



ONLINE | PAYPERS

Online merchants take long-awaited stand

News:

E-Payments Merchant Initiative: final version of position paper on e-payments released 2

Exclusive interview: Wijnand Jongen, CEO of Thuiswinkel.org 2

Expert opinions 6

Online merchants take long-awaited stand

A word from the editor

A strong call to action, communication and cooperation.

What's next?

E-commerce has long been heralded as having the necessary potential to act as an engine for new revenue growth. Also, we keep hearing about e-commerce taking off and its variations (m-commerce, s-commerce, which have been joined by t-commerce and even – believe it or not - v-commerce) gaining ground. Some voices trumpet the arrival of an ideal world where there would be no need for cash and cheques for payments (a scenario apparently long way off), thus signalling an increased use of cards among consumers especially with online shopping. But at present, cross-border e-commerce is far from being utilized to a full extent at a European level, or at least this is what statistics so far suggest. What's wrong with this picture?

A pertinent answer to this question is offered by the E-Payment Merchant Initiative and its strong call to action towards the banking industry to come up with more efficient e-payment services which are less sensitive to fraud, have more cross border reach and lead to more sales conversion. The Paypers has had the chance to sit down with Wijnand Jongen, CEO of the online merchant organization Thuiswinkel.org, who is deeply involved in this project, to find more about this initiative and discuss some of the issues which are currently affecting the development of the online payments industry. These issues, leading

to 10 recommendations open for debate, are listed in a [Position Paper](#) which was created by the international web merchant community with a clear purpose in mind: to provide all stakeholders, including consumer organizations, with a basis for discussion in order to facilitate progress and innovation on the European online payments front. Due to increasing competitive pressures, payment service providers need to constantly re-examine the basis on which they deliver customer propositions. They do offer as many payment options as possible, but do merchants actually need all of them? After all, the merchant's online business depends on the service and reliability they provide...

According to the Position Paper, web merchants “need to articulate their requirements and demands in a more clear, consistent and international fashion”, while online consumers hold privacy dear and the lack of confidence in both the merchant and the online payment options they use are still hurdles to be overcome. All these in a climate where it is still unclear whether banks could innovate sufficiently...

The truth is that each country has its own ideas as to the best specifications for a payment instrument and finding compromises acceptable to all countries which could form the basis of a pan-European payment solution is quite challenging, to say the least. As the Position Paper underlines, only a collaborative relationship between all these parties can drive positive changes and improve the payments process for everyone.

With this strong call to action, the EMI sets the ball rolling on the innovation/harmonization front. Who will strike it next? Any ideas? Join our discussions via LinkedIn and make your own voice heard or contact the editor at adriana@thepayers.com!

E-Payments Merchant Initiative: final version of position paper on e-payments released

The third and final version of the positioning paper on online payments in Europe, including key issues and requirements of web merchants in Europe has been presented at the European Banking Association Day in Madrid, held between 15-16 June 2011.

The position paper, in which major cross-border European web retailers and their representative e-commerce member organizations have collaborated in the past months (E-Payments Merchants Initiative) presents the most pressing issues currently affecting the development of the online payments industry, leading to 10 recommendations. These vary from short term operational improvements (e.g. 3D Secure, charge back procedures) to new services development in the field of buyer authentication and payments on tablets and mobile phones.

The purpose of this position paper is to:

- * Identify the main issues and requirements for online merchants across Europe
- * Offer guidelines to payment service providers and financial institutions with regard to the development of payment services
- * Be a constructive basis for discussion with stakeholders including consumer organizations
- * Support national online payments-related position paper(s) and call(s) for action

The third version of the position paper on cross-border European merchants and their organizations is the result of the consultations held at the late May Global E-Commerce Summit on e-payments in Barcelona. This paper will be further distributed among web merchants and their representative e-commerce associations for further endorsement and (inter)national engagement with all involved.

FDIH, imrg, bvh, thuswinkel. com, Fevad, bvh, becommerce.be, SDH, Verkk Teollisuus are among the web merchants and the e-commerce associations involved in this initiative.

The final version of the positioning paper can be downloaded [here](#).

"Ultimately, payments are all about trust, easy access and smooth experience"

- exclusive interview with Wijnand Jongen, CEO of Thuiswinkel.org (I) -



Wijnand Jongen has been for 10 years the CEO of Thuiswinkel.org, the association for the online e-commerce industry in the Netherlands, serving 1300 plus web merchants. Thuiswinkel.org took the lead in the E-Payments Merchant Initiative, uniting European merchant interests via major cross border web merchants and 7 other e-commerce organizations from Belgium (Becommerce), France (Fevad), Germany (BvH), Denmark (FDIH), UK (IMRG), Finland (Verkkateollisuus), Sweden (Distancehandel).

