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The shift to local payment methods - six recommendations for digital merchants



boku

For an insight into the state of digital payments in 2024, and how things are set to evolve, it's worth looking back to the writings of Carl Menger – a 19th Century Austrian economist.

Building on the work of the classical British economists and their obsession with the objective costs of production, Menger added an all-important human dimension, zeroing in on the ever-shifting attitudes expectations and preferences of real-life consumers. And this led him to an investigation of money and payment systems.

Up until Menger's time, it was assumed that money – and payment systems – had been imposed by the state. No, he argued, payment is a social phenomenon. Just like language, it has evolved to facilitate interactions between real people. And it will continue to evolve – as buyers and sellers gravitate towards the optimum combinations of simplicity, efficiency, security, and cost.

Payment will never be static, said Menger. As the human condition evolves, so too will payment systems. If consumers see the option of a more convenient form of payment, they will automatically gravitate towards it. And you can see this reality playing out across the world today – people are not just gravitating away from cash, they are also gravitating away from card-based digital payments.

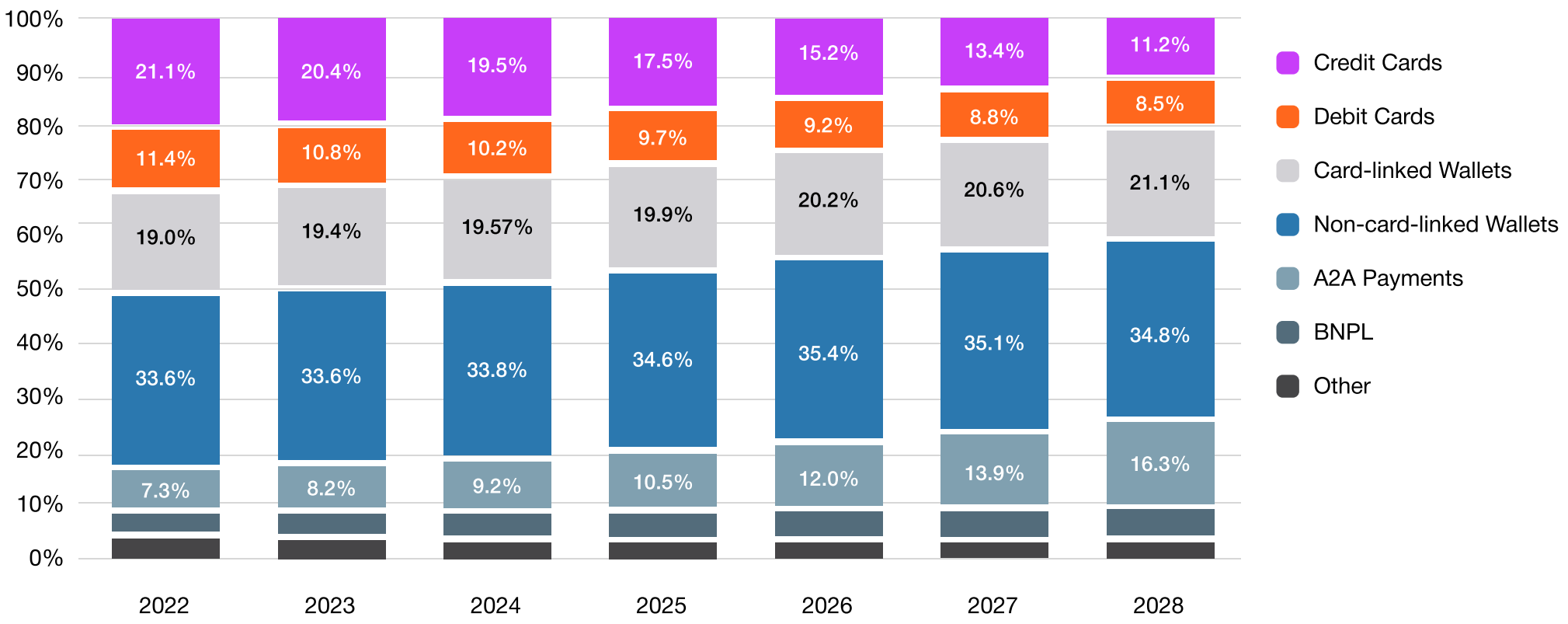


How consumers are moving at speed and at scale, away from card-based payments and towards local payment methods

The scale of the change is becoming apparent.

