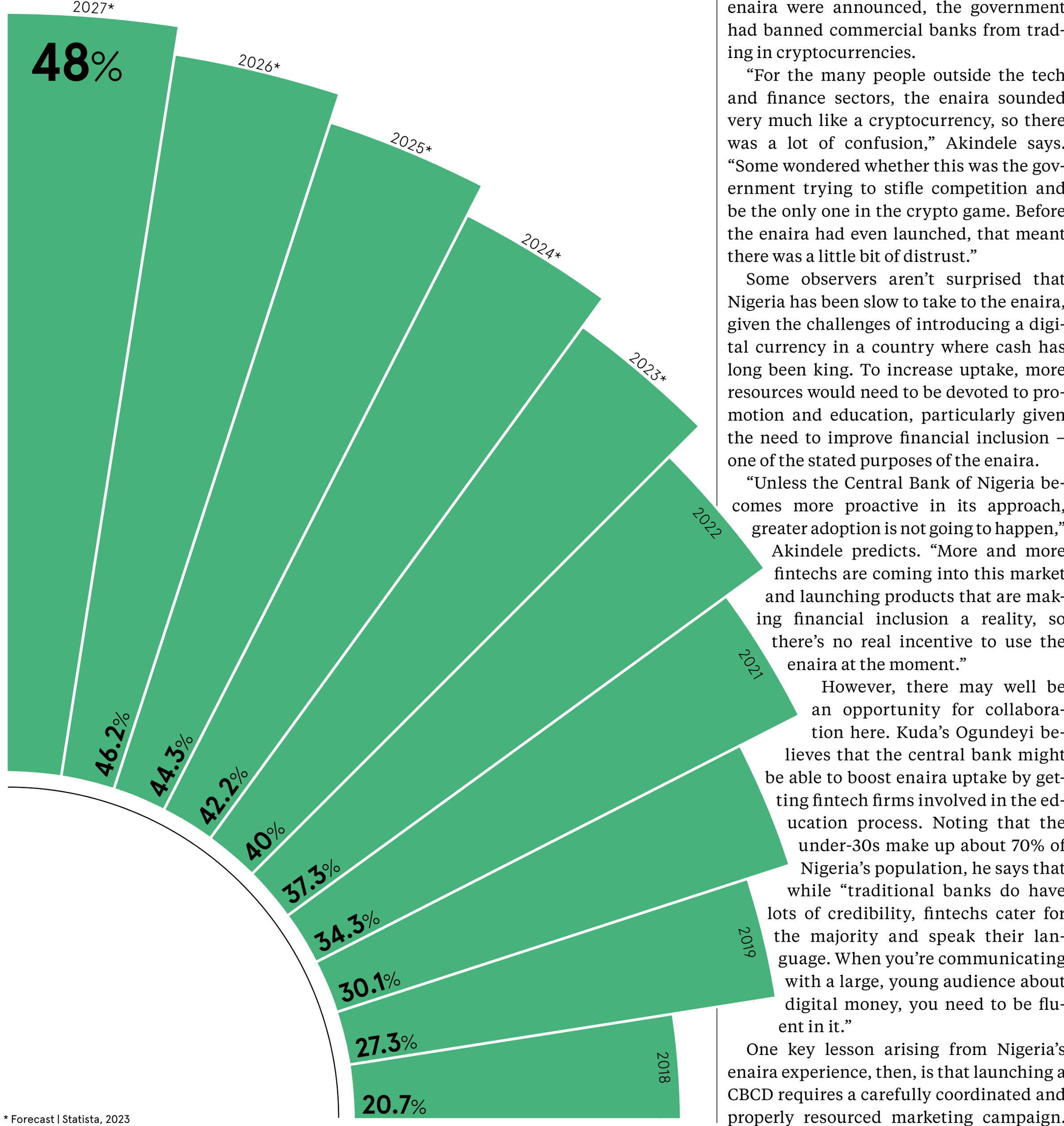
"We haven't really had a chance to see all the potential limitations and advantages, because scale hasn't been achieved yet," he says. "Over time, with the drive towards a cashless society, the enaira could potentially become a mainstream digital channel."

For that to happen, though, the authorities will surely need to plough more resources into encouraging uptake.

"Given the need to improve financial inclusion in the country, there is still an opportunity for the enaira," Akindele says. "The implementation needs more work, but the concept is good." ●

FOR NOW, ENAIRA ADOPTION IS BEING HELD BACK BY NIGERIA'S LOW PROPORTION OF MOBILE INTERNET USERS

Share of Nigeria's population using mobile internet



* Forecast | Statista, 2023

$220bn

The estimated value of Nigeria's informal economy, which thrives on cash

1/2

That equates to approximately half of the country's gross domestic product

International Monetary Fund, 2023

VV Shots via iStock

Will there ever be a britcoin?

The Bank of England and HM Treasury have been holding a public consultation about a potential digital pound – or britcoin, as some have called it – which is due to conclude on 7 June.

Baron King of Lothbury, who was the Bank's governor from 2003 to 2013, has talked of britcoin as a "solution in search of a problem". And while the Bank has not made any public commitment to launching a CBDC, several experts believe it's only a matter of time.

Among them is Sean Forward, UK CEO of payments business Payabl and a member of the Payments Association steering group which is advising the Treasury on the consultation.

"We've got to do it," he argues. "The current payment system is built on ageing infrastructure. It's simply not fit for purpose. If the UK wants to remain a global financial hub, we need a more modern way for people to transact."

Getting the design right for any future digital pound will be crucial though. One potential sticking point is the concern that the government could theoretically use britcoin to spy on users. "The UK is trying to build privacy into the design from the start so that users can't be viewed. That way, it's only aggregate or anonymised balances that the central bank can see," says Varun Paul, CBDC and market infrastructure director at Fireblocks.

Another way to boost adoption would be the use of incentives. If retailers can save money by accepting the digital pound (rather than using payments methods that charge higher fees), they could help to encourage wider uptake by offering customers money back on any purchases made this way, Forward suggests.

Of course, even if the Bank presses ahead with britcoin, it will be some time before people can start transacting with a digital pound.

"A lot of planning will need to go into this," says Julia Demidova, head of CBDC and digital asset product strategy at Fidelity National Information Services. "You need stakeholders across the industry to integrate it into their infrastructure, and merchants would need to add a CBDC option to their point-of-sale terminals. That will take time."

For its part, the Bank of England has said that while a digital pound might not be essential today, it is something that is likely to be needed in the future as cash usage declines and new forms of private digital money, such as stablecoins, spring up.

"A broader ecosystem will emerge where you've got CBDCs, bank-issued tokenised deposits and fintech-issued stablecoins that can all interact with a version of fiat money and other digital assets," says Paul. "That's the future we're heading towards. You don't create a CBDC for the sake of it; you do it because we're going to have all these other digital assets and we will need something to interact with them."

INSIGHT

'Payments startups should aim to be centaurs, not chasing unicorn status'

In the fintech world generally, and in the payments sector specifically, the era of the unicorns – startups valued at $1bn or more – is coming to an end. Instead, we're entering the era of the centaurs, where fintechs achieving $100m in annual revenue and with a clear path to profitability are set to gain traction and market share.

After all, it's worth remembering that the unicorn era, in payments as elsewhere, was fuelled by cheap capital and an unhealthy focus on high valuations. The collapse of some big-name firms – including the likes of Wirecard, most dramatically – has shown the shortcomings of this approach.

Just look at the recent plunge in fundraising and investment in the payments space. In January this year, for instance, Visa CEO Al Kelly said during an earnings call that "there's been a burst of the balloon". The figures back this up too, with data from KPMG valuing global investment in fintech via mergers and acquisitions (M&As), private equity and venture capital at $164.1bn for 2022 as a whole, down 31% on the year before.

Part of the reason for this correction is a realisation that the unicorns' priorities were often a little amiss. They may have created magic for their customers with smooth user experiences, and for their employees with lavish perks, but the headline valuation was always their key metric of success. Centaurs, on the other hand, are more grounded and focused on steady revenue generation. There's a case to be made that achieving $100m in annual revenue is a much more significant milestone and a better measure of success than a $1bn valuation.

So, what would it take for the payments sector to adjust its priorities? The shift from unicorns to centaurs undoubtedly requires a change of focus, from the balance sheet to the income statement. Building up revenue and profitability should be the primary goal here, with startups having to prioritise growing their revenue and fortifying the sales pipeline rather than relying on fundraising. The emphasis would then be on building a sustainable business for customers, rather than focusing solely on valuation.

