



# Enterprise payment processing solutions

Everything you need to know

## THE FUNDAMENTALS:

## HOW THE PAYMENT PROCESS WORKS

Customers expect online shopping and digital purchases to be simple, seamless and secure. The slightest delay in the process means abandoned carts and lost sales for your organization.

But when your customer experiences a frictionless buying experience, you'll benefit through:

- Increased conversions
- Access to new markets
- Expansion of existing markets
- Mitigation of compliance risk
- Increased customer lifetime value
- Reduced operating costs

Although a multi-faceted payment process should feel effortless for the customer, achieving a frictionless payment process is complex.

Let's look at the 3 P's of the payment process so you can understand the steps from purchase to payment and make the best decision for your business.

## THE PLAYERS:

# WHO AND WHAT ENABLES PAYMENT AND DELIVERY

The payment process involves three main players. On one end is you, the merchant. On the other is your customer. In between is a sophisticated system that uses advanced technology to simplify the transaction.

1



### YOUR CUSTOMER

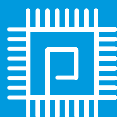
Customers need a credit or debit card to pay for goods and services online or over the phone. The bank that gives them that card is called the issuing bank.



By 2022, e-retail revenues are projected to reach

**\$6.54 trillion**  
USD.<sup>1</sup>

2



### TECHNOLOGY

Between you and your customer are two technologies that enable the transaction.

First is the payment gateway. This links the shopping cart on your website to the payment processing network.

The second is the payment processor. If you're using a merchant bank or PayPal, they can be your payment processor, which helps simplify things.

The payment processor does all the heavy lifting, moving the transaction through the processing network, working with your bank and sending you a billing statement.

3



### THE MERCHANT (YOU)

To get started collecting money, you can work with a merchant service provider (aka merchant acquirer) such as a bank to set up an account.

This merchant account links to your payment processor, allowing you to collect funds.

Another option is to work with a payment gateway (such as PayPal). These companies act as your merchant account, gateway and processor.

After the payment has been processed, funds are debited from your customer's account by their issuer (the bank that gave them the card) and sent to your merchant acquirer before being released to you.


### PAYMENT GATEWAY

A payment gateway is a technology service that sends credit or debit card information from a website to the credit card payment networks for processing. Transaction details and responses from the payment network are sent back to the website.

## THE PAYMENTS:

# HOW FUNDS FLOW FROM YOUR CUSTOMER TO YOUR BUSINESS


**1**



**YOUR CUSTOMER PAYS**

Your customer makes a purchase on your site and the payment process begins.


**2**



**ENCRYPTION**

Encryption happens when a customer's personal information and payment data are encoded to ensure secure transmission as it moves through the online payment gateway.

**3**




**AUTHENTICATION**

Authentication is when the payment processor validates (aka authenticates) that the payment data is being sent by the claimed source. This step helps curb fraud.

PayPal may work with merchants to selectively apply 3D Secure and other authentication methods. Braintree merchants may use their discretion to authenticate transactions.


**4**



**AUTHORIZATION**

The payment processor sends a request to the customer's issuing bank, via the card networks, requesting they authorize that the customer has enough credit to make the purchase; a transaction is approved or declined within seconds.


**5**



**SETTLEMENT**

Settlement occurs when the customer's issuing bank sends the appropriate funds to your acquiring bank. The money is deposited into your merchant account within a few days (or instantly to your PayPal account).

**6**



**PAYMENT**

The payment process is complete, and money is accessible in your merchant account. Most payment processors temporarily withhold a reserve to ensure you can take care of liabilities, such as chargebacks or reversals.



According to the Baymard Institute, e-commerce businesses can increase conversion rates by more than **35%** by improving the checkout process.<sup>2</sup>



**73%** of Esports Digital Spenders in Sweden indicated that they had cancelled or backed out of an online checkout/payment process.<sup>3</sup>



**31%** of the Belgian Esports Audience who had cancelled a payment process indicated that price issues such as hidden or unexpected charges and being unhappy with final charges (28%), were the main reason for doing so.<sup>3</sup>



## GLOBAL DATA SECURITY STANDARDS AND COMPLIANCE: PROTECTING CUSTOMERS AND YOUR BUSINESS

**Payment fraud and data breaches are costly for an organization's bottom line and reputation.**


The Payment Card Industry (PCI) Security Standards Council is a global organization founded in 2006 to maintain, evolve and promote standards and cardholder data safety across the globe.

