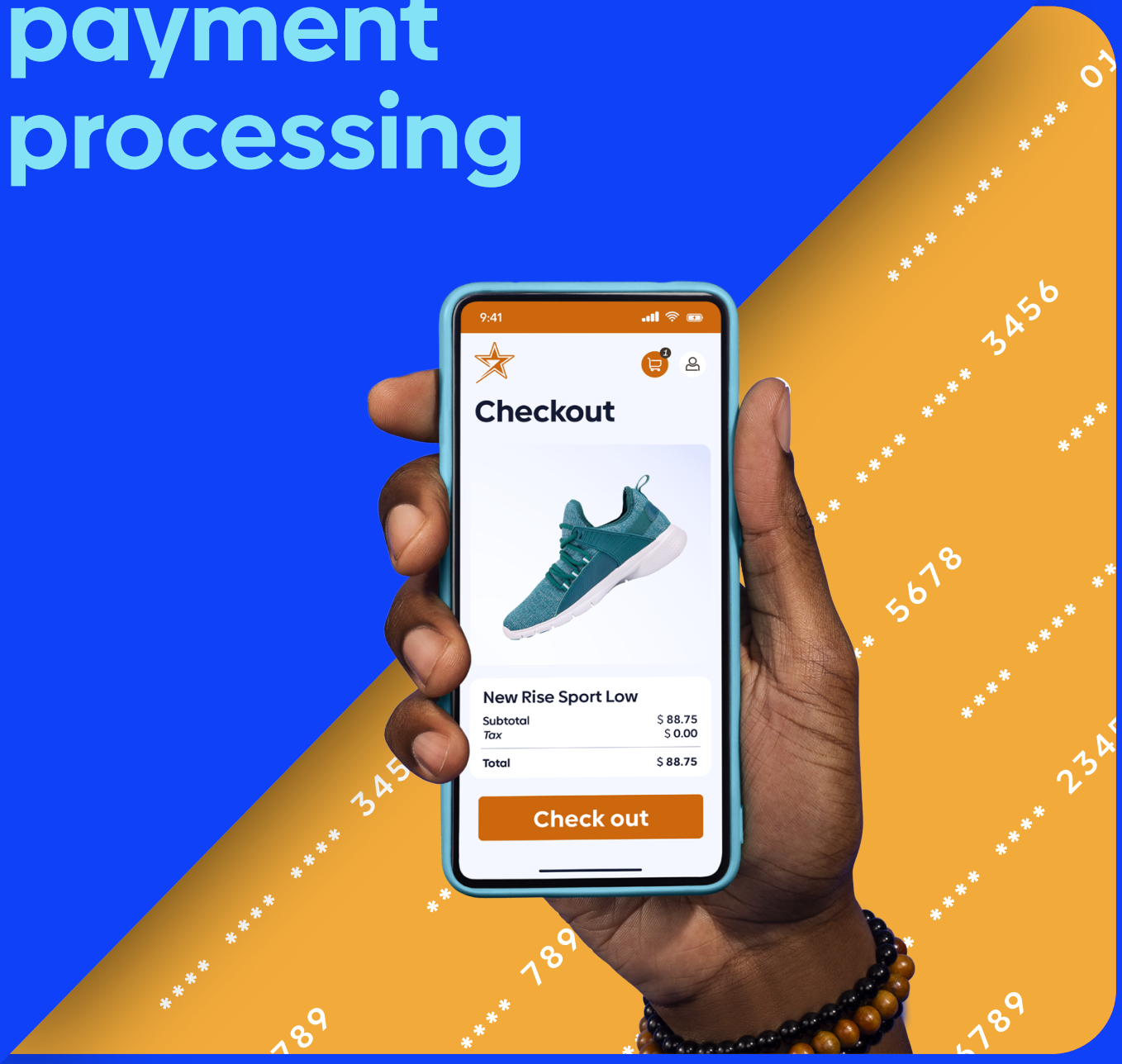
paze℠

Three ways to save on e-commerce payment processing



Contents

Introduction

E-commerce continues its explosive trajectory, with predictions reflecting a 39% growth of global retail sales over the coming years, and an expectation to reach nearly $8 trillion by 2027.

As the industry grows, so too do the number of supporting technologies, both on the front and back end of the entire purchasing experience. One area may be one of the most important—and overlooked—parts of the equation: **e-commerce payment processing**.

Ensuring you provide an optimized payments processing journey and are leveraging the best supporting technology means you can save money, reduce concerns about what is happening behind the scenes, and ultimately focus your resources elsewhere.

How does e-commerce payment processing work?

1 The customer usually starts the online payment process by entering their payment information at the checkout—whether it's a card, digital wallet, bank transfer, etc.—which is sent through payment gateways to the payment processor (see the next section **Players in e-commerce payments**).