Scale, while always important, has long been seen as little more than a metric that justifies a certain valuation. For centaurs, on the other hand, the strong value proposition that comes from scale helps to build customer loyalty and generate sustainable revenues. A healthy base of customers provides the kind of springboard required to grow consistently and on a regular basis. Fundraising decisions, on the other hand, come around less frequently.

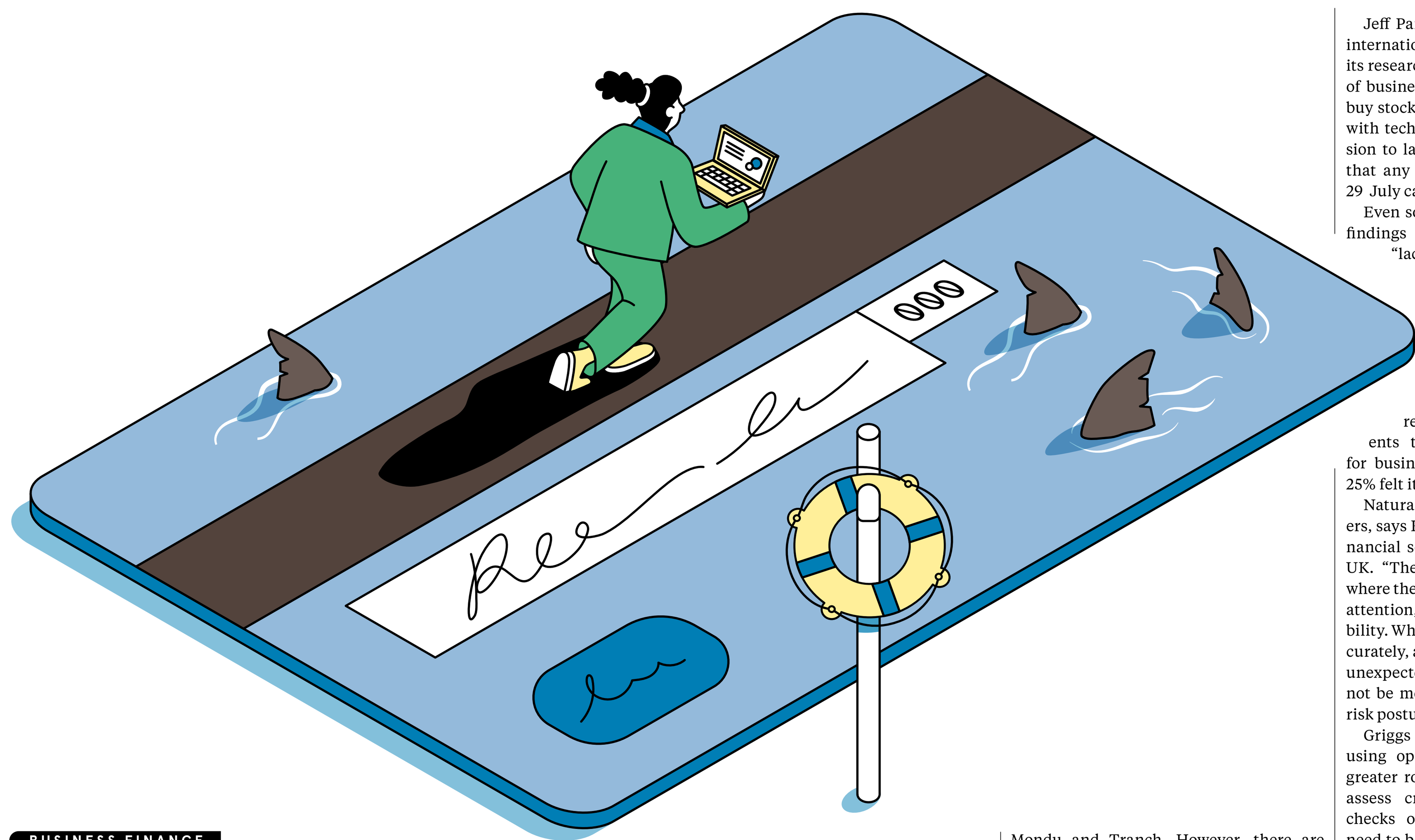
Of course, profitability is essential for sustainable success. Fintech startups without profits or positive cash flows will have limited lifespans. During the unicorn era, access to capital allowed unprofitable businesses to continue operating. Companies grew in the short term in the hope of achieving profitable scale in the long term. In the centaur era, profitability needs to be addressed earlier and with more rigour.

Resilience is also critical in this new era. Payments startups need to be even more adaptable and find new paths to success. While confidence is important, humility is necessary to enable firms to plan for potential setbacks. Building a business that can withstand challenges and bounce back is essential.

Looking ahead, revenue-based M&A activity will become more important in the market. Perceptions will gradually shift, with the focus during M&As switching from valuation to revenue. Companies with strong customer bases will have an advantage here, and established firms will find themselves well positioned to add to their core businesses, sometimes through unexpected combinations of industries.

Finally, in this new era, believability and trust will be paramount. Marketing and communication strategies need to prioritise honesty and fairness, rather than idealised claims. Payments startups should now aim to be centaurs, focusing on solid structures, revenue generation and long-term success rather than chasing unicorn status. Looking ahead, the winners will be the ones who are able to keep it at $100m. ●

Sanjib Kalita
CEO and founder, Guppy Wizard at Money 20/20



BUSINESS FINANCE

BNPL for business: a big help or a bad idea?

In this cost-of-doing-business crisis, Buy Now Pay Later schemes allow companies to defer payment for goods to ease cash flow. But might it be a dangerous game to play?

Jonathan Weinberg

It started as a way for consumers to defer spending on big-ticket items, splitting the bill over several pay packets. Now though, Buy Now Pay Later (BNPL) has also become a way for businesses to ease cash-flow issues during these tough economic times.

According to a survey by fintech company Marqeta, 43% of European business leaders have turned to BNPL to cover a business expense in the past three months.

And this is not an aberration. Experts think the market for B2B BNPL will mushroom, in much the same way that it has among consumers. Juniper Research predicts that total BNPL spending will reach $437bn (around £352bn) globally in 2027; up 291% against 2022.

There are, of course, advantages to using BNPL for business. For one thing, suppliers get paid upfront by the BNPL provider. The trade-off here is that the amount they receive is either discounted or subject to a fee, usually a percentage of the total purchase.

To access this short-term finance, the buyer may be required to put down a small deposit, and they will then have 30, 60 or 90 days – or sometimes longer – to pay the bill in full, direct to the BNPL lender.

This model's increasing popularity has prompted many new entrants to the B2B market of late, including the likes of Billie, Mondu and Tranch. However, there are worries – not least that BNPL could be racking up instability for the UK economy.

Ravi Sidhu, an expert in UK&I risk and compliance at business information and research firm Dun & Bradstreet, says its findings show that the increasing cost of doing business is having an acute impact on 37% of UK firms. "While short-term BNPL lending might alleviate some pressures, there are also immediate-term risks and issues it can create," Sidhu warns.

"The concerns around businesses using BNPL are the same concerns raised in the consumer world in terms of affordability," he explains. "Without the appropriate reporting to credit rating agencies (CRA) for these kinds of loans, it becomes harder to assess how indebted a small business is."

Sidhu suggests that less vigorous checking in the BNPL world means that firms could find themselves building up hidden debt. "Typically, CRA loan reporting is updated monthly," he explains. "So, for example, I could apply for 10 small BNPL loans in one day as a consumer or business owner, but none of this information would be visible until the following month via the CRA."

One solution here could be for the CRAs to provide updates on businesses' debt levels more often, with more frequent data-sharing between themselves, regulators and governments, Sidhu suggests.

Jeff Parker is senior vice-president and international MD at Marqeta. He points to its research, which found that the majority of businesses using BNPL are doing so to buy stock (47%) or tech (45%). This chimes with technology giant Cisco's recent decision to launch a one-off BNPL offer, such that any customers who purchase before 29 July can defer all payments until 2024.

Even so, Parker suggests that Marqeta's findings also demonstrate a widespread "lack of awareness" regarding the availability of B2B BNPL, with nearly 30% of businesses across Europe saying they were still unaware of B2B BNPL. If addressed, this "could accelerate adoption", he argues.

Other perception problems remain too. "A quarter of respondents thought BNPL wasn't intended for businesses like theirs, and a further 25% felt it was too risky," Parker adds.

Naturally, risk is also a factor for suppliers, says Krista Griggs, head of banking, financial services and insurance at Fujitsu UK. "The key risk for the industry, and where the regulator will likely pay the most attention, is transparency around affordability. Where affordability isn't assessed accurately, a company using BNPL may incur unexpected fees if the payment terms cannot be met and the provider increases its risk posture for non-payment."