A 2024 report from Boku and Juniper Research analysed ecommerce payment data from 37 major markets worldwide, highlighted global, regional, and country specific trends, and presented mid-term forecasts. It concluded that, across the world, consumers are moving at speed and at scale towards local payment methods. By 2028, card-based payment, including card-linked wallets, is set to account for just **41%** of global ecommerce payment value – **down from 50% in 2022.**[1]

E-commerce share of checkout by payment methods (value %), Global.



Even in regions where card-based payments currently dominate, the shift is underway and gaining momentum. In North America, card-based payment is predicted to fall from 76% in 2023 to 66% in 2028. In Europe, over the same timescale, it will slip from 71% to 57%. In other regions, where card-based payment starts with a lower share, the shift looks destined to be starker and swifter.[2]

Other analysts reach similar conclusions. In its latest global payment report, McKinsey & Company says the world is on the cusp of a new payment era, moving from the Account Era to the Decoupled Era. A driving force, it believes, will be consumers, who "have an even greater voice than in the Account Era as they seek convenience, affordability, and security".[3]

Meanwhile, in its 2024 Global Payments Report, Worldpay says: "We're entering an era where choice is the main driver of the payment landscape. Consumers and their collective choices are the new center of payments gravity."[4]

It's all playing out exactly as Menger predicted more than 150 years ago.

[1] Boku, 2024 Global Ecommerce Report, The Changing World of Payments, 2024: https://www.boku.com/boku-knows/2024-boku-global-ecommerce-report
[2] Boku, 2024 Global Ecommerce Report, The Changing World of Payments, 2024: https://www.boku.com/boku-knows/2024-boku-global-ecommerce-report
[3] McKinsey & Company, The 2023 McKinsey Global Payments Report, On the cusp of the next payments era, 2023: https://www.mckinsey.com/industries/financial-services/our-insights/the-2023-mckinsey-global-payments-report
[4] Worldpay, The Global Payments Report, How consumer choice is changing commerce, 2024: https://worldpay.globalpaymentsreport.com/en

Why it's a trend that digital merchants ought to be embracing and enabling

It's likely that many ecommerce merchants will be exasperated by the shift.

Having spent the past two decades wrestling with card-based payments, accommodating the ever-changing payment scheme mandates, finding new ways to remove friction from their payment flows, and perfecting the customer experience, the last thing they want is another change.

To complicate matters, the emergence of local payment methods means that, instead of benefiting from a consistent or harmonised global approach to payments, ecommerce merchants will need to accommodate a myriad of country-specific schemes and nuances.

Given the circumstances, ecommerce merchants could perhaps be forgiven for resisting or delaying the change. Afterall, most consumers will still have access to card-based payment methods. So, couldn't they be steered towards them? Is it really necessary to support multiple local payment methods?

There are two considerations for merchants to weigh up here:

1. Doing what makes sense from a customer service perspective

Evidence shows that payment choice has a profound impact on conversion rates. Research from ACI Worldwide suggests, simply by increasing the available payment options from one to three, merchants can expect conversion rates to increase by 30%.[5] A similar study from Checkout.com indicates that 60% of ecommerce shoppers will abandon their carts if they don't see their preferred payment method.[6] So clearly, a merchant that provides greater payment choice will differentiate itself from an equivalent merchant that does not.

2. Doing what makes sense from a commercial and operational perspective

An added dimension, and one that is often grossly underappreciated, is the fact that some of the newer payment options are simply a more elegant and fit-for-purpose way of processing digital payments. In truth, the four-party payment system was never that well-suited to ecommerce – it was just the best available mechanism at the time when ecommerce first took off, and its use became deeply entrenched as a result.