Compliance is enforced by the founding members of the Council, which include American Express, Discover Financial Services, JCB International, Mastercard Worldwide and Visa Inc.

The PCI standards define the operational and technical requirements for any business, financial institution or other organization that stores, processes or transmits data. To protect the entire process, requirements defined under each goal extend to the software developers, device manufacturers and app designers involved in the transaction journey.

# GLOBAL DATA SECURITY STANDARDS AND COMPLIANCE: PCI DSS GOALS AND REQUIREMENTS


**1**



**BUILD AND MAINTAIN A SECURE NETWORK**

1. Install and maintain a firewall configuration to protect cardholder data.
2. Do not use vendor-supplied defaults for system passwords and other security parameters.

**2**



**PROTECT CARDHOLDER DATA**

3. Protect stored cardholder data.
4. Encrypt transmission of cardholder data across open, public networks.


**3**



**MAINTAIN A VULNERABILITY MANAGEMENT PROGRAM**

5. Use and regularly update anti-virus software or programs.
6. Develop and maintain secure systems and applications.


**4**



**IMPLEMENT STRONG ACCESS CONTROL MEASURES**

7. Restrict access to cardholder data by business need-to-know.
8. Assign a unique ID to each person with computer access.
9. Restrict physical access to cardholder data.


**5**



**REGULARLY MONITOR AND TEST NETWORKS**

10. Track and monitor all access to network resources and cardholder data.
11. Regularly test security systems and processes.

**6**



**MAINTAIN AN INFORMATION SECURITY POLICY**

12. Maintain a policy that addresses information security for employees and contractors.



**Feeling secure**

was the most important feature of an online payment provider for Esports Enthusiasts (45%), while convenience was most important for Occasional Viewers (44%) in the Netherlands.<sup>3</sup>





## GLOBAL DATA SECURITY STANDARDS AND COMPLIANCE: A QUICK TAKE ON TOKENS

Tokens are virtual representations of credit or debit cards that don't compromise the security of the data.



The cost per dollar of fraud is

**\$3.13**

USD. Up from

**\$2.40**

in 2016.<sup>4</sup>

PCI standards prohibit storing credit or debit card numbers and card verification numbers on a retailer's point-of-sale (POS) terminal or in a database after a transaction. Compliance requires merchants to either install complex and costly encryption systems or choose a payment processing partner who can provide tokenization. These virtual representations (or tokens) sit securely in the payment gateway's data vault.

tokenization is ideal for enabling repeat payments from regular customers, and for subscription businesses that require recurring payments.

Entrusting a payment processor with tokenization may help shift PCI liability to your partner and reduce your operational costs. You'll also create a faster, more seamless and convenient experience for customers by not requiring them to continually re-input their payment information, even when their cards have been reissued by their issuer.

## PRICING:

# RATES, FEES AND WHAT TO LOOK OUT FOR

Everyone who touches the transaction gets paid. The issuing bank, credit card association (Visa, Mastercard, American Express, etc.), the merchant bank, the payment gateway and the payment processor all take their share. At the most basic level, every time you process a sales transaction, you pay 4 fees.

## Sales transaction fees



### INTERCHANGE

The interchange fee is a percentage of the transaction amount or a per transaction fee paid to the issuer. This fee varies depending on things like industry, sale amount, type of card used and country of everyone involved. There are more than 100 different interchange fees.



### ASSESSMENT

The assessment fee is a percentage of the transaction amount paid to the credit card association (Visa, Mastercard, American Express, etc.).



### TAKE RATE

The take rate is also a percentage of the transaction amount paid to your merchant bank. The amount here also varies by industry, amount of sale, monthly processing volume, etc.