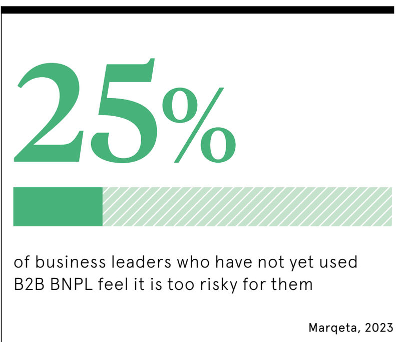
Griggs suggests that real-time insights using open banking APIs could play a greater role here, to help suppliers better assess creditworthiness. Stricter credit checks or underwriting standards may need to be used too. After all, the risk that BNPL providers face has already been

> While short-term BNPL lending might alleviate some pressures, there are also immediate-term risks and issues it can create

shown in the consumer sphere, with Klarna announcing a $1bn operating loss in 2022.

Despite concerns about the risks on either side, Louis Carbonnier, co-founder of B2B BNPL provider Hokodo, maintains that the model is "simply a modern way of providing trade credit". This is "how businesses have transacted for centuries", he says.

Carbonnier explains that as more B2B commerce has moved online, "risk and complexity" have prevented sellers from offering such trade credit, "particularly to the SMEs that need it most". Companies like his solve this issue, he suggests, as "sellers no longer have to take on the risk or offer credit from their own books."



of business leaders who have not yet used B2B BNPL feel it is too risky for them

Marqeta, 2023

He also argues that the risks aren't the same as with consumers, who might "buy more than they need" or "purchase something they can't afford". "A business isn't likely to do this," he explains. "Why would a construction company buy more materials than they need to finish a job?"

The lower barriers to entry with B2B BNPL are one reason why many companies see it as a better option than loading debt onto costly credit cards. Late payment fees are, though, an obvious financial risk.

Nick Maynard, vice-president of fintech market research at Juniper Research, suggests that CFOs must have full visibility over their company's BNPL use, particularly given that it is not a well-established B2B payment type and is not as well integrated into B2B purchasing platforms.

"As such, CFOs need to ensure that where BNPL arrangements are used, they are used in a way that is in line with defined company policies," he advises.

Daniel Meyer, financial services regulatory lawyer at Freeths, also notes that BNPL has not always been the cleanest of sectors. The FCA has previously issued warnings about misleading advertising by lenders and unfair terms in their contracts.

He adds that the majority of the "newer B2B BNPL credit products aimed at the SME market" will likely stay outside FCA regulation for now. That includes "all solutions that provide credit to limited companies".

Meyer explains that for an SME-sized supplier, one or two defaults in the current climate "could cripple the business". "But, by receiving immediate payment from a BNPL provider, while still being able to offer flexible payment terms to the businesses they transact with, the transfer of credit risk may well be worth the discount on the price the business receives," he concedes.

The BNPL model could also offer an "essential lifeline to help with liquidity issues" for buyers, but Meyer warns that suppliers must be careful before adopting this. "First, businesses need to be sure the discounted price they receive is sustainable," he says. "Then, they should check the discounted price they receive against other options, such as more traditional trade credit and financing options, to make sure the business is getting the best deal." ●

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Commercial feature

Powerful payment orchestration for global merchants

E-commerce businesses are increasingly handling transactions through a wide variety of major and local payment providers. Consolidation of the myriad processes involved is essential to optimisation

The massive shift towards digitisation, especially post-Covid, means e-commerce is here to stay – even for brick and mortar retailers. As the market of payment service providers (PSPs) sees expanding regulations and rapid mobile innovations, there are evermore PSPs involved in businesses' payments – and growing challenges in managing them.

The burden on e-commerce businesses to manage all these payment methods is driving many to seek process unification. Such efforts are critical in managing payments, optimising end-to-end operations and driving down costs – such as by routing transactions to the most cost-effective provider, eliminating months of costly development per PSP, and dramatically reducing the maintenance burden.

The solution lies in effective payment orchestration, enabling e-commerce businesses to accept and manage transactions in one solution. At the heart of this orchestration is consolidating disparate solutions into a single entity, with a single API (Application Programming Interface) handling connections to all PSPs. This is in addition to rule-based routing based on transaction data, one platform for reconciliation and settlement, and a single source of truth for enterprise systems and reports. This approach also makes it easy to switch providers and add new payment methods as they emerge.

Yet many e-commerce businesses struggle to find the right payment orchestration platform, and are misled by PSPs claiming their own add-on management will suffice. "When PSPs offer payment orchestration, there is a clear conflict of interest and a reason to provide incentives to use the vendors' own payment services," warns Adam Vissing, VP sales and business development at the payment orchestration company IXOPAY. "Instead, payment orchestration needs to be PSP-agnostic, if it is to offer the same value and simplicity across all providers."

> A single API allows businesses to offer customers the payment methods they expect, managed in one place

Effective payment orchestration solutions, such as IXOPAY's highly scalable, PCI-certified orchestration platform, independently encompass all popular PSPs in each region. They provide one interface for processing transactions and a range of features enabling businesses to set the payment strategies they need – plugging in new providers as requirements shift. Global e-commerce companies already rely on the IXOPAY platform to optimise their payment processes, benefiting from multiple PSPs offering major payment methods and a range of local options. They can access a singular view of transactions on a powerful dashboard, and effective custom reporting, for a flat monthly fee and straightforward transactional charges.

The businesses successfully optimising their payment processes include a global logistics company, which operates in 190 markets. Each market has its own payment methods whose data must be exported into six global ERP systems. By moving to IXOPAY, the company now has a single platform for all payments across providers, with one interface feeding into its systems. Meanwhile, a food delivery company with riders worldwide can accept rider payments through a multitude of relevant PSPs after moving to IXOPAY – allowing it to seamlessly manage payments in all markets, while using only one data source for all its accounting.

"E-commerce businesses only need to integrate a single API, and we handle all the connectivity to the PSPs they want. It is a one-time effort and removes the need to reinvent the wheel for every single provider. This allows businesses to offer customers the payment methods they expect, in existing or new markets, while managing all payments in one place," explains Rene Siegl, IXOPAY's executive chairman. In addition, with IXOPAY retaining strong profitability and being privately owned by its founders, it is highly stable and agile, adapting quickly to emerging customer needs by using its expertise from hundreds of PSP integrations.

In the coming years, e-commerce business' demand for orchestration is likely to increase substantially. "The payments market is in constant transition, and e-commerce businesses require an orchestration provider that can handle their transactions and ensure effective reconciliation from all relevant PSPs, in one place," Siegl explains. As companies worldwide seek to offer online customers the most relevant buying options needed, wherever they are, payment orchestration will be critical to their success.

To find out more about effective payment orchestration, visit ixopay.com/payment-orchestration

TECHNOLOGY

Direct hit: the rise and rise of account-to-account payments

This intermediary-free method is fast gaining popularity in certain markets. If the experiences of the early adopters are anything to go by, it could become a standard checkout option one day

Tom Ritchie

Account-to-account (A2A) payments are taking off, according to new research by fintech giant Fidelity National Information Services.

It reports that A2A payments accounted for 9% of the total value of ecommerce transactions worldwide last year, equating to $525bn (£423bn). It's a figure which is predicted to grow by an average of 13% every year to 2026.

The A2A method bypasses the payment rails connected to debit or credit cards and instead enables users to transfer funds directly from their bank to a merchant without requiring its bank details. While the tech underpinning such transactions differs between markets, open banking looks likely to be the driving force behind A2A payments in the UK. But, for now at least, any take-up will almost certainly be skewed towards particular use cases and markets where there's a clear need among merchants or customers.

"The story of account-to-account payments is that there isn't one simple answer," says Tom Pope, senior vice-president for payments and platforms at Tink, an open banking platform. "There are many sorts of A2A payments, and each one is going to be more suitable for some transaction types than it is for others."

The most common A2A application in the UK so far has been account-funding transactions, Pope explains. This is where funds are pulled from a user's bank account to a non-merchant-associated account on another platform. Monzo and other challenger banks have been early adopters of this technology, for example.

There are signs that other use cases will soon emerge too. More than half of British online shoppers would be open to using A2A payments for ecommerce transactions, according to a study by UK Finance. Pope says the country's open banking ecosystem should be well placed to enable rapid uptake.

"The UK has a massive advantage, because we have some of the best rails and user experiences in Europe," he argues. "With any new technology, there are always pioneers. It starts slowly and then the curve steepens massively. We're at that point."

