



# Online payment systems

How accepting and making digital payments can help your business to thrive



[www.safenetpay.com](http://www.safenetpay.com)

## Summary

At the heart of every business is its ability to receive money from sales and to pay its suppliers and other creditors. When this happens smoothly, cash flow is optimised and the business will be on a healthier footing.

This guide looks at how technology and shopping habits are changing the world of payments. E-commerce and consumer expectations are transforming the way buyers and sellers interact, and as the digital economy grows, payments are not only moving online, they are becoming increasingly cross-border and mobile.

That's why businesses must think carefully about their payment strategies and technology choices. SMEs (small and medium-sized enterprises) must use partners who can handle the flow of money

domestically and internationally, from purchase through to settlement, and at the same time ensure security and frictionless commerce.

Banks, the traditional engines of global payments, now face competition from a huge number of fintechs – companies who have moved into the payments space and offer alternative services.

On the following pages we describe how online payments are evolving, the role of today's payment service providers, and how you can strengthen your business through digital transactions.



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# The new world of payments

Every business needs a way to both accept and transfer money. As the digital economy expands and more businesses turn to e-commerce, online payments are a must



Payment systems have existed for as long as people have been exchanging goods and services. Money replaced bartering as the medium of exchange thousands of years ago, and it remains the basic store of value today. However, it's no longer just a physical entity. The movement of money globally, the way we connect buyers with sellers, or simply transfer funds from A to B, has changed beyond recognition in little more than a generation.

## **The evolution of modern payments**

Back in the 1970s, paying and getting paid was largely a manual process involving cash or cheques. In the 1980s electronic transactions were introduced through card schemes, and telecommunication and data management platforms were the foundation for payment acceptance worldwide. Then, in the mid-1990s, things changed dramatically with the arrival of the internet.

As the world moved online, and ecommerce began to compete with bricks and mortar businesses, payment technologies evolved in parallel. Internet-based businesses required digitally-enabled and flexible methods for payment acceptance, which is where online card payments came in. Amazon and Paypal were early trailblazers in the new digital landscape, with merchant and consumer-facing payments technologies emerging to support the e-commerce boom and meet consumer expectations.

If technological progress has been the key driving force behind e-commerce and today's payment systems – the two being mutually dependent – other forces have also been at work. For example, Millennials and Generation Z are digital natives who expect to be served in certain ways. They shop online in huge numbers and want ease and versatility, speed and convenience.

Payments must be undemanding and seamless, and if the user experience is not positive, a sale may be lost.

## Open for business

The regulatory framework and the emergence of open banking is another major factor in the evolution of payments. As technology has advanced, so has the clamour for greater competition and the freedom to innovate. Banks offer payment processing that is antiquated and entrenched, and often expensive and slow. But now there is a challenge to the status quo. The Second Payment Services Directive (PSD2), which came into force in 2018, ensures that incumbent banks and financial institutions no longer have a monopoly.

PSD2 mandates open banking, which means that alternative payment service providers (PSPs) are free to enter the banking space and develop their own payment services. They can offer merchants online payment acceptance by a variety of methods such as credit cards, direct debits, bank transfers, and dedicated accounts.

This is a boon for today's legion of fintechs, which are harnessing the power of the internet to develop new payment technologies and services. Both collaborating and competing with banks, fintechs are taking online payments to the next level and developing a technology subset called paytech. It includes digital wallets, solutions for mobile commerce, omnichannel services, cryptocurrencies and a wide range of other customised payments that were previously unavailable for SMEs.

## Making the right choices

Money is increasingly digital and virtual, and businesses now have numerous online payment options to make transactions worldwide. As a business owner, one of the best ways you can boost sales is by optimising payments and making it as easy as possible for customers to buy your products and services. Equally, you need a payment platform that makes it simple to pay your suppliers.

**Retail e-commerce sales worldwide reached US\$ 3.53 trillion in 2019 and are projected to grow to \$6.54 trillion in 2022.**

So, are you equipped to accept and make payments online? If not, you'll be seriously disadvantaged as e-commerce and m-commerce continue to expand. And because online business is borderless, meaning your market is global no matter where you are, you may lose out if you're not set up to accept payments from different countries and in multiple currencies.

According to Statista, a leading provider of market and consumer data, retail e-commerce sales worldwide reached US\$ 3.53 trillion in 2019 and are projected to grow to \$6.54 trillion in 2022. With online sales soaring, a trend accelerated by the impact of Covid-19, SMEs must think carefully about online payments and choose systems that are right for their businesses.

In the following sections we look more closely at the mechanics of payment acceptance, the benefits of online payments, and what you must do to succeed in domestic and international markets.