The objective of the E-payment Merchant Initiative (EMI) is to ... have online merchants speak for themselves and also bring web merchants and e-commerce associations together with stakeholders to collaborate and discuss the future of the online payments landscape in Europe. Merchants want real change to happen in the payments landscape, because stakes are getting higher every year with the continuing growth of e-commerce.

This objective can be reached only if ... we have the possibility to talk and willingness to listen to each other. Web merchants have not been able to communicate, there was no unified voice and therefore feel we've not been able to make our message clear. On the other hand, stakeholders were not willing to listen. EMI wants to give directions to payment services providers and financial institutions in general for the development of payment services to further enhance online payments in Europe by realising a breakthrough.

What is your message to banks and payment providers? And politicians and regulators?

Within the last position paper we have set up 10 recommendations for card schemes, issuing and acquiring banks (category A - 'existing products'), banks and other payment providers (Category B - 'new products') and public authorities (Category C - 'regulation').

A Improvement of existing products	
Recommendation 1	Improvement of user experience of 3D Secure
Recommendation 2	Harmonize charge back and dispute processes of credit cards
Recommendation 5	More clarity on charge back rules with wallet Systems
B Development of new products	
Recommendation 3	An international and interoperable OBeP solutions based on (SEPA) Credit Transfers
Recommendation 4	SDD: introduction of e-mandate for (SEPA) Direct Debits and improvement of one off direct debit rules
Recommendation 6	Interoperable pre-paid solutions
Recommendation 8	Cross border cash-on-delivery solutions
Recommendation 9	Payment methods dedicated for phones and tablet, including e-authentication options for ease of use (less input of data on the device)
Recommendation 10	Use e-authentication solutions to fight fraud and improve the buyer experience of credit transfers, direct debit and credit cards, including for the mobile channel
C Regulatory issues	
Recommendation 7	Clarity on the status of online banking overlay services (security versus competition) and required standards

The impact on the consumer will be ... huge, if we collaborate in a constructive way. Consumers will definitely benefit, as they will be able to pay online with new and enhanced e-payment options in a safe and simple environment.

The impact on the e-commerce market will be ... more than substantial. If we manage to achieve our goals, within a year we will have realized the basis for cross-border commerce to take off, which is a great accomplishment. E-commerce barriers will disappear further and the market will grow even more as a result. A true win-win for merchants, financial stakeholders and the consumer.

What are the most pressing issues EMI is pushing for?

There are three aspects that I would like to mention here:

- *Online Banking ePayments (OBEP)*

The online banking industry and financial institutions need to start working on online banking-based e-payment initiatives. We feel the time is right for the banking industry to collaborate and provide online payments through online banking that will be cross 'border by default' because of the use of SEPA instruments (SCT, SDD). Merchants will embrace these type of payments because they are easy for the consumer, give less charge back and are cost effective.

"We would like the banking industry to come up with an interoperable SEPA online payment initiative, using online banking user credentials."

Wijnand Jongen, CEO of Thuiswinkel.org

- *Card payments*

Card payments need to improve and harmonize the user experience, especially with regard to 3D Secure. Today's implementations are very diverse and fragmented.

- *E-authorization*

In general we believe that e-authorization is an essential tool for the financial industry. Actually, six of our ten recommendations have a direct link to authorizing payments and identifying consumers. A consumer adopted generic solution could solve a lot of issues, in one go. That is the real opportunity for banks today: give smooth user experience leveraging their online banking infrastructures 'on top of' existing payment instruments (SCT, SDD, Cards). This will lead to more e-commerce transactions as trust improves and shopping barriers go down.

Ultimately, payments are all about trust, easy access and a smooth experience.

NEWS

Thuiswinkel.org calls upon government to run online age verification pilot

Online merchant organization Thuiswinkel.org urges the government to launch an online age verification pilot.

In its "Position Paper Identity Services: five recommendations", Thuiswinkel.org is calling for the introduction of a system that would enable web shops to identify the age of a person purchasing goods online, including alcohol, video games and tobacco. Thuiswinkel.org expects the government to play an active role in the implementation of such a pilot. According to the paper, online identification should lead to less fraud and more convenience. [Read more](#)

European web merchants voice concerns over threats posed by Consumer Rights Directive

In an open letter addressed to European and national policy makers, ten European web merchants and branch organisations have voiced concerns over the threats implied by the Consumer Rights Directive and the potentially negative impact this proposal could have on the development of e-commerce across Europe. The organisations which have signed the

joint statement call for an approach based on a balance between the need for high consumer protection levels and the industry's interest and also demand the deletion or the amendment of three of the provisions of the draft directive. [Read more](#)

"Competition fosters innovation"

- exclusive interview with Wijnand Jongen, CEO of Thuiswinkel.org (II) -

Why will EMI make a difference and catalyse a faster change in the e-payments landscape?

