

# Variety of payment methods are increasing

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The majority of online merchants use credit cards like Visa, MasterCard, JCB and other card associations to take payments online. In some cases, the online merchants may even use a card aggregator like PayPal, Google Pay, Apple Pay or Skrill.



Using these payment methods comes with a certain set of expectations, including a common merchant bank, how to work with the payment gateway and get settled, the monies due. Let's call this the credit card, payment gateway and merchant bank account universe, or 'formal payment method' space.

The formal payment method space is long established and works very well. Online merchants, even if they change their merchant banks or payment gateways, have a reasonable expectation of what they can expect and what will be required of them. A reason for this is that formal payments have an established track record and are widely adopted in developed economies.

Over the years the rules have become industry practises and norms, and the varieties of use have increased. Where in the beginning, credit cards were tendered as payment at a till-point; they now encompass online payments, call centre or telephonic payments, card-less till-point experiences with technologies such as near field communication (NFC) and more. Interesting variations on credit cards such as prepaid credit cards, debit cards, loyalty cards, travel cards and more, have also helped entrench the formal payment method deeply in developed economies.

## Standards and protocols

Testimony to this entrenchment is that the card association standards and protocols are well known and have been adopted by both country regulators and the banks that issue cards to their account-holders. The card associations like Visa and MasterCard, have made their rules a gold standard in the many decades of successful practises of allowing regulated and reliable card payments by consumers across federal and state borders and more.

As with every story, there are two sides to it and in the case of payments, it has to do with the new mobile phone based arrivals in the payment space, dealing with the banked and unbanked. These are in markets very different from the markets that online merchants, payments gateways, regulators and merchant banks are familiar with.

A real challenge for online merchants is working with these new mobile payment methods, which work very differently from

what they are used to.

Emerging economies is where the action is. These are fast developing countries and markets in which many of the technological innovations of the last few decades are allowing these countries to leapfrog the historic but slower developmental curves taken by more developed economies.

#### Telecommunications market

This is evident in telecommunications, where the growth or uptake of mobile phones is much faster and deeper in emerging markets than in established economies. Ever more affordable smartphones, essentially a powerful mini computer connected to near ubiquitous mobile coverage, are seeing their highest demand from emerging economies, fuelling the fast adoption and deployment of mobile payment methods.

The prevalence of these mobile handsets and the day-to-day needs of vast, youthful markets with high levels of GDP growth and still developing infrastructure, has resulted in many innovations being developed and widely adopted in these markets, long before they reach the shores of developed economies. When it comes to innovations on mobile handsets, the emerging markets are the trend-setters - especially when it comes to local mobile payments.

For over a decade, in most emerging markets, it has been completely normal and expected, to be able to use your mobile phone for buying airtime and electricity, sending money to friends and relatives and recently, paying for goods. Most of these mobile payment methods work a little differently from the formal payment method space. To online merchants in developed economies, getting access to these payment methods and understanding how they work, can pose a lucrative but difficult challenge to overcome.

### Wide variety

The emerging markets have a wide variety of new mobile payment method forms (mobile money and pre-paid vouchers), different technical processes, localised accounting reconciliation and settlement practises and their national regulations to adhere to. These mobile payment methods are all strictly regulated in every country where they operate. They do not exist in a legal or risk vacuum.

Most of the regulations pertaining to mobile payment methods have to do with the intended purpose of the transaction. They also cover, the type of service or product being bought, the 'know your customer' and, the 'know your business' requirements and also, the compliance to, and the payment of, local taxes. The major differentiator is the latter. No payment by a consumer to the online merchant can avoid paying the relevant local taxes.

Internet sales taxes are a hot topic amongst tax regulators and reformers alike, and are linked to issues around tax base erosion and profit shifting. However, where sales taxes are an ambiguity in international e-commerce, this ambiguity does not exist in mobile payment methods. The country in which the mobile payment method is used is where the tax liability is due.

This also applies to the license to operate in certain regulated industries such as sports-betting. It is not enough to be legally licensed in your country of operation, you also need to be locally licensed in the country in which your player is betting from if you wish to use a mobile payment method.

### Other constraints

There are further constraints. If all payment methods are not equal, all of the mobile payment methods do not allow all of the same types of transactions. For instance, a Middle Eastern mobile payment method does not allow binary trading merchants. Another example is a West African mobile payment method that does not allow for the purchase of livestock online.

The single major limitation facing online merchants is that the highly local, popular mobile payment methods available in

growing, heavily youth biased emerging markets, are not readily available to offshore merchants.

The difficulty in using local, mobile payment methods are entirely surmountable. Based on the size of the populations accessed in emerging markets, overcoming the challenges are well worth it to online merchants on their bottom line. One way of overcoming these challenges is to understand more of the characteristics of the mobile payment methods and some practises to keep in mind.

- Mobile money is a fast growing payment type and is offered by local banks, mobile network operators or a combination of both. Acquiring fees are in line with standard credit card fees leaning to cheaper, but the technology is not standard to payment gateways. The monthly settlements are guaranteed. There is a fantastic variety available in emerging markets.
- Prepaid vouchers have high acquiring fees, as street vendors who sell them make their revenue this way, but they are very well distributed and familiar. The settlements are guaranteed but monthly. They are ideal for credit recharges where the merchant allows consumers to charge a purse in their shop and use that over time.

What mobile money and pre-paid vouchers have in common is that online merchants are required to:

- formally register with a desired payment method;
- comply to local company laws and tax regulations; and
- open a local bank account to receive payments.

Unlike the formal payment method space, it is possible to appoint a service provider agent to represent the online merchants in all of the markets they wish to trade and access the local mobile payment methods they desire.

Usually these service provider agents have supplier agreements with local fiduciary service providers and hold multiple agreements with local mobile payment companies and hold compliant, local company operations, in order to lawfully operate their agency. The service provider agent can then on behalf of the online merchant, pay the local taxes, ensure local compliance to all rules and ensure the reliable settlement of the balance back to the online merchant.

## **Massive benefits**

This is a highly specialised service, but offers massive benefits to online merchants where the service provider agent allows them to scale massively into dozens of countries fast, efficiently and at a fraction of the cost of going it alone.

On such service provider agent has completely separated the business of collecting from the formal payment method space and that of collecting from the mobile money space. As the latter requires what the first considers disallowed, this organisation has resolved this paradox by dealing with the mobile money space directly and referring any enquiries for formal payment method space services to pre-approved, specialist, high risk payment gate operators.

For each country where the company acts as the service provider agent, they already own and operate a legal company that holds the required agreements with mobile money operators. Their local subsidiary company is a fully compliant, legal tax citizen of that country. By replicating this practise in many countries, the company's structure and technologies allow them to offer useful services and market access to a wide variety of online merchants and would-be purchasers.

Central clearing office

Every one of the country subsidiaries settle the balance of payments to a central clearing office from where TPB combines and prepares the settlement, produces the audit reports and settles the online merchant into their home office bank account - directly. This work is done in a cyclical, predictable way and offers online merchants a centralised service point for all of their various endeavours, entering into, and working, in different emerging markets.

Emerging markets have high GDP growth, strong demand for consumer goods and services and have a generally predominant and therefore technologically savvy, youth demographic. Credit cards have and will continue to work really well for online merchants, but emerging markets also have their own well-entrenched mobile payment methods that work

differently.

It can be tricky for an online merchant to get used to and utilise these mobile payment methods, but it is not an insurmountable problem and there are service providers who specialise in doing so. The returns in being able to access emerging markets and adopt what works locally will offer online merchants who do so, new and sustainable markets for growth.

## ABOUT THE AUTHOR

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