# How online payments work

What does the payment flow look like, who's involved at each stage, and what are the different payment methods?



If you want an online business to reach as many customers as possible, you need an e-commerce platform that facilitates sales through websites, laptops, tablets and smartphones. In other words, one that blends e-commerce with m-commerce. Your business website must be a digital store with embedded shopping-cart software, and it must be supported by an online payment system that suits your customer base.

There's no escaping the fact that payments are complicated, and the degree of complexity will depend on your markets and your customer preferences. For example, perhaps you want to trade internationally as well as domestically, or you may want a solution for cryptocurrencies.

## **Making the complex simple**

Global payments involve a huge community of banking and non-banking providers and technology specialists who can add value to payment processing. Moreover, it's a world of bewildering terminology (see glossary). But for you, the business owner, the good news is that the 'machinery' of online payments is invisible. Everything happens behind the scenes, and if you choose the right payment partner, you can simply relax and let it happen.

Whatever your business requirements, all online payment systems share some common features. Let's take a closer look.

## **Payment parties and processes**

Credit cards and debit cards dominate payments, which is why your system must accept cards as a minimum. If you're unable to take card payments, you're not a true e-commerce business.

## Here are the key parties and elements in online payments:

1

### **CUSTOMER/CARDHOLDER:**

The person making the payment.

2

### **MERCHANT:**

The business owner selling the product or service.

3

### **ACQUIRER:**

Sometimes called the merchant acquirer, this is the bank that accepts card payments on behalf of the merchant and processes information from the issuer and the card scheme. Acquirers may partner with other payment providers to help process payments.

4

### **ISSUER:**

This is the customer's bank, which provides credit and issues cards to the customer.

5

### **MERCHANT ACCOUNT:**

A merchant account is required to accept card payments. It's usually provided by an acquiring bank but can also be part of the package offered by a payment service provider (as is the case with Safenetpay). Merchant accounts come in two forms: a dedicated account for your business, or an aggregated account that serves many businesses (eg, via PayPal).

6

### **PAYMENT NETWORK:**

This is the card scheme, such as Visa or Mastercard, linked to the payment card provided by your issuer. The card network connects the issuer with the acquirer.

7

### **PAYMENT GATEWAY:**

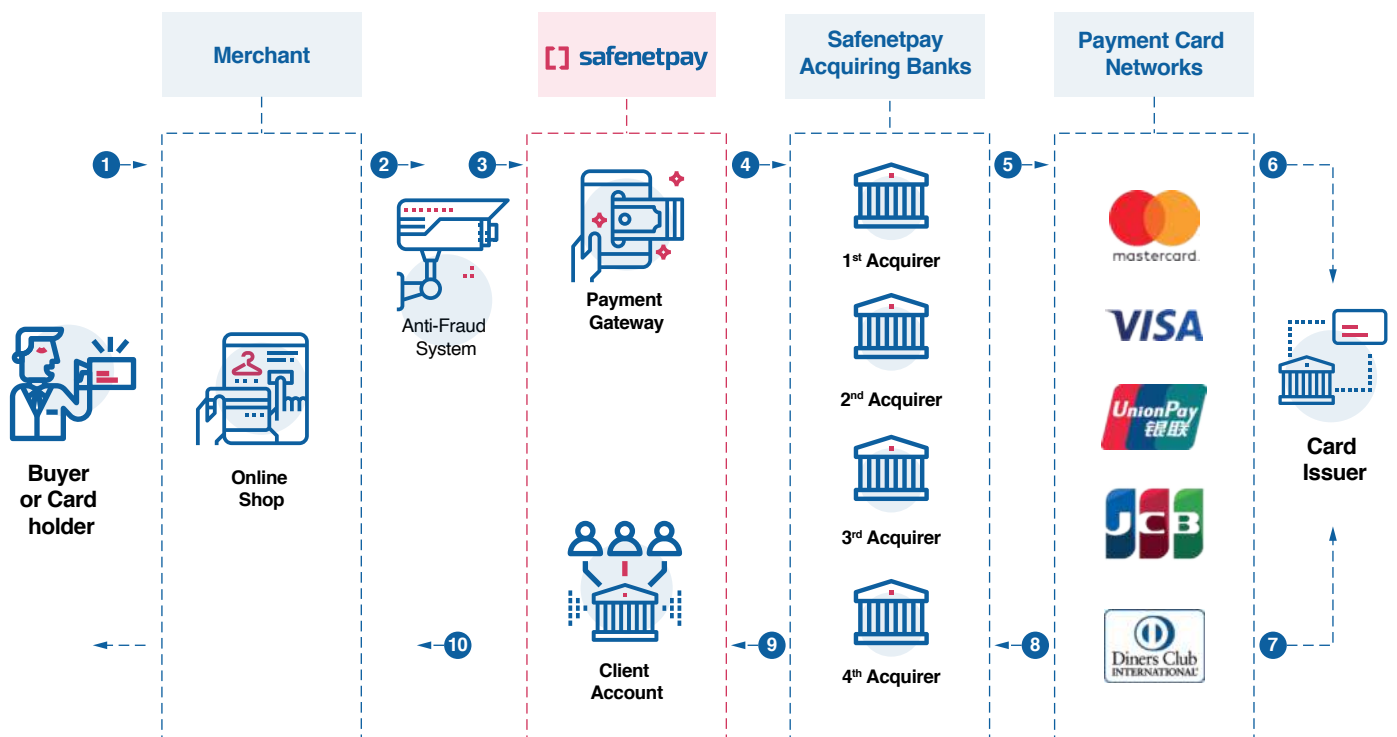
A tool that securely transmits the online payment data and authorises or declines a transaction. Gateways are needed for e-commerce transactions because customers are not presenting a physical card at point of sale as they do in a bricks and mortar store. The gateway authenticates a customer's digital credentials and is the online equivalent of the point of sale terminal in shops. Payment service providers operate gateways as part of an integrated service.