This initiative will definitely make a difference because it is the first time when online merchants raise a unified voice. Until now, there was no clarity with regard to what they want to achieve.

We put online payments on top of the agenda for financial institutions because we want more innovation and a more competitive and effective online payments landscape. And yes, consumers will benefit from this collaboration which will have a significant impact on 'shopping across Europe'. This is good for the internal market and also in line with the objectives of the European Commission, i.e. faster transactions cross-border and stronger consumer commitment towards Europe's Digital Agenda.

What is your position on the topic of innovation in the payments space at the European level?

Innovation takes place mostly on a national/regional scale, but we need one at a European level given the new SEPA reality. This is what our position paper is all about. We have to learn from local initiatives, and apply them in new interoperable pan-European concepts for online and mobile payments. Both web merchants and consumers want choice in payment, including choice in channel (mobile, PC)

Multiple payment options are good for competition and competition fosters innovation.

We are happy with the existing initiatives, like Maestro and PayPal, but we can do even better if the banking industry reacts to this challenge.

Beefing up security for online card transactions via more authentication requirements seems to be an appropriate solution against online fraud, but if introduced, what are the effects on merchants/consumers' attitude towards the online transaction process?

This is not always beneficial. We need to find the balance between ease of use and safety for consumers. We have seen that consumers are able to get used to new payment authentication mechanisms, but it all depends on which shopping context (online, mobile, high/low value). We need to have pilots fast with web merchants to see consumer responsiveness and then build further upon that experience.

In your opinion, what expectations can the European market have with regard to the progress and effectiveness of the migration process from the old national credit transfers and direct debits to the SEPA instruments?

Expectations are different for different people and the outlook is very diverse. SEPA instruments will provide new value, but we do not stop at SEPA. We need to develop eSEPA, to establish an institutionalized eSEPA. It is time to incorporate eSEPA within existing SEPA instruments. That is why we started the E-Payments Merchant Initiative.

Wijnand Jongen presenting the Position Paper at the EBA conference in Madrid



EXPERT OPINIONS



“Better safe than sorry”

"The position paper of the E-payments Merchant Initiative calls for action aiming at an increasing e-market potential. In this article we focus, from the perspective of an online banking e-payments scheme (iDEAL), on the status of the demands as described in the position paper.

Fraud

Online Banking e-Payments (OBEP) schemes are very safe in terms of security and should therefore be widely used by both web merchants and consumers. The ECB shares this view in its 7th SEPA progress report: The high share of unsuitable and less efficient payment instruments used for online payments and the call of various stakeholders for European solutions have shown that there is not only room but also a genuine need for alternative online payment solutions based on online banking. Basically a consumer is safely directed from the merchant's website to his own online banking environment. Here the consumer concludes the transaction by a real time irreversibly payment in a familiar user-friendly manner, preventing card-not-present fraud. At the same (real)time the merchant is getting a signal that payment is on its way. From that moment on the delivery process may start resulting in deliveries to consumers within 24 hours. The advantage for web merchants is, apart from the low costs, that the transaction is irreversible. That means that once the merchant got the signal from his Payment Service Provider he can be 100% sure that the money will be transferred to his bank account. So for both consumer and web merchant OBEP are the safest form of online payments currently available. Fraud is a word one cannot find in the OBEP dictionary.

Consumers

Not only is an OBEP-solution the most favorable for merchants because of a guaranteed payment, but also for consumers. Consumers don't want the hassle of first putting money in a wallet or by first opening an account with the provider, funding wallets from his bank

account. Those are too many steps hindering the conversion. The most efficient way in terms of conversion is to pay directly from the bank account. The same rationale is applicable to prepaid services. Why go to a physical store to convert cash into prepaid balance when it is possible to pay directly from the bank account in a safe manner? With OBeP, consumers keep their funds in their current account, instead of having one or several wallets somewhere to pay for future services.

