

CREDIT CARD MANAGEMENT

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AFTERTHOUGHTS

Other Ways to Pay on the Web

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E-commerce outside the U.S. has been growing at a frantic pace. My old employer, Amazon.com, reported in its third-quarter 2002 results that: "International segment sales, representing the Company's U.K., German, French and Japanese sites, grew

90% ... and each site's sales grew by over 60%." Other global merchants are reporting similar results.

However, one may ask how can consumers buy online when they do not have access to credit cards? In some of these countries, traditional forms of payment have adapted to the Internet out of necessity because of low credit card penetration and in response to cultural preferences.

For example, in Japan, only about a third of e-commerce purchases are done

with credit cards. The preferred payment form is cash on delivery. In some cases, the consumer requests that merchandise be shipped to his local convenience store (*kombini*). There, he pays in cash and retrieves the shipment, while at the same time paying his telephone and electricity bill, a function routinely performed at these stores.

Another form of payment that works well in Japan is bank transfers or *zengin*. Europeans have a similar system called *giro*, especially in Scandinavia,

the Low Countries and Germanic countries. With *giros*, a consumer instructs his bank to debit his account and to "push" a credit to the payee via the low-value clearing network (similar to the automated clearing house in the U.S.). Payment initiation instructions can be delivered to the bank via paper, telephone, the bank's Web site, or in Japan, even through automated teller machines.

The sender must know the receiver's bank account but he never shares his own bank account information. Since the consumer is authenticated by his bank, all payments are guaranteed because he can never say he "did not do it."

Also, since authentication takes place offline from the merchant's pipeline, there are fewer concerns that the sale will be lost during the process. Payments travel through the low-value clearing networks, so they cost a few cents per transaction to both merchants and banks.

'Merchant Pull'

Another inexpensive payment form is direct debit in Germany, Austria, parts of Switzerland, Italy, and Spain. In this "merchant pull" method, the consumer gives the merchant his bank account number. The merchant initiates a charge to that account when the order is placed or when the merchandise is shipped. Consumers are quite comfortable providing account details because

they have strong regulations and dispute rights to protect them from unauthorized charges.

Germany, a country with one of the highest Internet and e-commerce adoption, also relies on invoices. This is an extension of Germans' frequent use of catalogues and mail order. With invoicing, an e-commerce merchant ships the merchandise and expects payment, usually via a giro, within say, 15 days. The merchant could delay shipment until payment is received but in practice, most merchants ship first and invoice later as Germans do not like to pay until they have goods in hand. Thus, invoicing means extending credit so merchants must really know with whom they are dealing.

Again, these payments travel through the low-value network resulting in a very low cost of payment (excluding the cost of mailing the invoice). However, it should be noted that if a merchant does not validate the bank account

information given, check for possible fraud, or even check with a credit bureau, the cost of handling direct-debit rejects and collecting unpaid invoices will offset any savings.

For ultimate low cost, however, one has to consider account-to-account (A2A) transfers. This is where a consumer, using his bank's Web site, pays by debiting his account and crediting the merchant's account. This is done in real time, with no fuss and very little cost. It is not very different from an intra-bank account transfer. Examples exist in Scandinavia with Nordea's Solo and potentially in Canada if that country's person-to-person e-mail money-transfer system extends to consumer-to-business payments.

Why haven't these methods of payment found their way into the U.S.? Credit card usage is culturally entrenched with Americans, and, because credit card companies have done a brilliant job reassuring cardholders that they are

protected from card misuse, they are quite comfortable using them as their preferred form of online payment. Just as important, credit cards are very lucrative products so it is quite understandable that there is little incentive for financial institutions to develop alternative forms of payment.

Where does that leave U.S. merchants? I believe that, as U.S. merchants extend their reach globally, they will learn to handle the alternative forms of payment mentioned here. It is a sure bet that they will use these lessons to develop alternative forms of payments in the U.S. that may be as consumer-friendly as credit cards and more financially attractive to merchants. ■



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