8

### **PAYMENT SERVICE PROVIDER:**

This is the key piece in the middle that enables merchants to accept and make payments. Sometimes known as a 'payment processor' or a 'merchant service provider', payment service providers connect merchants, customers, card schemes and banks. There are countless payment service providers today with different offerings to suit every type of business. Some provide only a basic transaction service, and won't process every type of payment, while others offer a comprehensive package and a range of value-added services. That's why it's important to find the right match for your business. In section 3 we'll look at some of the things you should consider.

***Safenetpay in the payments flow: payment service providers are at the centre of digital payments and connect all the parties***



## Payment methods

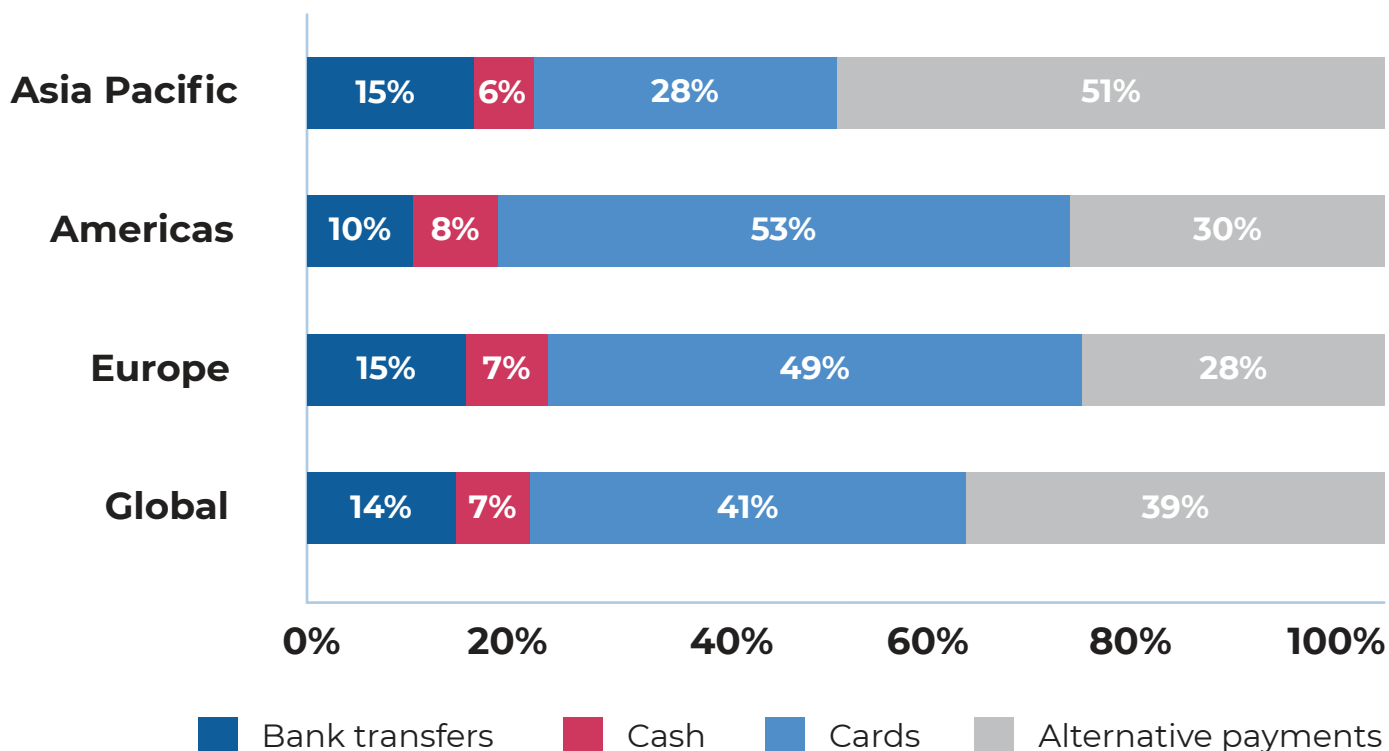
As mentioned earlier, when we talk about e-commerce and online payments, we normally mean transactions by credit and debit cards. However, although cards dominate the global marketplace and are by far the preferred method of payment in Europe and the Americas (see chart for comparisons), some people may want to use other payment methods.