2 The payment is authorized once the processor confirms with the customer's issuing financial institution that there are sufficient funds to cover the purchase. This information is sent back to the e-commerce site, again through the payment gateway (the process remains the same if the transaction is declined, too).

3 The customer will receive a notice that the payment is authorized (usually in the form of receipt, invoice, or confirmation email).

4 The merchant receives the payment after the payment has settled (i.e., funds from the customer's financial institution have been deposited into the merchant account, a type of bank account that enables them to accept online payments)—the money then moves into the merchant's business account, normally after one to two business days.

PAZE℠ FAST FACTS:

Consumers' take on e-commerce payments

82% of consumers trust their banks' safety and security more than third-party payment options.

67% of consumers rank security as a top factor when making an online purchase.

71% of shoppers have abandoned their online shopping cart in the last year, with security and a complicated checkout process among the top reasons.

72% of consumers value the efficiency of digital wallets for online transactions.

Source: Paze Pulse℠ Report: Consumer Online Shopping Preferences

Players in e-commerce payment processing

Payment processor

A financial services provider that sends all transaction data between the customer's financial institution and the merchant accounts. It receives the payment information from the gateway and does all the technical work for that transaction by verifying the consumer has the funds for the purchase and then executing on that transaction.

Payment gateway

A technological solution that processes credit card transactions for e-commerce (and brick-and-mortar) businesses. A gateway encrypts sensitive payment information and facilitates the transaction information between the payment processor (including the issuing and receiving financial institutions) and the front-end website experience—almost like a "messenger" between the processor and the financial institutions.

Merchant bank account

The financial institution account specifically used to accept customer payments. It holds on to funds before they're sent on to the merchant's main business account. Some payments processing solutions have these baked in; some merchants choose to pursue acquiring a merchant account on their own.

Risk & compliance

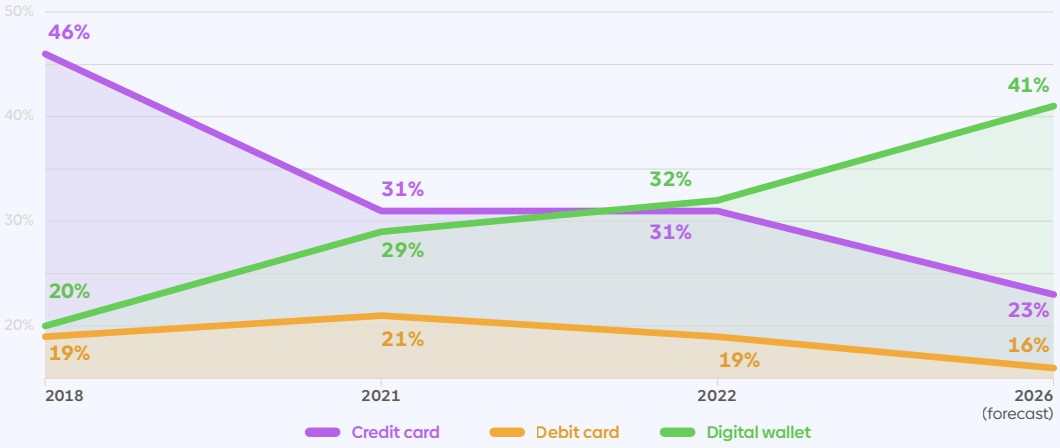
The rising popularity of online transactions means a lot of sensitive information is being shared. E-commerce payment processing solutions must always be vigilant against fraud, using methods like encryption and tokenization to help protect data and fight against unauthorized transactions. In addition, there are strict regulatory requirements that govern how payment data is handled.

Top payment methods for e-commerce

Digital wallets (Paze℠, PayPal, Apple Pay, Google Pay, Amazon Pay)

According to a recent report by Payments & Commerce Market Intelligence, digital wallets have overtaken cards in e-commerce transaction payments in North America, with a predicted 41% share of transaction volume in 2026. Digital wallets allow consumers to safely store their payment details online and skip the laborious process of entering their payment information when checking out. The addition of network tokenization in wallets such as Paze also adds another layer of security.

Digital wallets vs. cards in e-commerce transactions in North America



Source: Worldpay from FIS, 2023

Manual credit/debit card entry

Despite the increased security and ease of using digital wallets, many consumers still opt for manual card entry, though that number is decreasing in favor of digital wallets. While this allows consumers to still pay online, it also increases the chance of mistyped information, adding a potential barrier to payment.

Bank transfers/electronic funds transfers (EFTs)

Bank transfers send payment directly from one account to another, and usually involve a one-time fee for both sides of the transaction (vs. a percentage-based fee like those involved with credit cards or buy-now-pay-later services). These are usually used for larger transaction volumes, however, and are not normally appropriate for one-off or smaller, everyday purchases.