But some nations are outpacing the UK in their adoption of A2A payments. In the Netherlands, for instance, 65% of online transactions are completed using the A2A service iDeal. In Sweden, a fifth of all online transaction value passes through an A2A payment provider called Swish. In both countries, users permit these services to transfer funds between accounts on their behalf. These systems differ fundamentally from the open banking payment rails used in the UK.

For one, Pope attributes iDeal's success to the slow adoption of card technology in the Netherlands. This drove local banks to work together to build a payment solution to serve customers better during the early ecommerce boom of the mid-2000s. And, while iDeal's genesis can be attributed to these unusual circumstances, there are still lessons that payment service providers (PSPs) in other markets can take from it.

"I know of several PSPs that are looking to build a very similar product idea on open banking rails to roll out across Europe," Pope says. "It's very attractive: if you get A2A right, there should be less fraud – and it comes with extensive dispute and chargeback rights."

He continues: "The Netherlands provides an example of how you can get the consumers there. The question then is: how do you ensure that you're the number-one payment option at the checkout? What nudges can you offer that will increase adoption among your customer base?"

Kivra, a Swedish startup that's aiming to serve as the country's 'digital mailbox', is used by two-thirds of the adult population. It enables users to centralise messages from government services and utility providers and pay invoices for their associated bills. Since the firm built an open banking payment solution, its payment flow has improved, with transactions taking less than 45 seconds to complete on average.

"Most important for us is the payment experience," says Kivra's CEO, Henrik Lönnevi. "Kivra wouldn't be such a popular app if we hadn't invested heavily in the user experience. With A2A payments, the whole payment can be managed within the app in a few simple steps, as we connect to the banks through an API in the background."

Back in the UK, this drive to improve the customer experience was also why Topps Tiles implemented A2A payments for its ecommerce offering earlier this year. "As part of our omnichannel strategy, we looked at payments as a whole," explains Neil Williams, programme manager at Topps Tiles. "Taking into account all the ways our customers could pay, we asked ourselves how we might make things easier and remove any friction for the trade buyers and homeowners who shop with us online."

> If you get A2A right, there should be less fraud – and it comes with extensive dispute and chargeback rights

Williams reports that the new system is accounting for a steadily increasing share of checkout transactions. The retailer historically offered an automated clearing payment option that, owing to its manual nature, was typically used for large orders only. The A2A solution has made these transactions much quicker. Now it's becoming more popular for smaller purchases and also reducing the operational burden.

"Refunds are instant and there is less manual work for our finance team. The lead time to receive payment has been reduced massively too," Williams says. "There is a real benefit to the customer, who can transact in the store easily."

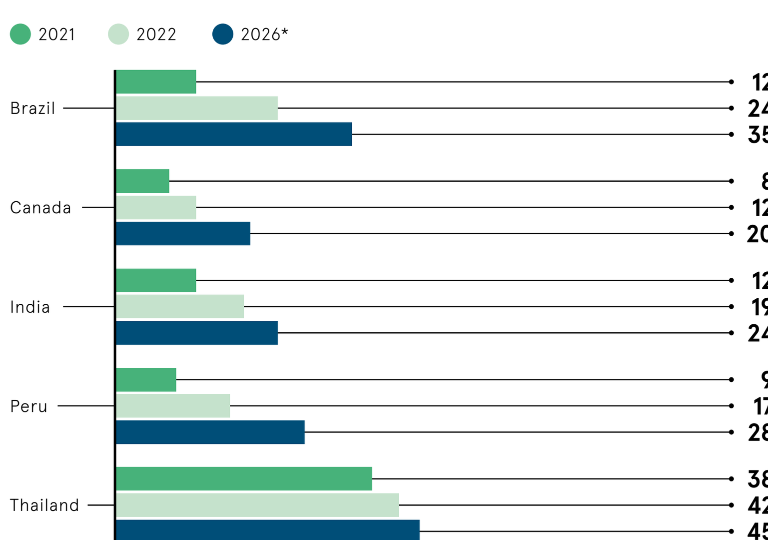
Both Lönnevi and Williams acknowledge that there are risks in implementing A2A payments. Their companies were early adopters, so they felt the need to conduct rigorous testing to ensure that they would remain operational and fully compliant with the regulations.

"Open banking payments were new for the banks. Kivra has been one of the pioneers in this area," Lönnevi says. "It meant that we had to break new ground, together with our PSP and the banks, to solve unforeseen problems. Before we scaled up and brought on high volumes of payments via the open banking APIs, we invested heavily in testing to reassure ourselves that the process was resilient and offered a good experience from end to end."

In the wake of these early successes, Pope expects more and more firms to start exploring A2A, particularly for handling repeating bill payments and ecommerce transactions. With the technology offering reduced costs for retailers and a better customer experience, it could well be poised to become the preferred option of PSPs, merchants and shoppers alike. ●

A2A TRANSACTIONS ARE CATCHING ON FAST IN SEVERAL MAJOR MARKETS

Fastest growing markets for A2A payments, as a share of total ecommerce transaction value



* Forecast | Fidelity National Information Services, 2023

Commercial feature

Africa's digital economy is dependent on the power of payments

The digital economy is increasingly bringing Africans together. Facilitating payments will be crucial in this process

A single digital economy across Africa, plugged into the wider world, will lower barriers to trade, spark economic growth, improve connections across countries, create jobs and build businesses. These ambitions are key to a prosperous continent. Africa has already shown huge potential with the adoption of mobile money accessed through people's phones – this is only the beginning.

Africa is the world's second-largest and second most-populous continent. Every day more people access the internet than in North America, the Middle East or Latin America, yet it lags behind the rest of the world in financial services provision. This is changing fast as fintechs fill the void. Cash is still used in around 90% of transactions in Africa, which means fintechs have huge potential to grow.

"In recent years there's been rising smartphone penetration in Africa, this is allowing buyers and sellers to increasingly get online even if they're a small business with inventory in a back room of their house.

"But we can't wait for penetration to reach 100%. Internet access needs to rise everywhere if we're to see the full potential of Africa's digital economy," explains Olugbenga 'GB' Agboola, founder and CEO at Flutterwave, Africa's largest payments technology company and one of its fastest growing unicorns.

"By providing cheap and fast internet to people, especially in rural areas, we could connect more of Africa to the globalised economy via digital payment networks. This is crucial in order to boost commerce, particularly cross-border."

African retail and central banks have not evolved fast enough. Many inefficient banking processes are still in place. Often people don't have access to a physical bank. In some countries, it is onerous and complex regulation that plagues financial institutions, making it difficult and expensive to serve consumers with low earning power. When it comes to cross-border payments between 54 African nations there's fragmented payment policies, all of this is a hindrance to trade.

Fintechs can empower millions

This is where fintechs come into their own. They've been able to serve a mass consumer base at a much lower cost, sometimes 80% cheaper, such is the nature of scalable tech platforms. For a continent dominated by small businesses, rural populations, as well as poor access to physical cash, digital payments make sense as more people plug in, particularly via mobile phone. Sub-Saharan Africa has roughly 500 million users, 613 million are expected to have a mobile by 2025.

"We are moving towards digital inclusivity. Now we need to envisage a single, digital market across Africa where someone in Kenya can pay a business in Nigeria or South Africa instantly, securely and trust that payments will be made, particularly for small businesses. This will unleash the mercantile spirit across the continent. It's starting to happen. We're not just talking about the opportunity today, but tomorrow," detail Agboola from Flutterwave, which has reached a $3bn valuation and now serves more than 1 million businesses, globally.

Africa's middle classes are expanding, the needs of consumers are increasing as ecommerce and social media channels mushroom. And they all want instant, convenient and frictionless ways to pay online. At the same time, there's increasing smartphone ownership, declining internet costs and expanded network coverage, as well as a rapidly urbanising population.

> Trust is key and is the biggest issue for the payment industry across the continent. That's why we work with regulators and established financial institutions in all the markets we operate in

The continent's population is also youthful. About 40% are aged 15 years and younger; globally it's just 25%. Young people have a greater affinity for digital inclusion and online connections compared to older peers. By 2050, the UN predicts that there will be 2.5 billion Africans, accounting for a quarter of the global population.

"There's a vast number of young people already in Africa and more are to come who will want to embrace the digital economy and we will need to facilitate their payments, so they can participate in society. It is our responsibility as a financial infrastructure enabler to make this happen," states Agboola from Flutterwave, which has processed more than 400 million transactions worth over $25bn, across 34 countries in Africa.

"It is why we're razor focused on financial inclusion and helping businesses. By creating a payments super-highway, a platform that everyone can operate on from big and central banks to overseas financial institutions, we can facilitate the future."