By contrast, many local payment methods were designed specifically for digital payments: the operating model can be simpler and more elegant; because they aren't typically based on static, temporary credentials, such as 16-digit account numbers, many issues around declines and data security can be more easily overcome; unencumbered by multi-lateral interchange fees, they are often more cost-effective to accept; and features such as instant payment open up entirely new opportunities for innovation and improved customer service – such as instant refunds.

Digital merchants should therefore view the emergence of additional payment methods, not as an encumbrance, but as an opportunity for innovation, differentiation, and operational efficiency.

[5] ACIWorldwide, What Is the Link Between Payment Methods and Conversion Rates?, 2022: https://www.aciworldwide.com/blog/what-is-the-link-between-payment-methods-and-conversion-rates
[6] Checkout.com, How many payment methods are too many, 2023: https://www.checkout.com/blog/too-many-payment-methods

Of course, choosing to accept more payment methods and choosing how to accept them are two very different things. So, what should digital merchants consider when selecting the best route forward?

Here are six big recommendations:

Recommendation #1

Follow the lead of the tech giants

Few digital merchants have the resources that are available to the biggest beasts in the tech jungle – the likes of Amazon, Netflix, and Spotify. And the question of which local payment methods to support, and how best to support them has already been wrestled over by these giants. They research the topic in depth, they understand the impact on conversion, and they constantly refine their payment flows accordingly. So, whatever they do, they tend to do for sound, evidence-based reasons. Other digital merchants are able to benefit from their investments, by analysing their approach, understanding their payment flows, and following their lead.

Recommendation #2

Dig into quality – not just quantity

There's no shortage of vendors out there. Many offer a myriad of local payment methods and promise a single connection. But, the fact is, not all networks are equal. In particular, the way that different vendors connect to the same API can have very different results. Some merchants may even choose not to connect into standard APIs and will want their vendor to work on bespoke versions that better meet their underlying needs. Similarly, some local payment methods may only be optimised for one-time payments, so those merchants with a subscription model will need to know their chosen vendor has adequately solved for recurring payments. Another key capability in this space, but one that is not universally offered, is multi-factor authentication, which can have a profound implication on chargebacks.

Recommendation #3

Evaluate network depth – not just network reach

It's also important for a merchant to quiz vendors about the topography of their respective networks. To link up to as many payment methods as possible, some may need to go through multiple intermediaries, which means they could be prone to multiple points of failure. Similarly, to amass scale, some may have grown by acquisition and found themselves struggling with a messy collection of legacy platforms – which can have a knock-on impact on service quality, reporting, settlement, and more.

Recommendation #4

Appreciate the impact of tokenisation

Tokenisation is a key consideration in the world of local payment methods, especially with regards to recurring payments and mobile-on-file payments. As well as having a big impact on data protection and fraud liabilities, tokenisation feeds directly through to the quality of customer service. Merchants should dig deep into this subject, quizzing vendors on their existing tokenisation capabilities, their future roadmap, and their appetite for ongoing enhancements.

Recommendation #5

Get clarity on settlement timescales

One of the real dividends of many of the local payment methods is accelerated settlement. But, with many vendors, these benefits aren't always passed on, especially when they have multiple intermediaries to contend with and/or they reach into the more exotic geographies. The number of payment licenses they have and the number of bank accounts they operate can often be a good indicator of the speed of settlement they are able to offer.

Recommendation #6

Understand the customer success ethos

Establishing a relationship with a vendor is just the first step. To get the best out of local payments, merchants should commit to a culture of continuous improvement, and they should demand the same from their vendor. Merchants should therefore quiz vendors about their customer success ethos and operations – are they committed to ongoing performance optimisation? Or checkout optimisation? Or assisting with user acquisition?

For more information about the local payments opportunity, visit www.boku.com.

Or to download our 2024 Global Payments Report, visit page
https://www.boku.com/boku-knows/2024-boku-global-ecommerce-report?