Market Insight Report Reprint

451Nexus: Payments in the (New) Roaring Twenties

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As part of our 451Nexus event, we hosted a session called ‘Payments in the (New) Roaring Twenties: Capitalizing on Digital Acceleration.’ This report distills key themes from the discussion complemented by insights from our Voice of the Enterprise: Merchant Study 2021.

451 Research

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Introduction

As part of our 451Nexus event, we hosted a session called ‘Payments in the (New) Roaring Twenties: Capitalizing on Digital Acceleration.’ The panel included participants from BlueSnap, Salesforce and Signifyd, and featured a detailed discussion on how payments and fraud-prevention technologies can be harnessed as business growth levers. This report distills key themes from the panel complemented by insights from 451 Research’s Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021. The full one-hour session, along with all presentations from 451Nexus, can be viewed here.

THE TAKE

Payments have become a mission-critical infrastructure layer for digital transformation. Simply put, when the right payment processes are in place, the business can operate with greater agility and adaptability. Successful execution requires approaching investments in payments technology with the same level of scrutiny and rigor as any other large enterprise IT investment. Seeking out clear ROI and mapping processor capabilities back to well-defined business outcomes is a sound starting point to ensure payments transition from commodity to competitive advantage.

The strategic power of payments

The wave of first-time adoption of digital payment and commerce behaviors in 2020 has given way to increasing consumer comfort with engaging with businesses in digital channels. The rapid adoption of omnichannel experiences like curbside pickup has been a key part of this transition. As Indy Guha, CMO of Signifyd, put it on our panel, “The genie is not going back in the bottle on expedited fulfillment.” This has laid the foundation for significant card-not-present (CNP) volume growth – our estimates show that global e-commerce is on pace to exceed $8 trillion in transaction volume by 2025.

As the digital economy accelerates, the impact of payments technology is now being felt across the business. Merchants that had scalable payments infrastructure, offered a diverse mix of alternative payment methods and put automated fraud-prevention processes in place weathered the storm okay. Many even thrived. Those that didn’t typically saw consequences. We’ve seen this play out in three key areas:

- **Fraud:** Over two-thirds of merchants we surveyed as part of our VotE: Merchant Study 2021 recorded a year-over-year increase in fraud volume – more than one-third indicated that the increase was significant. The real concern here is much bigger than losses. This year, respondents said their number one concern about fraud was the customer experience impact. Merchants are concerned about jeopardizing trust if they can’t keep bad actors away, but they’re also concerned about creating friction for their most loyal customers. One thing is clear: Manual review teams won’t be able to scale fast enough to effectively address the growth of e-commerce and expedited fulfillment – some degree of automation is imperative.

- **False declines:** In-store, the authorization rate for card transactions is in the high-90 percentage range. Online, it hovers in the mid-80s. That means in the ballpark of one in seven e-commerce transactions are being turned away, and many of those are good transactions where an incorrect assessment was made by the merchant or card issuer. We estimate that more than $16bn in the past 12 months has been turned away due to false declines in the US alone. Many tactics, including local acquiring and data sharing between card issuers and fraud-prevention providers, can help reclaim some of this challenge. Ralph Dangelmaier, CEO of BlueSnap, pointed out that A/B testing across acquiring banks is a key tactic his company leverages to help merchants optimize authorizations.
– **Alternative payment methods:** Alan Canzano, Senior Product Manager at Salesforce, put the impetus for offering alternative payment methods succinctly: “It’s about making sure the buyer can pay the way they want.” Cards will only get merchants so far with that goal. To win in markets like Japan and Brazil, digital cash payment options such as Konbini and Boleto are imperative. To succeed in Southeast Asia, digital wallets like GrabPay and FacePay are the name of the game. Throughout Europe, accepting a mix of real-time and bank transfer systems (e.g., BACS, SEPA), in addition to local card schemes like Cartes Bancaires in France and Bancontact in Belgium, is imperative. It’s also important to take in generational needs, including offering buy now, pay later (BNPL) for Gen Z and Millennials. Our estimates show that over $20bn in sales volume is being turned away annually due to insufficient payment method mixes.

**Figure 1: The Business Impact of Payments Is Increasing**

![Figure 1: The Business Impact of Payments Is Increasing](image)

- $16.3bn in abandoned purchases over the past 12 months due to **false positive transaction declines**
- $20.1bn in abandoned online purchases over the past 12 months due to **preferred payment methods not being accepted**

Q. In the past 6 months, approximately how many times – if any – have you abandoned an online purchase as a result of your preferred payment method not being offered? Base: All respondents (n=1,269)

Q. False decline transactions occur when your credit or debit card is declined during a legitimate transaction despite having sufficient funds. In the past 6 months, how many times – if any – have you abandoned a purchase because one of your transactions was falsely declined? Base: All respondents (n=1,269)


Evidence of correlation between payments and revenue growth emerged during the pandemic. Of merchants that treat payments as a highly strategic area of focus, 55% said the COVID-19 outbreak was having a positive impact on their sales. For those that treat payments as somewhat or not at all strategic, just 25% said the same.

What we consistently see is merchants who are prioritizing payments tend to link their initiatives to three key areas: growth, customer experience and cost optimization. We call this the ‘payments trifecta.’ Every payments initiative being undertaken should map back to one or more of these goals to drive results. BlueSnap’s CEO emphasized that given that payments directly impact sales and cost, decisions need to be driven by ROI.
While the end goals remain the same, COVID-19 is impacting the specific payment needs and priorities that enterprises have. In fact, nearly nine in 10 merchants have identified payment needs that were exposed by the pandemic. Overall, the big theme is modernization. Many merchants saw their payment inefficiencies play out in a big way last year (e.g., downtime, significant manual reviews, lack of omnichannel compatibility) and are looking to right the ship with more modernized, tech-centric capabilities.

The outbreak has emphasized to merchants that payment technologies should be leveraged to make the organization more agile and adaptable for the future. Merchants seeking these outcomes shouldn’t be afraid to ask for more from their payments provider. As Alan Canzano from Salesforce pointed out, processors that focus on making payments simpler and easier for their customers will ultimately be the beneficiaries of their success.

The upshot is clear: The growing business impact of payments means it can no longer be treated as a cost center or a commodity. Ultimately, merchants need to treat payments as the inflection point of their shopper journey – every investment they’ve made to get a shopper down the funnel (e.g., marketing, advertising) is squandered if payment processes are not optimized. More than ever, payments are a direct input into the customer experience and a driver of growth. As Signifyd’s CMO emphasized, fine-tuning payments and checkout is one of the last frontiers where merchants can drive a 10% swing in revenue.