A catalyst for change

The global pandemic was a catalyst for change in Africa, primarily disrupting supply chains and incentivising the need for more digital and automated payment systems, which allowed goods and services to get to consumers faster. Digital payments are now a multi-billion-dollar industry. Mobile money transfers alone amounted to $832bn in 2022.

"Digital payments don't work in isolation. They tend to unlock different industries including logistics, supply chains and ecommerce. We need to facilitate payment flows better. Particularly payments between US, UK and European businesses and their African counterparts. It's not just about African businesses selling overseas, it's also about the continent's consumers participating in the global economy and buying from international brands," details Agboola from Flutterwave, which facilitates cross border transactions in multiple currencies for global businesses, including Uber in Africa.

"We should also be able to empower Africans to start their own businesses, especially if they're confident they will get paid in an effortless and transparent manner. Trust is key and is the biggest issue for the payment industry across the continent. That's why we work with regulators and established financial institutions in all the markets we operate in."

Until faster connectivity accelerates Africa's digital economy, other payment solutions are now empowering businesses across the continent, such as USSD banking, which can work on any mobile phone and doesn't require an internet connection. Money can also be sent electronically across borders and picked up as cash at various locations. The aim is for financial inclusion, as well as serving the underserved.

"It's very important to provide innovative solutions. For instance, we now have a mobile point of sale (PoS), where a small corner shop in Nigeria can use a smartphone like a cash register and accept payments from customers, record sales and issue a receipt. This tiny business then gets to take part in the digital economy and starts to bank money," concludes Agboola.

"It's not just about supporting micro-businesses, Africa's digital economy needs multinational companies to invest as well. That's why we support multinational companies like Uber. If we get their payments right the market becomes infinitely more attractive to them, which means more jobs and opportunities to bring more people out of poverty – the future is bright."

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TROUBLESHOOTING

5 points of payment failure – and how to fix them

Technical issues with online payments can hurt a company's short-term revenue and its long-term reputation with customers. What can businesses do to head off these problems before they start to hurt?

Natasha Khullar Relph

Online transactions have become many businesses' lifeblood in recent years. And when the underlying technology works well, they can drive both revenue and customer loyalty.

But in any ecommerce transaction, there are many possible points of failure where something can go wrong, either from a technical point of view or in terms of a customer encountering enough friction to make them abandon their purchase. Consider the volume of online transactions, and it's clear that the potential financial losses from even a small proportion of failed payments could end up having a significant impact on a company's overall revenue.

A single failed payment can mushroom into a lasting problem, too. According to research by BridgerPay, 62% of customers who experience payment failure during the course of a transaction won't return to it – or the business. This not only leads to lost revenue, increased costs and reputational damage, but it will also count as bad debt in the business. On average, B2C businesses will see 16%-20% of their failed payments turn into bad debt, while B2B companies see rates of 11%-15%, according to GoCardless.

These figures highlight the serious consequences failed payments can have on a business's financial health, and the need to have systems in place to mitigate the impact. So, what's causing failed payments, and what can businesses do about it?

> Regularly monitoring transaction data can provide insights into potential issues or friction points

"Most of what are described as points of failure fall into one of two categories: technical deficiencies, and user experience. Both are affected by how payments are regulated by the likes of Visa, Mastercard and Amex," says Alvaro Duran, a payments software engineer. "Surprisingly enough, the payments industry has a high degree of self-regulation. The system has evolved to rely on card schemes to provide the standards and protocols so that merchants and cardholders trust that their money is secured and that payments, when authorised, have a very high likelihood of success."

For retailers, that means the technical side of things should be pretty straightforward, Duran explains. The cardholder and the merchant agree on a transaction and rely on the merchant's bank (called the acquirer) and the cardholder's bank (called the issuer) to deal with one another via the scheme.

What's interesting, Duran says, is who owns the responsibility, and hence the risk, in cases where the payment is fraudulent or where a transaction has to be refunded to the cardholder. "Normally, the process of authorising a card transaction involves asking the issuer to own the risk of fraud. This is because the issuer is the entity best positioned (in terms of knowledge about the cardholder) to assess whether the transaction is legitimate. In many cases though, the issuer requests additional manual input from the user to clear the payment, and that is the single most frequent reason for a transaction to be declined."

Failed payments don't just occur from the consumer's side though. Merchants are also in a position to improve things and minimise the risk of a failure. So, here are some of the most common pain points and the steps businesses can take to prevent them resulting in failed payments.

1 Overzealous fraud prevention

Fraud prevention filters are crucial in online payments, safeguarding both businesses and customers. But the filters can be overly stringent, resulting in legitimate transactions being declined.

Multi-factor authentication (MFA) is a prime example of this. "MFA adds a layer of security to online transactions by requiring customers to provide additional information or complete an additional step during the authentication process," explains Percy Grunwald, a technical developer and founder of TopTechSkills.com. "While it enhances security, it can also introduce friction and inconvenience for customers. To mitigate this, businesses can optimise their MFA process by offering user-friendly and seamless authentication methods, such as biometrics or one-time passcodes via SMS or email." Striking a balance between security and user experience is crucial to ensure customer satisfaction, he adds.

This is also important when consumers diverge from typical spending patterns. For example, if a customer spends money abroad or spends more than usual, their bank may not authorise the transaction. This can be frustrating for customers who are trying to make legitimate payments.

Some authorisers will also choose to reject a transaction based on the merchant code. "Sometimes, an issuing bank may restrict a payment card to certain types of businesses or purchases. For example, in the US, you can't use an HSA medical card at a movie theatre," says Daniel Kroytor, founder and director of TailoredPay, a company which specialises in high-risk card processing services. "When a restricted card transaction is not approved because of an incompatible merchant category code (MCC), the payment processor returns an error message of 62. This is the restricted card code, also called the invalid service code, which you can do little about. However, if you see frequent occurrences from different customers, ensure the MCC associated with your merchant account is correct for your industry."

2 Insufficient funds

One of the most common reasons for a failed transaction is that there are insufficient funds in a customer's account. In this situation, when a customer tries to make a payment, the transaction is rejected by the bank, resulting in a failed payment or an error message. As a customer, it's easy to take the simplicity of online payments for granted, and it may not be until the error has occurred that the customer becomes aware of the lack of funds in their account.

62%

of customers who experience a payment failure during the course of a transaction won't return to it – or the business

BridgerPay, 2020

"When transactions are not approved due to insufficient funds, incorrect CVV, expired card, exceeding the card's activity limit, or suspected fraud, there are limited options for troubleshooting other than prompting the customer to use another form of payment or asking them to contact their issuing bank," says TailoredPay's Kroytor.

When doing so, however, it's important to ensure that your communications feel friendly and open and do not blame the customer for the error. Tell your buyer why their payment failed and what they can do to remedy the situation promptly. Where possible, provide links to more information and a contact number or email address if they need to get in touch.

The problem of insufficient funds in a customer's account can also be prevented by giving them a variety of payment options. "We try to make it simple for customers to pay in a manner that suits them, whether it's a physical credit or debit card onsite or an e-wallet," says Nick Edwards, managing director of travel agency Snowfinders. "Some companies may even wish to accommodate cryptocurrency users."

He warns, however, that the cost and logistical considerations will be multiplied exponentially if businesses opt to use different vendors for different payment methods. Consider using integrated platforms that offer multi-channel payments, so you don't have to depend on different suppliers or pay multiple sets of setup and maintenance fees.

3 Third-party tech issues

Stripe, a $50bn (£42bn) software and payment infrastructure company which helps businesses accept payments online, experienced a major outage in July 2019. Its services were offline for a total of almost two hours over the course of a day, meaning that firms relying on the payment processor were unable to accept orders during that time.

"Technology is an integral part of daily life, but with its convenience comes a host of potential problems," says Tom Mercer, commercial director for Manchester and London-based business growth consultancy Gain Line. "Network issues, software glitches, hardware malfunctions and security breaches are examples of the challenges that can arise. These can cause delays, errors and data loss – all of which significantly impact the customer experience." And that will result in a loss of revenue for the business.

Ideally, online payment processing should be available around the clock. In reality, this isn't always the case. Payment processors can encounter unforeseen downtime or may temporarily shut down their systems for maintenance. What's more, a single payment can involve three or more parties, including the payment gateway, the payment processor, the acquiring bank, the issuing bank and the customer themselves. If even one of these parties experiences an error or downtime, the payment can fail.