Offering a variety of payment options will widen your potential customer base, reduce cart abandonments, and help you to stand out from your competitors – all of which means increased sales.

**The best payment service providers can support multiple options, such as those opposite.**

- Bank transfers (otherwise known as wire transfers), a traditional method of electronic funds transfer from one party to another
- Direct debits, an automated payment method that allows merchants to take payments directly from their customers' bank accounts
- Digital wallet payments such as Google Pay and Apple Pay, where an electronic device stores all your payment details in one place and allows you to make cashless purchases online and in-store
- Integration with innovative alternative providers such as WeChat and Alipay
- Cryptocurrencies such as bitcoin, an emerging field of digital payment

## E-commerce transaction values by payment method



*Figures from GlobalData Plc*



# Payment service providers

What are the advantages of today's payment platforms, and what should you consider when choosing the best provider for your needs?

With online shopping growing by the day, the ability to take card payments and handle alternative payment methods is a necessity. If your business is set up for e-commerce, and can both make and receive online payments, you'll be operating more efficiently and have more time to focus on building your business.

Put simply, payment service providers take the pain out of payments. They streamline and automate payment processing, with in-built security, and enhance the customer experience. What's more, onboarding is usually swift and straightforward, so your business can begin accepting payments in almost no time. It's often far more demanding to get approved and up and running with other merchant account providers.

Here are some of the main benefits and features of payment service providers.

## Speed and convenience

Technology has opened the way for faster and hassle-free payments. Consumers benefit by making purchases in just a few clicks, using their preferred payment method, and transactions are processed automatically and securely. Businesses benefit because they take control of their payments and are better able to manage cash flow.

Payments also mean settling accounts with suppliers and other creditors, including employees. Speed and convenience work two ways – for receipts and for disbursements. Moreover, If you're sourcing suppliers from overseas, as well as serving an international customer base, there's a cost in processing foreign currencies (see cross-border business).

## Security

Payment service providers must use SSL (Secure Socket Layer) encryption to

protect data between customers and merchants. All trusted providers should be PCI DSS compliant, which means they must have security measures that meet the requirements of the Payment Card Industry Data Security Standards.

The standards cover six areas: building and maintaining a secure network and systems; protecting cardholder data; maintaining a vulnerability management program; implementing strong access control; monitoring and testing networks; and maintaining an information security policy.

Payment service providers that offer robust fraud protection, including chargeback guarantees (reimbursing merchants for transactions that were wrongly authorised), inspire confidence and increase their business appeal. All UK payment service providers are regulated by the Financial Conduct Authority.

### **Cross-border business**

If you're operating internationally, whether buying or selling, you'll need to handle multi-currency processing and negotiate foreign exchange to get the best rates. This is where payment service providers step in with multi-currency accounts and can offer better rates than banks.

### **Transaction reporting**

Packages vary from provider to provider. Some offer monthly reports to help you reconcile transactions while others may offer real-time reporting. Beyond the basic transaction service, you should consider what levels of payment analysis could help your business.

### **Pricing**

Many different fees apply to payments, and it's often difficult to keep track of who's taking what at each stage. Fees associated with payment service providers are usually lower than with other merchant accounts, and providers typically charge just a per-transaction fee. In other words, 'pay as you go' – so no setup fees, monthly fees, or fees for PCI compliance. And when it comes to contracts, unlike with traditional merchant accounts, there's usually no penalty for cancelling.