Disintermediation

Banks not offering an OBeP-scheme should wake up quickly, since the e-commerce market is changing rapidly. If banks don't come up with OBeP-services like iDEAL, others will. What if Google Bank is entering the market for instance? Funds from the consumers bank account will be transferred to the newcomers, driving liquidity out of the current accounts of banks. This is the problem of disintermediation which could affect each bank's core business negatively. Some countries, e.g. the UK, already show examples of disintermediation. OBeP lacking banks have two options. One is to set up an entire new OBeP-scheme. The second option is to join a scheme like iDEAL. In both cases the interoperability should be considered.

International interoperability

The ECB states that its (Sepa Credit Transfer-based) framework should create the possibility for existing and future OBeP schemes to exchange messages among each other allowing consumers to pay cross border. There are several OBeP initiatives that recognize and address the problem of national usage. Three schemes eps, giropay and iDEAL have investigated the possibilities of future cooperation in Europe on interoperability. We expect that cross-border online payments will increase the size of the markets dramatically. And that is exactly what the European Digital Agenda is about: "Europe must ensure that new IT devices, applications, data repositories and services interact seamlessly anywhere – just like the internet. The Digital Agenda identifies improved standard-setting procedures and increased interoperability as the keys to success". The intercontinental ICPNO-initiative also aims at the linking of OBeP schemes worldwide. This is possible when the same standards are used and minor problems like currency conversion have been solved.

Mobile

'Mobile' is the new magic word. Schemes like iDEAL recognize the need for mobile payments although there is a great variety in mobile payment situations. iDEAL can be used already on the mobile phone but a user friendly interface is ranking high on the wish list and on that of web merchants. At iDEAL we are working on this. Security is the major criterion though. Most of the smart phones available to the public lack any form of protection against hackers. And that's a risk iDEAL cannot disregard. Although iDEAL feels the pressure of the market forces to quickly develop a mobile payment system, the focus is on secure and safe payments. Our motto is: 'better safe than sorry!'

Identity and authentication

iDEAL users have their own bank account, which certifies their age as 18+, have their own pin code and on top of that use their own online banking e-identifier. Hence there has been no discussion at all about the identity of the iDEAL consumer. Identity fraud has never occurred in the iDEAL system. That might change if overlay services are introduced. A third party is getting all the secret information like bank account number and pin code from a consumer, in order to access the consumers bank account. In our opinion that is the introduction of large safety risk in an otherwise safe system. We have always educated the public not to disclose this information, since it is the key to the consumers bank account. It is in no way consistent with our 'safety first policy.'

OBeP systems are the consumers trusted and secure way of paying online and have given a boost to e-commerce. Merchants like OBeP schemes, since they are the most cost effective and reliable online payment methods available. The industry will improve current systems, keeping in mind that e-commerce is all about managing risks at a distance.



Bob Goulooze

Communication Director at Currence



“Thinking global and acting local can be a challenge”

“Fraud is not a local issue

One of the key challenges for web merchants and eCommerce growth in general is mitigating online fraud. Fraudsters have become more sophisticated and built organized fraud networks across Europe and beyond. Guided by a knowledgeable Payment Service Provider such as GlobalCollect, online merchants can reduce fraud by offering alternative payment options which inherently have a lower fraud risk, for example real-time bank transfers.

To fight card data fraud ambitions, the industry established the Payment Card Industry (PCI) Data Security Standard (DSS) to help alleviate payment system vulnerabilities. Although the card schemes still maintain and promote their own compliance programs, PCI DSS is the common data security standard across the entire payment card industry. GlobalCollect is PCI DSS certified, meaning online merchants can outsource all transaction aspects of handling and storing sensitive cardholder data to us. The future of fraud prevention will largely depend on further cooperation across Payment Service Providers, merchants, financial institutions, security experts, trade associations such as MRC, and local law enforcement to accelerate the detection of fraud and develop the appropriate counter measures.

How to turn browsers into buyers

There is a demonstrated correlation between the number of localized payment methods offered and increased customer conversion rates. However, thinking global and acting local can be a challenge in such a diverse and complex industry. GlobalCollect offers an unrivalled portfolio of international, local, and alternative payment methods in almost 200 countries. In order to boost conversion rates, a web merchant needs to present end consumers with a choice of locally preferred payment options. Two examples are Germany, where credit card purchases accounted for only 20% in 2010 or Russia, where cash payments are still very popular. With over 15 years of experience as a full service

provider, GlobalCollect consults web merchants on how to grow their eCommerce business across the world, from information about local regulations to cultural payment preferences.