To prevent technological failures, businesses would do well to establish a robust monitoring and adaptation process, says Shanal Aggarwal, chief commercial officer at app developer TechAhead. "Regularly monitoring transaction data, such as purchase success rates and customer feedback, can provide insights into potential issues or friction points," he says. "With the right analytics, businesses can identify trends and take proactive measures to address emerging problems promptly. This might involve updating payment systems, improving website performance or refining security protocols."

Aggarwal also advises staying up to date with best practice, regulatory changes and emerging technologies in order to maintain a secure ecommerce environment.

One final option might be to upgrade to smart payment routing. This is a new kind of solution which automatically directs each payment through the route which optimises its chances of success. That means the system chooses the bank, the card issuer or the payment gateway that's most likely to approve and authorise the transaction.

4 Invalid card information

"When a transaction is processed, the issuing bank and the payment gateway must approve it," says Kroytor. "But anything from a simple typo to credit card fraud can cause that transaction to be declined. The payment processor will then return an error message with a two-digit decline code. Businesses can avoid declined transactions by understanding what these codes mean and ensuring that all information is correct before processing a transaction."

The process of letting customers know that their payment has failed and asking them to pay is called dunning. Many ecommerce businesses fail to send dunning emails, and this can result in a needless loss for the business, since customers are often unaware that their payment has failed or that their service was interrupted.

Sending dunning emails is an art, however, as you want to hit the right mix of friendliness and urgency. Experts recommend including a call to action, such as a link that will direct customers to a page where they can fix any issues. A helpful tone is crucial here. While it's important to let customers know that their account could be cancelled or late fees instituted if they don't update their information, make sure you're giving them sufficient time to do so.

And to prevent failed payments before they happen, retailers may want to consider sending a pre-dunning email – that is, a notification to remind customers that a payment method is about to expire and urging them to update their details.

5 Processing problems

Processing-related errors can also cause payment failures, usually during the authorisation stage. This can happen if communication lines go down or if the authoriser doesn't respond to the payment request within a certain timeframe.

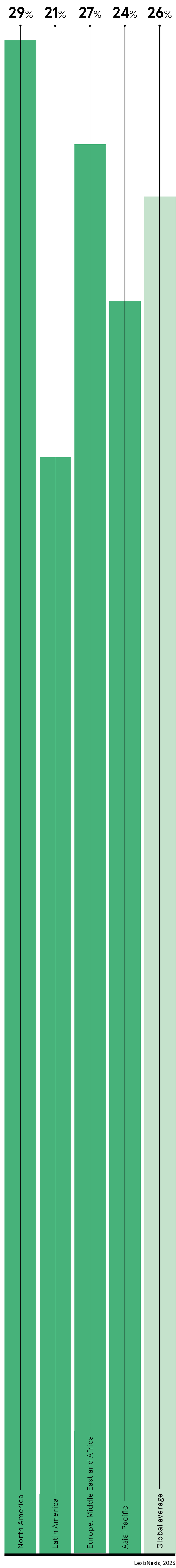
To deal with this error, you need to make sure your system is set up to retry the failed card. Research from GoCardless shows that a single payment retry can recover up to 32% of failed payments. The average business could recoup as much as $1.2m in revenue this way each year.

Ultimately, failed payments are a part of business, and minimising them requires retailers to stay on top of technological issues and communicate clearly with customers.

"Provide clear and transparent information about your payments processes upfront, including your terms and conditions, cancellation policies, and customers' ability to manage any recurring subscriptions," advises Grunwald. "Offering them some self-service options, such as online portals or mobile apps, will also empower customers to have greater control over their payments, minimising their frustration and the likelihood of cart abandonment."

POOR PAYMENT PROCESSING RATES WORLDWIDE INDICATE WIDESPREAD UNDERLYING ISSUES

Average straight-through processing rate, by region



LexisNexis, 2023

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Commercial feature

To spur Africa's growth, we must reimagine B2B cross-border payments

Africa's future prosperity relies on local businesses being able to engage in secure, cost-effective international trade and connect with global investors

Suppose you're a Nigeria-based business trying to receive payments from Kenyan clients in shillings, or paying an invoice to suppliers in China or South Africa in rands. You'll have no choice but to use the US dollar or another intermediary currency. It's an approach which brings with it exorbitant bank fees, volatile foreign exchange rates, and concerns about transactional reliability.

The persistence of these challenges in emerging market payments is hindering seamless financial operations. Streamlining these processes is crucial for fostering a conducive environment for global business transactions in Africa.

What's more, the globalised nature of our supply chains highlights the urgency of addressing these challenges. Limited liquidity, capital controls and low US dollar inflows slow down settlements and impede business growth. Outdated banks and financial institutions impose high handling charges, contributing to Africa's high remittance costs. Redefining the cross-border payment landscape is crucial to unlocking Africa's potential.

To foster Africa's participation and success in today's borderless marketplace, streamlined processes, reduced costs and enhanced reliability are key. Overcoming intermediary currency reliance, addressing liquidity challenges and leveraging innovative technologies will empower businesses in Africa. Seamless cross-border transfers are essential for attracting investment, driving economic growth and shaping a prosperous future for the continent's 1.2 billion people and countless corporations.

"Africa's patchy personal banking sector propelled it to become a global leader in mobile money, enabling effortless consumer transactions via mobile phones," explains Anthony Oduwole, CPO and CTO of Verto, a B2B cross-border payments platform processing $4bn annually, with a focus on Africa.

Now though, Oduwole emphasises the imperative of extending this success to B2B cross-border payments. However, localised restrictions by central banks and regulators, along with foreign exchange challenges, hinder progress.

> The inability to repatriate funds stifles foreign direct investment

Africa's B2B payment market is worth over $1.5tn – and offers significant growth potential. For instance, the US, with a smaller population, already boasts $29tn in B2B payments, showcasing the opportunity for Africa's development. Despite the lower average cost of business transfers within G7 countries, Africa continues to face higher costs, at 5% or more. Addressing these challenges and fostering a robust B2B payment ecosystem in Africa is crucial for unlocking its full economic potential and enabling seamless cross-border transactions for businesses in the region.

"The elevated cost of doing business in Africa hinders development and necessitates immediate change," says Oduwole. "By unlocking the potential of B2B cross-border payments, the African market could reach a staggering $3tn. At the moment, the inability to repatriate funds stifles foreign direct investment.

"We recognise the complexity of developing a B2B payment solution that ensures robust compliance and scalability, and which addresses inefficiencies in illiquid currencies amid opaque local regulations," Oduwole continues. "At Verto, this is precisely the challenge we are tackling head-on."

Creating an accessible, seamless and secure landscape for B2B cross-border payments is therefore crucial. Verto, a London-based cross-border payments platform serving over 3,000 clients across 190 markets and dealing in 50 global currencies, is dedicated to overcoming these challenges and driving transformation in Africa.

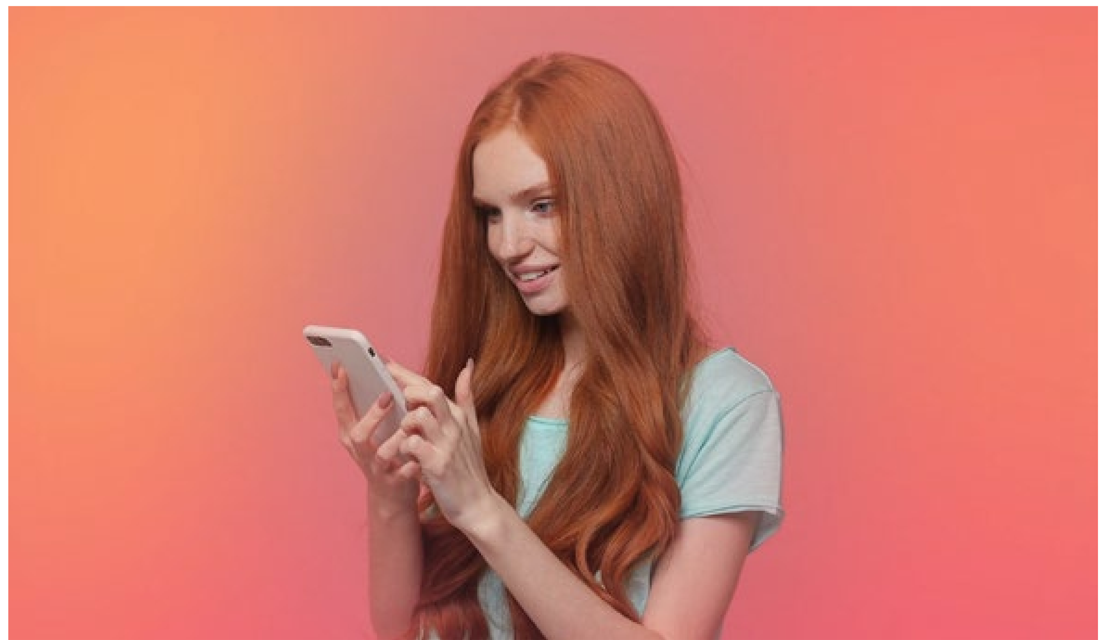
Crucially, its process eliminates the need for a third currency like the US dollar in intra-Africa cross-border transactions, streamlining transactions and enhancing profitability.