If you're a small start-up or considered to be a high-risk merchant, it can be difficult to get a favourable deal from a merchant acquirer. And it's confusing if you're dealing with tiered pricing, interchange fees, subscription pricing and other charges. Payment service providers are more accommodating and transparent, and you always know where you are because you pay a flat rate.



# Choosing a payment service provider

Navigating the world of payments can be challenging, but it's easier if you know what your customers and suppliers expect



Once you realise the difference that online payments can make, you need to find a provider that's the best fit for your business. That means considering who your customers and suppliers are, where they are, and what methods of payment they like to use.

Perhaps your business is growing fast. Ask yourself if you can handle an expanding volume of sales no matter how your customers want to pay. Can you cope with all your suppliers? Are you able to deal in different currencies? Do you want a better foreign exchange rate? These are just some of the questions to address.

As an example, here are some of Safenetpay's services that may meet your needs:

## Payment methods

### Bank and wire transfers

- UK payments – your own UK account number and sort code to accept same-day payments straight from your British customers' bank accounts
- EU payments – reach customers across the EU with an IBAN in your own name
- International payments – wherever your customers are, they can pay you quickly and easily from their bank account via the SWIFT network

### Credit and debit card payments

- Accept all major cards – seamlessly accept online payments from all the main networks, including Visa,



MasterCard, American Express, Union Pay, and JCB

- Integrate Safenetpay with your online shopping cart – compatible with Magento, WooCommerce, PrestaShop, and other major e-commerce modules
- Get paid by link – log on to Safenetpay's portal, send your customers a link by email or SMS, and Safenetpay does the rest

### **Alternative payment methods**

- Cryptocurrencies – accept secure payments in bitcoin, ethereum, litecoin and other emerging cryptocurrencies
- Digital wallets – get paid with Apple Pay, Google Pay, PayPal, MasterPass, Amazon Pay and other brands
- Countless alternative payment methods – let customers pay using their preferred method, wherever they are. With Safenetpay, you can easily accept Alipay, WeChat Pay, Paysafecash, and over 150 other card alternatives

### **Take control of your payments**

Managing cash flow is crucial to every business. Behind every sales receipt, supplier payment and employee payroll is a transaction that must be processed speedily, securely, efficiently.

If you use the right payment service provider, you'll be in a much better position to succeed in today's rapidly growing digital economy.

### **For more information about Safenetpay:**

[www.safenetpay.com](http://www.safenetpay.com)

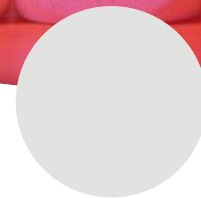
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# Key terms

The payments industry is full of technical words and abbreviations. Here are some of the terms in this guide as well as a few others in common use



**Acquirer:** The bank or financial institution that accepts payments

**Alternative Payment Method:** Any electronic payment made without a credit or debit card (eg, pre-paid cards, e-vouchers, digital wallets, mobile payments, cryptocurrencies)

**Bacs:** Bankers Automated Clearing Service, one of the most common bank-to-bank transfers in the UK

**BIC:** Bank Identifier Code administered by SWIFT (see overleaf)

**Card schemes:** The card infrastructure for payment processing (eg, Mastercard, Visa, American Express)

**CHAPS:** Clearing House Automated Payments System, a service for high-value urgent sterling payments to UK sort codes that accept CHAPS payments

**Chargeback:** A transaction reversal when a payment is disputed and judged to be wrong, often because of fraud. The disputed amount will be withdrawn from the payee's account and returned to the payer

**Card not present (CNP):** Any purchase where the payment card and cardholder are not physically present at point of sale

**FX/forex:** The foreign exchange, or conversion, of one currency into another

**Issuer:** The bank that issues consumers with debit and credit cards

**IBAN:** International Bank Account Number, used to identify an individual account

**Merchant account:** A type of bank account that allows a businesses to accept payments in multiple ways,



typically by cards. It is a holding account where your money is placed before it reaches your business account

**Payment gateway:** The technology that validates a customer's card details and authorises a payment

**Point of sale:** The in-store hardware and software that enables a customer to make a purchase

**PSP:** Shorthand for payment service provider, a company that integrates the key parties and payment methods that support online payments

**PCI DSS:** Payment Card Industry Data Security Standard, the security standard for organisations that handle payment cards

**PSD2:** Second Payment Services Directive, which promotes open banking and competition while also increasing security through strong customer authentication (SCA)

**SEPA:** Single Euro Payments Area, introduced to make it simple and less costly for consumers and businesses to make and receive payments across Europe

**SWIFT:** Society for Worldwide Interbank Financial Telecommunication, a banking cooperative that sets the standards for financial messaging and processing



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