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PAYMENT SYSTEMS

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Payment by credit card

Paying for the products and services you buy on the internet should be as easy and safe as buying from your local store around the corner.

There are many different methods of payment to choose from; cash, cash against documents, invoice, Letter of Credit, bank guarantee, advance payment, or credit card to name but a few. This report will not evaluate all of these methods of payment but instead focus on how credit card payments work.

A survey conducted in Sweden by the Swedish National Post and Telecom Agency, PTS, shows that based on the aggregate turnover, e-wallet payments represent one per mille, direct payments five per cent, and card payments approximately 30 per cent of the turn over of Sweden's 10 biggest web shops.

Traditionally companies in Sweden invoice each other. Although this is the accepted method of payment between businesses it has a number of disadvantages. It may take some time before you actually receive any money, and there is also the risk that you do not get paid at all if the company goes bankrupt. Invoicing can also be quite costly if you take into account the man-hours needed to process the payment on both sides. Nor is it a suitable method of payment when doing business with consumers due to the reliability risk.

How it works

To be able to charge for products and services sold on the internet your company has to have a payment solution. In addition your company needs an agreement with your bank so that you can charge the cards that your customers use.

One Swedish company that offer a payment solution is Debitech (www.debitech.com)

There are other companies that offer similar services but in this report we will use Debitech's solution to show how it works and as a guide to the associated costs.

How it works

- 1 The customer picks the product from your online store and proceeds to the check-out to pay
- 2 The customer fills in address information and the preferred method of payment
- 3 In the case where the customer chooses to pay with a credit card the information registered in step 1 and 2 above is sent to Debitech along with information about the cost.
- 4 In an online form from Debitech the customer fills in what kind of credit card is to be used and the required card details. This information is never disclosed to your company.
- 5 The customer is then asked to confirm the transaction.
- 6 Debitech's payment solution checks with the card issuer that the transaction is approved, ie the your company can get paid
- 7 The purchase is accepted or rejected
- 8 In either case a receipt is sent on-line to your company and the customer.

With this service you know that you have been paid before you ship the goods. By using a secure third party solution your customers don't have to give you their credit card information. All this is instead handled in a secure way by a company specialised in payment solutions.

What does it cost?

Debitech offers two packages, Basic and Standard.

The Basic solution makes it possible to charge credit cards from VISA, MasterCard and Eurocard. The payment system also includes a web interface that makes it possible to generate daily reports, track transactions and handle repayment etc.

The starting fee for this service is 550€. The monthly fee is 110€ and in addition there is a 1% transaction fee (The fees are approximate).

The Standard solution includes everything that the Basic version offers and also accepts payments with Diners Club International and American Express cards. The Standard solution also makes it possible to handle direct payments by connecting to the customer's internet bank of choice.

The starting fee for this service is 1600€. The monthly fee is 110€, the transaction fee depends on the number of transactions (The fees are approximate). The payment solution can be upgraded to handle multiple currencies and other methods of payment.

In addition to these fees mentioned, every card company has their own fees. The fees are negotiated with the card companies and depend on the usage. This is outside the scope of this report, yet it is worth noting that additional fees do apply.

These fees may seem unreasonable, but it is worth remembering that electronic payments and card transactions can provide a number of benefits such as reduced cash handling, easy of use, and increased cash flow.

What about the future?

In the physical world it is easy to check the identity of the card owner and to obtain a signature. This is important if at a later stage the customer opposes the payment. The signed receipt is your proof as a vendor. When choosing to pay with a bankcard on the Internet the vendor does not have this guarantee.

The card companies are working on improving the security to guard both buyers and sellers against fraudulent purchases on the Internet. However the development is slow and none of the card companies have a complete solution rolled out and ready.

At the moment, most of the card companies protect their customers against fraud on the internet while the sellers (the recipients of the funds) are not protected. Whatever the protection, it doesn't actually stop fraud and is not offered globally. This applies to both Mastercard (Zero Liability) and American Express (Online Fraud Protection Guarantee).

In the case of Mastercard "Zero Liability" it does not apply to all countries, it is only mentioned on their American site, not on the Swedish site.

The card company that has come the furthest in protecting both buyers and sellers against fraud is VISA. They have a solution called Verified by VISA. This solution protects both parties by letting the card owner identify them self towards VISA. VISA in turn return information to the seller that the buyer is successfully identified, making a transaction possible. This solution does not yet apply to all European countries, Sweden once again being one of the countries lagging behind.