"Verto is fully regulated by the UK's Financial Conduct Authority, which builds trust. We've partnered with tier-one banks and serve as the trusted clearing house for numerous African businesses and financial institutions, many of whom have seamlessly integrated our API," explains Oduwole.

"We are driven by our ambition to streamline cross-border payments and alleviate pain points for businesses operating, trading and investing in Africa. This transformation excites us, as it represents our critical role in fostering Africa's GDP growth and positively impacting the lives of millions."

For more information please visit vertofx.com

Commercial feature



Responsible lending must be a cornerstone of BNPL

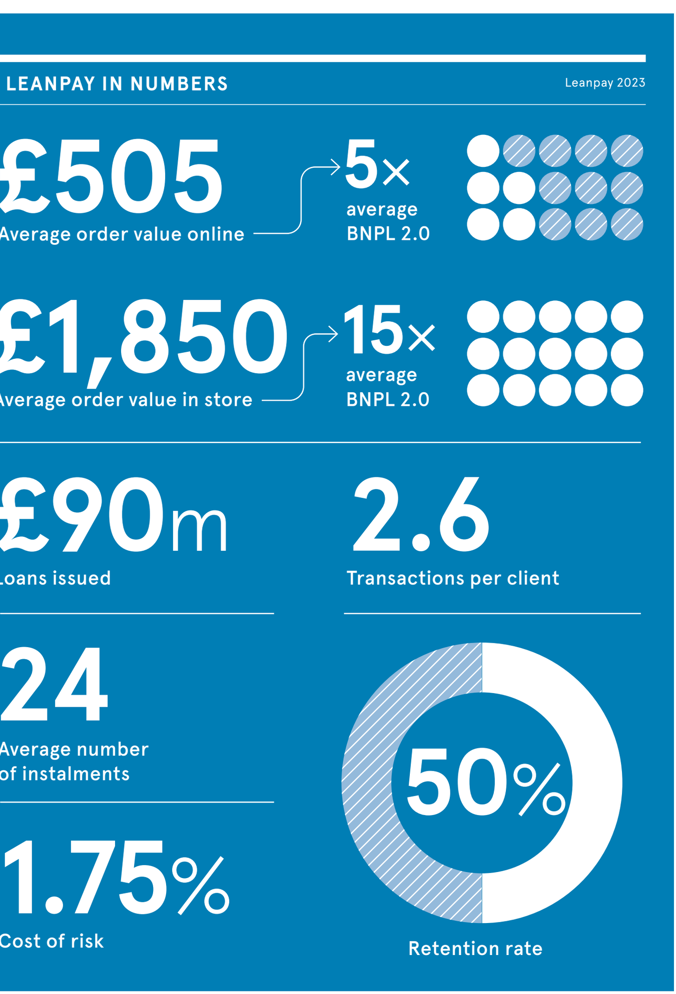
Buy Now Pay Later services are abundant, but many of their models are proving unsustainable. More efficient credit checks and fairer interest rates are the way forward, while still enabling a seamless customer experience for purchases of any size

Buy Now Pay Later (BNPL) is well established as one of the fastest-growing niches in fintech. Such services took off during the Covid pandemic, when consumers' lives changed and their shopping habits dramatically shifted in favour of buying online and on mobile. These new buying habits have remained in place, and for many merchants it is now realistic to expect BNPL transactions to account for up to 20% of sales. After all, consumers are attracted to the simplicity of the process and their increased ability to get hold of the products they want.

Nevertheless, while the past few years have seen meteoric growth in BNPL, there are significant challenges threatening the long-term viability of many of these services. The first key problem pertains to the original form of BNPL, known as BNPL 1.0, which was characterised by point of sale (POS) contracts for customers making bigger purchases, such as for sofas or new kitchens. Customers' experiences of using these arrangements have often been poor, given the need to fill out long documents and sign complex agreements, then having to wait hours or days before being allowed to formally proceed with their purchase and get hold of their items.

LEANPAY IN NUMBERS (Leanpay 2023)

- **£505** Average order value online – **5×** average BNPL 2.0
- **£1,850** Average order value in store – **15×** average BNPL 2.0
- **£90m** Loans issued
- **2.6** Transactions per client
- **24** Average number of instalments
- **1.75%** Cost of risk



Retention rate

The age of 'soft' checks

These problems led to the creation of BNPL 2.0, which soared in popularity during the pandemic, driven by innovative fintech companies such as Klarna and Afterpay. Typically used for smaller purchases such as clothing or cheaper consumer electronics, often priced around the £100 mark, this unregulated market relies on low-information and rapid 'soft' credit checks being carried out before consumers are authorised to pay for specific items, typically in three or four monthly instalments. The focus has been entirely on ensuring a seamless and rapid customer experience.

But Miša Živić, co-founder and chief executive of fast-growing BNPL company Leanpay, warns that there are significant concerns about BNPL 2.0 business models. "Firstly, there is no proper assessment of how indebted a customer is, or what they can realistically afford. Consumers are often not aware they are entering new debt arrangements and can easily get into difficulties over time," he says. "It means, fundamentally, there is a lack of protection for those consumers and for the lenders involved." Beyond this, rising interest rates are putting pressure on any fixed interest term agreements BNPL 2.0 companies have in place with merchants.

As a result, there is a clear need for a revamped BNPL business model. "It is obvious that people will always want to buy products, and will either pay now or use finance to get them," Živić explains. "We know there's been a great experience and market penetration offered by BNPL 2.0, but there has to be a major change to the business model for it to be sustainable, and for it to cover larger transaction amounts."

Responsible lending with BNPL 3.0

The answer lies in BNPL 3.0. These innovative services combine the robustness of the credit checks seen in the original models with the seamless experiences consumers are accustomed to with BNPL 2.0. The new payment solutions begin by initiating proper credit checks, which are rapidly carried out at an early stage of a consumer's online purchasing journey. They then present customers with a realistic loan offer over a sensible term length, which gives consumers clarity over costs, and is in line with those buyers' creditworthiness.

Leanpay is a pioneer in BNPL 3.0, and its service is already being used by merchants across Europe. Using the service, these merchants can enable purchases of any size, with deals ranging from £100 paid over three or four instalments to £10,000 paid over five to seven years. The average ticket size is above £500, which is five times bigger than that of BNPL 2.0 players. Notably, more than half of Leanpay's users are entirely new to POS loans, and the typical borrower has two to three active Leanpay loans.

> BNPL 3.0 provides the robustness of a proper bank-like credit check with the same frictionless user experience of soft check BNPL services

"Our key focus is on being a responsible lender, so we conduct deep credit and debt-to-income ratio checks," explains Živić. "We are a regulated company and we offer fairly priced loans at a fixed rate, reflecting the current financial environment and the consumer's ability to pay. This means we have the best of both worlds: the robustness of a proper bank-like credit check with the same frictionless user experience of soft check BNPL services."

The impact of BNPL 3.0 has already been significant. Merchants have been able to dramatically increase their turnover simply by giving customers greater confidence to complete purchases they were considering but might otherwise have opted against making. It is common for merchants engaging with this new approach to quickly generate more than 20% of their sales through BNPL. For consumers, the benefits include quick access to fair and affordable deals on a huge array of products.

How does BNPL 3.0 work in practice?

Leanpay's services work by offering a clear and impactful 'pay in instalments' banner on merchants' websites. Consumers who click on the banner quickly enter brief details, give consent for a credit check, and then promptly get a response. The entire process is robust yet rapid, taking less than four minutes in total and allowing consumers to seamlessly complete their purchase without any interruption to their experience. The assessment examines their likely ability to pay, as well as making a behavioural analysis of their general purchasing frequency for different categories of product.

When consumers products are presented with a payment offer, they can see a fixed, clear interest rate and a simple choice of term length. Crucially, having registered once with Leanpay, the process is even faster, and future purchases can be made entirely seamlessly, with approval decisions in seconds.

Leanpay's strong expansion in central and eastern Europe is the result of both the sales boost being delivered to merchants through the combined robustness and seamlessness of BNPL 3.0, and constant innovations making the software ever simpler and more thoroughly integrated with merchants' own systems.