European initiatives - SEPA

The European Parliament is driving SEPA (Single Euro Payments Area), a European Union integration initiative in the area of payments. SEPA seeks to transform payment services in Europe and encourage merchants to trade across borders by:

- Providing a transparent and harmonized regulation and pricing structure across Europe
- Setting a framework that will increase cross-border competition in the market place
- Creating common payment products and processes across all European banks, such as Direct Debits

Managing the mandates of SEPA Direct Debit has a lot of new requirements compared to the legacy national schemes which require merchants to invest heavily in new processes and services. To date, it is not clear to merchants what is entailed in moving over to SEPA, neither from a commercial nor a regulatory point of view. A bank-independent PSP like GlobalCollect can consult and assist merchants in creating a migration plan from legacy to SEPA products by:

- Being a center of knowledge and best practice references on how to transition to SEPA as smoothly as possible
- Offer SaaS solutions which cater for the mandate management and other SEPA service needs (e.g. bank account conversion)
- Providing a broad acquiring network of local banks to achieve the best cost-benefit ratio for submitting SEPA Direct Debits”



Koen Vanpraet

Chief Commercial Officer GlobalCollect

innOPAY**“Communication is key”****E-payment Merchant Initiative day - Barcelona 23 May 2011**

“Being locked up in meetings while outside Barcelona’s sun is shining doesn’t seem to be the most exciting thing one could imagine, especially considering that payment processing should be rather straightforward.

This changes though when people who share the passion for payments, successful payments I should add, get together. Something special occurs. Having all the different stakeholders with their different views and opinions in one room, discussing the possibility of improving the payment landscape is surprisingly ardent and very refreshing. Challenging each other and in the end agreeing on common goals, beneficial to all market participants and leading to win-win- win situations is unique and indeed very exciting. And this is exactly what happened on the e-payment day.

The concluding questions now are: will the E-payment Merchant Initiative 1. make a difference and 2. catalyze a faster change in the online payments space? Let’s look at the two different aspects:

1. Merchants and their organizations:

It already made a difference by solely bringing the different stakeholders together, voicing their opinions, addressing the issues and recommending a way forward. A European merchant led initiative is one of a kind. However, the momentum should not elapse. It’s up to the merchants and their respective organizations to lobby the findings. One of the first actions taken was to introduce the position paper to the Euro Banking Association during the EBAday in Madrid (15th and 16th of June).

2. The service providers:

This is highly depended on the service providers such as credit card schemes, acquirers, PSPs, card issuing banks, etc. as now they all need to demonstrate their willingness to

action the recommendations and prove that they’ve listened to their (the) merchants. I think the chances that they did and will are quite high. In the end they just grow their revenues if the e-commerce market grows. Let’s trust them that they overcome the inherited banking DNA and prove that they can deliver.

For the future, I personally hope that those merchants who decided not to participate in Barcelona, because ‘it’s not their company policy’ to endorse initiatives, reconsider their stand.

I strongly believe that communication is key. This is not just a flowery phrase. In the end merchants are paying for a service with their transaction fees and yes, they are a customer to the credit card schemes, service providers and banks too, not just the consumer. By complaining in a cubbyhole and not constructively participating in problem solving when offered, merchants are paying with the loss of conversion rate, increase of chargeback fees and additional fraud related costs, not to mention the threat to their brand name.

I wonder if their shareholders would agree...”



Andre Malinowski
Senior Consultant at Innopay

**“We empathize with merchants”**

“At Skrill, one of Europe’s largest online payments systems and among the world’s largest independent Digital Wallet providers, we agree with the findings of this positioning paper – allowing free market forces to drive the evolution of the European payments landscape is the best possible way of helping industry growth.

We recognize and empathize with merchants' and their desire to be able to process international payments in a clear and consistent way, which is why at Skrill we have already implemented a number of products and services to make this possible.

Skrill's worldwide payment network, Moneybookers, offers businesses access to over 100 payment options in over 200 countries and territories through just one integration. Moneybookers also allows businesses to process payments in 41 currencies with instant settlement or simply convert them all into one account in real time if they want. A tailored consultation for each merchant also looks into acquiring and conversion in different countries and advises on the best set-up of local payment methods to optimise conversion and boost revenues.

In particular the paper highlighted the problems merchants sometimes face with charge back rules, recommending that PSPs need to offer more clarity on their policies and rules. At Skrill we agree that there is a lack of clarity for merchants and have already taken this into account by eliminating the chargeback risk for merchants. On a merchant's request we offer a business model with full fraud and chargeback protection which means we do not pass on the charge backs to the merchants but absorb them ourselves.

At Skrill we welcome the findings of this paper and feel that there are some valuable recommendations that PSPs can learn from. Increased clarity for merchants will lead to accelerated market growth, which can only be a good thing."



Martin Ott
Co-CEO at Skrill (www.moneybookers.com)

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