Buy now, pay later (BNPL)

Just as the name suggests, this payment method is like a no-interest "loan" so consumers can purchase through a BNPL service on credit without needing good credit (or even a credit card). Although there may be a slight interest charged for a missed payment, the fee tends to be smaller than what traditional credit card companies charge. On the other hand, BNPL services charge higher percentages to merchants—a rate that usually exceeds what credit card companies do.

How to save on e-commerce payment processing

Myriad factors play into e-commerce payment processing. Some costs are outside of merchants' control, such as interchange rates for cards. There are some costs, though, which merchants can lower or even avoid if they are savvy in their approach to e-commerce payment processing.

1. **Avoid solutions with high integration costs**

   This may seem self-evident, but setup costs can depend on several factors, such as the size of the business, what banks' accounts are used, and what type of checkout solutions are implemented. This cost will, of course, increase the more complex the integration and the more resources required to handle it. Choosing a solution that easily integrates to meet business needs, and is flexible enough to change as those needs change, can help keep these initial costs to a minimum and help future proof the process so costly new integrations aren't required down the road.

2. **Implement solutions that don't have high maintenance costs**

   Payment processing in e-commerce isn't usually a fix-it-and-forget it type of solution. After integrating with the solution, there's usually some type of ongoing maintenance costs that typically aren't considered when initially calculating the overall picture. Some ongoing costs, depending on the solution, can include subscription fees, transaction fees (normally a percentage on top of a flat

Avoid incremental costs with Paze℠

You can offer the Paze checkout solution using one hosted experience for all use cases, which helps connecting merchants avoid high integration and maintenance costs. It easily integrates into the existing checkout flow, whether it's as simple as offering the Paze digital wallet as a button or embedding it into a website.

The Paze technology also leverages existing transaction economics, so no incremental costs are passed on to merchants. The business model behind Paze is issuer-funded, so in some cases, there are additional benefits.

For example, Visa provides a 10-basis point discount when transacting using network tokenization vs. the PAN. The Paze technology also helps merchants save over other payment options. As more card networks are added, individual incentives will also differ.

To learn more, get in touch.

Based on comparison of PayPal published pricing vs. Visa published interchange pricing

fee), and any other fees associated with ensuring the technology is working correctly and within the latest regulatory guidelines.

3. **Ensure secure payment processing**

   Secure transactions are top of mind for financial institutions, merchants, and consumers alike. A Baymard Institute study found 25% of users have abandoned a checkout flow within a three-month period because of a lack of trust with their card information.

   By making sure e-commerce payment processing adheres to the highest security measures, merchants can help protect private consumer information. This not only helps protect their customers from fraudulent activity or exposing sensitive information, but it also helps protect their brand's reputation, leading to more trusted sales and customer loyalty.

Merchants that focus on these three ways to optimize the payments processing journey can set themselves up for long-term success.

Taking security one step further: network tokenization

Payment tokenization replaces sensitive information with a unique token, so that information cannot be exposed during a breach. Network tokenization also replaces sensitive information with a unique token, but this comes from the card networks themselves, and not the payment service providers.

Using network tokenization, cardholders' Primary Account Numbers (PANs) can be tokenized and maintained even when the underlying data changes, so if a customer's card is lost or expired, the token can be updated directly. Customers' full card details are also only retained by the consumer, the issuer and card network. This differentiates network tokenization from other forms of tokenization, which may grant access to card details to third-party payment service providers, even if the merchants themselves don't have that information.

Learn more here.

What is Paze℠?

Paze is a new checkout solution that banks and credit unions can offer to consumers and merchants for online purchases. Solving long-standing problems in e-commerce, Paze removes the need for manual entry of full card numbers and gives consumers their choice among cards they use for online purchases, as eligible cards from participating financial institutions can be consolidated into a single wallet.

Paze allows participating merchants to customize their own checkout experience based on their business needs and customer journey with a highly configurable, yet simple, integration. Merchants can also use the Paze checkout experience to help customers establish accounts on their website, creating opportunities to establish direct and personal relationships with them.

At general availability, more than 150 million debit and credit cards will be available to consumers for making online purchases.

What are the benefits?

- No incremental transactional costs to merchants.
- More convenient checkout can improve sales conversions.
- No rejected transactions caused by mistyped payment credentials.
- An opportunity to build personalized relationships with customers.
- With Paze, users get added security with multifactor authentication and tokenized payment credentials.
- Nothing new to set up for the consumer—no additional passwords* to remember or apps to install.

Learn more at paze.com

*Some merchants may require account setup to make purchases.