Looking ahead, Živić expects responsible lending to become a critical element of consumer purchases of all sizes. "Ultimately, people want to be able to buy products now but don't want to get into problematic debt. They need an auxiliary service that enables them to buy simply, affordably and safely – with fairly priced deals at a clear fixed rate, over a specified time period," he concludes. "BNPL 3.0 strategies which have responsible lending at the cornerstone can enable purchases of any size, easing the journey for consumers and substantially growing business for merchants."

To find out more about responsible and effective BNPL 3.0, visit leanpay.com

Adam Yee via iStock

SOCIAL MEDIA

Who will trust Elon Musk's 'everything app' with their money?

The mercurial multibillionaire wants Twitter to handle payments, but it's debatable whether users really want such functionality – even if he can achieve the logistical feat of providing it

Chris Stokel-Walker

As soon as he took over Twitter in October 2022, Elon Musk announced that he had big plans for the platform. That involved turning it into far more than a mere social network.

Twitter, he declared, would become an "accelerant" for building "X, the everything app" – in much the same vein as WeChat, the Chinese messaging, mobile payments and social media platform.

Musk may soon be handing over the role of CEO to Linda Yaccarino, but he is set to continue working on product development at Twitter, where one of his top priorities is likely to be enabling the platform to broker and handle payments. The intention is to make users feel more comfortable parting with their money and to start an ecommerce revolution on the site.

Payments look set to be the foundation of his plans to monetise content creation too, as Twitter tries to compete with the likes of YouTube and Instagram, where it's more common for users to tip creators they follow.

Musk's reported aim is to earn revenues of about $1.3bn (£1.1bn) from payments by 2028. But what would a payments-enabled Twitter look like? And crucially, can Musk make it happen in any case?

"It's a big challenge technically," says Melissa Ingle, who was a senior data scientist at Twitter from September 2021 through to November 2022, when she lost her job in the mass layoffs that reduced the company from about 8,000 employees to fewer than 1,000 today.

Ingle points out that Musk does have payments experience in the shape of his former company X.com, which merged to form PayPal in 2000. But she doesn't think this will count for much nearly a quarter of a century later.

"The real risk is headcount," she says. "Can he roll out new features with Twitter's reduced staff? My guess is that he can't."

So far, the changes that Musk has ordered to Twitter have been largely cosmetic, but even these haven't been easy. On several occasions, the haste in which he pushed these through has caused more integral elements of the platform to break.

"To integrate payments is a major technical hurdle," Ingle says. "That would be a genuine 'new feature'."

And even if a payments system were to be implemented smoothly, there's no guarantee that it would prove popular. "Most users don't trust Twitter enough to put their date of birth in," notes Bruce Daisley, a former executive at the company in the UK, who left before the takeover.

He expects that, while there may be uptake among Musk's "few million fanatical supporters", the average user will probably look at the idiosyncratic entrepreneur's controversial tenure and decide against entrusting their money to Twitter.

Daisley adds that the problem that Musk is trying to solve is also one that's largely irrelevant outside the US. "We forget how archaic finance is in the US," he explains. "You can't just transfer cash to people with your bank app there."

For consumers in countries where mobile payments using bank apps are not only possible but simple, the idea of integrating payments into Twitter is therefore unlikely to be of great interest.

While hundreds of thousands of users already share links to third-party payment providers within their profiles or through their tweets, getting to the point of making payments through Twitter will be more complicated. Indeed, if Musk is to properly implement digital payments, he will have to clear several significant hurdles.

On the technical side, developing and securely rolling out a peer-to-peer payments system is a challenge that would tax even the most experienced engineering team. The severity of Twitter's shrinkage since Musk's takeover suggests that the business has lost much of its knowledge of how the platform's core components work.

Playing nice with financial regulators around the world to obtain the required approvals will be another serious challenge. The fact that Musk has severely reduced Twitter's government relations team will surely make persuading various jurisdictions to let Twitter operate in the payments space a harder task than it could have been.

His generally dismissive attitude to those in authority – or anyone questioning his methods – may not play well with the watchdogs either. An email to Twitter's press team requesting a comment for this article received an automated response that sums up Musk's outlook on accountability: a poo emoji.

The obstacles are considerable, then, which means that it's debatable whether adding payments to Twitter will be a worthwhile investment. For instance, Daisley believes that Musk is devoting precious time and resources to a white-elephant project that's a distraction from Twitter's more fundamental, and pressing, problems.

"These things are expensive to build, so there's no point in doing so unless you have big usage," he says.

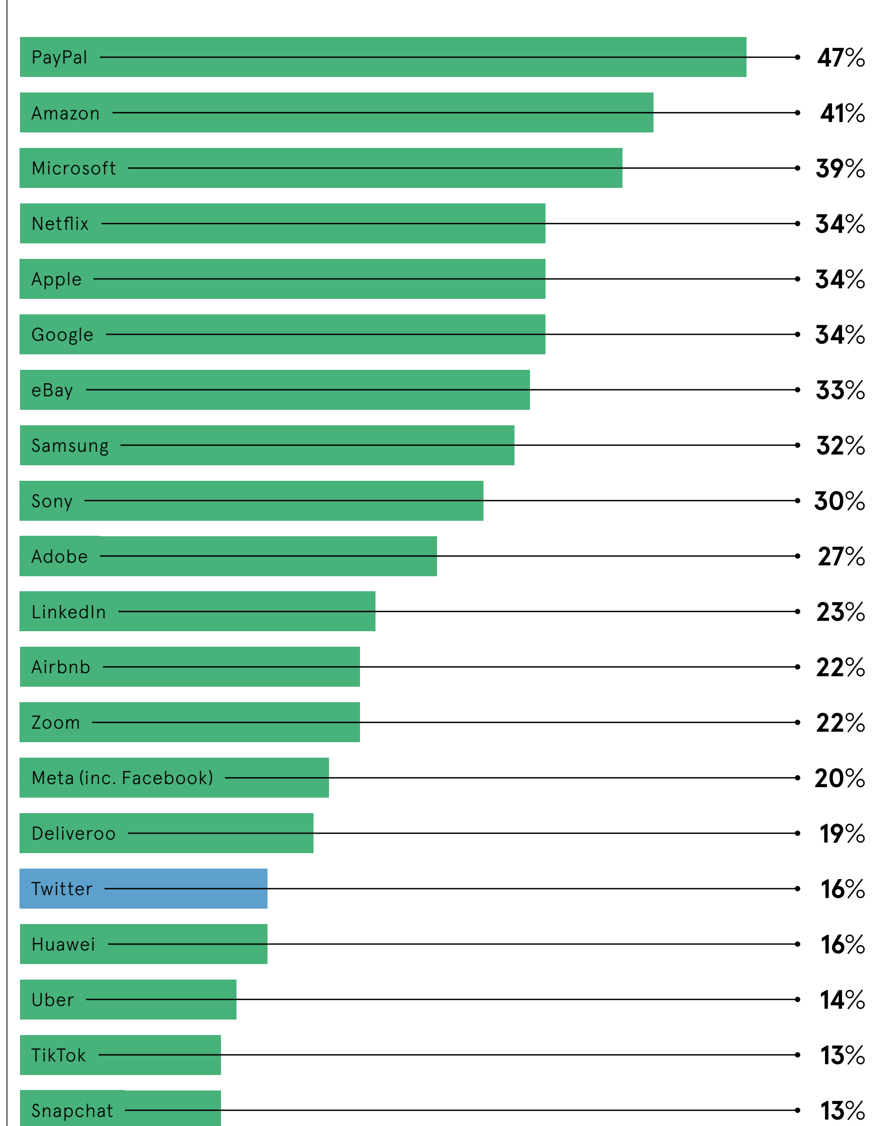
There is, of course, another way. Musk has shown that he is not afraid of using the stick alongside the carrot to persuade users to behave how he wants them to. He has previously banned mentions of competing platforms and warned users that links to rival sites aren't necessarily secure, despite a lack of evidence to suggest that they're any riskier than Twitter.

This 'my way or the highway' gambit could prove to be Musk's only workable option for realising his payments plan.

"Unless he bans the use of all other payment apps, which could be disastrous, or offers some kind of incentive – and I have trouble imagining what incentive would work – people may be loath to try an untested new payment app," Ingle says. "I'd imagine that even his hardcore fans might be a bit reluctant."

TWITTER WILL FACE AN UPHILL STRUGGLE TO OVERCOME ITS TRUST PROBLEM

Percentage of Brits who trust the following tech giants to handle their data securely



Forbes Advisor UK, 2023

Most users don't trust Twitter enough to put their date of birth in

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