



# Alternative payment methods

**Tricia Lines Hill** of **First Atlantic Commerce** believes payment companies need to diversify and accept many forms of online payments to succeed in today's anti-fraud environment



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**W**hile I was getting ready for bed last night, I gazed at my rolled-up tube of toothpaste sitting on the bathroom counter, and as my eyes rolled over the brand – Aquafresh Extreme Clean™ – I thought about how consumer-buying behaviour toward toothpaste has changed in the past three decades.

Remember when toothpaste was simply there to clean your teeth and prevent cavities? Today, however, toothpaste has morphed into that whole mouth-clean trend. It whitens, brightens, freshens breath, fights plaque, fights cavities, controls tartar build-up, tastes like mint or cinnamon or bubblegum.

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**Changing business models**

Bear with me, I am coming to my point here.

The toothpaste industry has matured to satisfy the consumer. So, if a toothpaste manufacturer sticks to offering fluoride-only paste with none of the other bells and whistles, chances are that toothpaste will no longer be in demand. Today, consumers are expecting more from their toothpaste.

Gaming operators are starting to move in the same direction. Many operators are looking to offer the whole gaming product mix as opposed to one game in order to stay competitive, which partly explains why we continue to see consolidation in the online gaming sector – it allows for operators to broaden their product offerings. They may have one core product, but the

movers and shakers are offering sideline activities so as not to lose their already acquired customers (that want to play a different game) to other operators.

Likewise, payment gateways, which in their simplest form used to be the switch between the merchants and the banks for credit card processing, are now offering other forms of online payment to satisfy their customers. Those that differentiate themselves will gain market share and continue to lead the online payment space, while those that stick to credit card processing only will surely fall behind.

Apart from secure and reliable credit card processing, the leaders are providing other forms of payment through their platform such as debit card processing, PayPal, virtual cash in the form of Ukash and/or Paysafecard, inbound bank transfers and payout solutions such as cheque and bank transfer issuing services and prepaid cards.

The top payment solution providers also facilitate the set up of your merchant account(s) with the bank(s) and provide premium fraud-management tools and data with which to protect your business from fraud.

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**Embracing alternative online payment methods**

We have seen robust growth in alternative online payment solutions for all online merchants in the past decade, and the alternative payment market continues to grow its share of the acquiring business.

Interestingly, just a decade ago, analysts and merchants did not hold up much hope for the alternative payment industry. Yankee Group analyst Christine Loebar told the Ecommerce Times in 2001 that alternative payment methods in the US, for example, were "not gathering steam". She said it was a typical catch-22 in that consumers were reluctant to adopt a new web payment method if not widely accepted online, and merchants were reluctant to set up alternative systems until consumers were comfortable using them.

I should note here that emerging markets were

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ahead of the industrialised world in terms of alternative payment method acceptance because credit card penetration is traditionally low in these markets, especially within South America and China. However, these markets were also slower to adopt online sales in general.

Today, merchants are embracing all sorts of alternative payment methods in an effort to acquire and retain their customers. It is more a question of which alternative payment methods to implement as opposed to whether or not to use them at all.

Consumers and merchants are driving the alternative payment option market as they search for new ways to pay and get paid. For both, alternative payment offers convenience, flexibility and security. Merchants are finding that offering alternative payment options can lower their overall transaction costs, increase conversions and create new revenue streams, while reducing charge-backs and fraudulent activity.

Consumers want the merchant to accept the payment method they want to use. We know that different demographic groups tend to gravitate toward different payment options. And while alternative payment methods certainly appeal to the under-banked and unbanked for obvious reasons, all types of consumers including those that hold credit cards, are adopting convenient alternative payment methods.

The economic downturn has also contributed to alternative payments use as credit cardholders are more conscious of their credit-based spending.

As expected, online gaming operators and their players are even more driven to alternative payment platforms. The reasons are varied from the basic motive of anonymity, player profiles, and of course, the 7995-coded transaction and decline issues. Nevertheless, credit cards will continue to be crucial to an online payment strategy, and, even though "improving economy will lead some consumers back to credit card products, which may slow the growth of alternative payments", according to Javelin Strategy & Research, alternative payments are also here to stay.

#### Working with the right payment provider

By partnering with an international, internet payment solutions provider that understands and provides credit card processing and alternative payment options, operators can continue to focus on their game, while leveraging key benefits such as access to new global markets and payment types via one source.

As an example, if merchants want to capture the Chinese market, they must support China Union-Pay (debit) since it is the predominant payment card in China. Similarly, debit card use in Germany and Poland is much higher than credit card usage so merchants doing business in these geographies must have access to the local payment brands and currencies (local currency support increases the capture rate in

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local markets as many cards are issued for use only with local currency). The right international payment provider can help.

Through a single integration, a good payment partner will enable merchants to work with various acquiring banks in different jurisdictions around the world for card processing (thereby lowering costs to entry) as well as enable them access to various payment types in multiple currencies, which lowers the costs and time associated with direct integrations to each payment method.

Gaining access to alternative payment options via one implementation is key. Not only is it a cost saver in terms of integration time and IT resources from the outset, but it allows the operator to spend less time on managing these payment infrastructures going forward.

One should remember, however, that it is never possible for one vendor to offer every global payment type. Operators need to zero in on what they require for their business and compare those needs against other payment requirements. Many payment solution providers, for example, do not facilitate direct merchant accounts for credit card processing, which means that the merchant will not have direct control of their funds. Other payment providers may not offer a full suite of fraud management tools, so it is important for an operator to weigh out its needs.

But clearly, there is an expectation now for payment gateways to offer a full portfolio of payment solutions. Just as the toothpaste industry transformed consumer preferences by introducing added features, best-in-breed online payment gateways shifted the thinking behind online businesses. ❖