### AUTHORIZATION

An authorization fee is a fee charged by the payment processor (who might also be your merchant bank) every time you process a transaction. You're charged this fee for a sale, a decline or a return. There might also be fees for setup, monthly usage and account cancellation.

## How processors package their fees

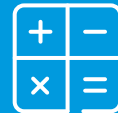


### BUNDLED PRICING

Bundled pricing is the easiest to understand. You pay a fixed percentage for all transaction volume, no matter what the actual costs are.

All of the above fees are combined into this single rate.

**For example, a Swedish merchant selling domestically is charged a bundle rate of 3.4% of the transaction amount plus 3.25 SEK per transaction (1). On a 1,000 SEK transaction, you'll pay a 37.25 SEK fee.<sup>5</sup>**



### INTERCHANGE+ PRICING

Interchange-plus pricing means your payment processor charges a fixed fee on top of the interchange instead of bundling a fee directly into the interchange.

While this pricing model gives you a bit more visibility into the breakdown of your rates, the tradeoff is that your statements are more complicated to figure out and reconcile.

**For example, 2.0% + 1 SEK on top of a 0.8% interchange fee. On a 1,000 SEK sale, you'll pay a 29 SEK fee.<sup>5</sup>**

There are more than 100 different interchange fees, the figures above can vary greatly and were used for example purposes only.



### INTERCHANGE++ PRICING

Interchange-plus-plus pricing is when both interchange and scheme fees (fees charged by the card network) are passed through to the merchant. The payment processor agrees a fixed margin with the merchant, which is separately disclosed in transaction statements.

## PRICING:

# NOW THAT YOU UNDERSTAND FEES...

After evaluating and understanding the fees, it's a good idea to assess the overall value of the contract. Fees are not the whole story. What if your business needs a gateway, shopping cart, payment processing data, virtual terminal, etc.? How much would it cost to get these additional features elsewhere? Make sure your finance and legal departments are analyzing the contracts to get the best value, while also looking for the best provider that can grow with your business.

### MAXIMIZING YOUR GROWTH AND REVENUE OPPORTUNITIES

#### Do more with your payment data.

Use your point of purchase data to create additional revenue opportunities and enhance the customer experience.

Look beyond the checkout to explore data-sharing tools that help you securely connect with partners or service providers to help grow your business.

- Create new opportunities to buy by building native checkout flows in places customers are primed to buy from you (such as product pages or Facebook).
- Protect your payments by adding layers of security and fraud protection with third-party services or secondary vault providers.
- Optimize your checkout flow to streamline the buying process and reduce the need to constantly enter passwords, usernames and other sensitive data.
- Create purchase incentives or cash rebates for repeat customers to help improve customer acquisition and keep customers coming back.

Want to know more? Fill out [this form](#) to contact our Sales team.

To learn more, visit

[paypal.com/ie/impact](https://paypal.com/ie/impact)

1. Statista Global Retail e-commerce Market Size 2014-2023, June 2019.

2. 44 Cart Abandonment Rate Statistics, Baymard <https://baymard.com/lists/cart-abandonment-rate>

3. Newzoo, Commissioned by PayPal 2020. The European Esports report, based on research conducted by PayPal and Newzoo on Digital Goods & Payment Consumer Behaviour.

4. LexisNexis Risk Solutions.

5. PayPal's fees for merchants <https://www.paypal.com/se/webapps/mpp/merchant-fees>.

6. PayPal Internal Data - 2020. Please note the active accounts are PayPal Core + Venmo + Xoom + Credit + Braintree + Hyperwallet + Zettle + Honey as of 2020.

7. Statista Global Consumer Survey - Online Payment: PayPal brand report in Sweden, Finland and Netherlands, July 2020.

## About PayPal in Europe

Paypal has 75M active accounts in the European Union, and 113M in Europe<sup>6</sup>. With a user share of 83% PayPal is one of the top 3 online payment services provider brands in Sweden<sup>7</sup>, the second most used online payment provider brand in the Netherlands<sup>7</sup> and the most used online payment services provider in Finland<sup>7</sup>. PayPal enables European businesses to transact online and offline, from sole traders and developers to established large merchants.

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