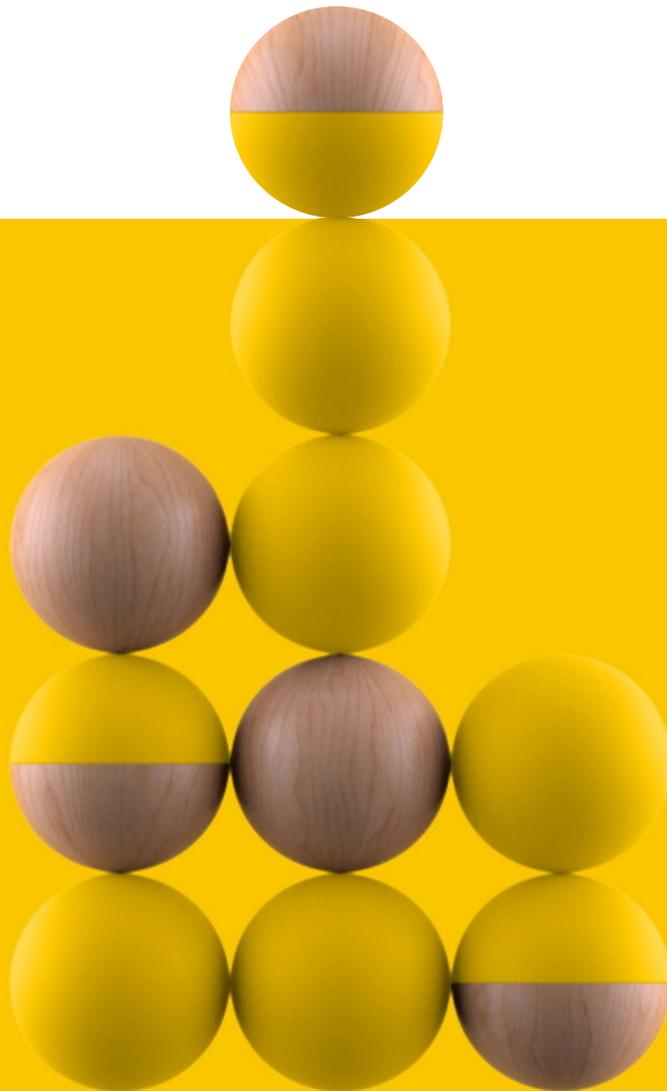


# A manifesto for payment innovation

Payments are facing a time of unprecedented growth. Is your business ready to harness it?



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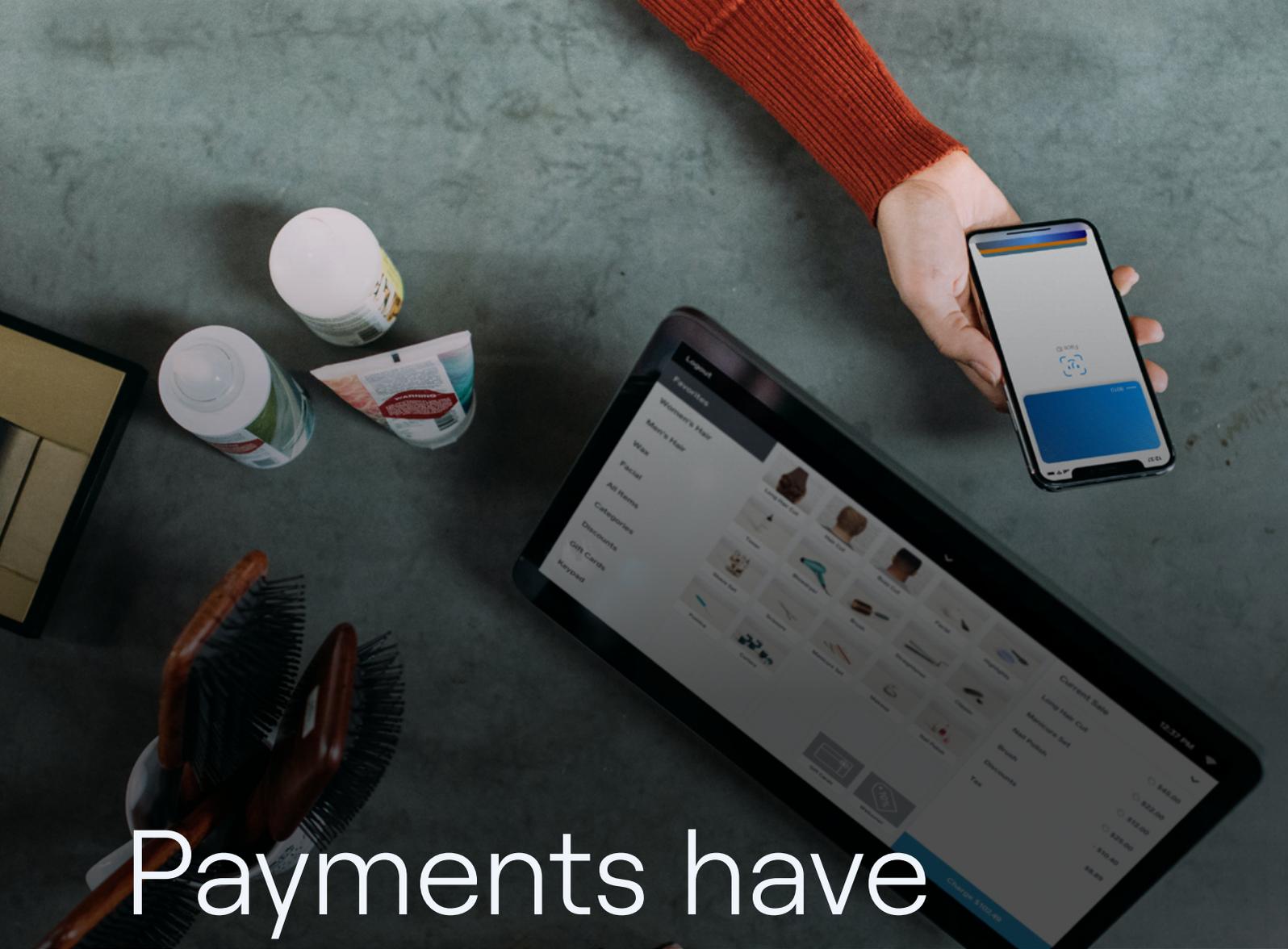
# Introduction

Online payments have been growing year on year. But in 2020 this growth was supercharged, as consumers and businesses ditched cash, and we were forced to buy more goods online as we stayed at home. This change, while drastic due to the COVID-19 pandemic, is here to stay. Businesses and financial organisations are now rightly exploring how they can get the most from their online payments journeys. There's so much opportunity for companies to develop unique ways to efficiently, securely pay – but none more exciting than Open Banking.

Far from simply giving customers access to a wider range of financial products than ever before and making their financial lives smoother and more seamless, Open Banking has the potential to save businesses a lot of money when it comes to reducing payment fees, helping to manage overheads at a time where businesses are feeling the pressure. On top of this, it also brings their services in line with evolving customer expectations. People want personalised, streamlined and centralised services. And current payment journeys are failing to answer this.

We're at the start of an exciting journey. As more businesses start to adopt Open Banking payments, they're realising how beneficial it can be for their business. They're accessing low fees, and an improved UX and customer experience that's answering demands for simpler payments from customers. It's now no longer a question of "should you" but "when will you" adopt Open Banking. Because the time to innovate is now.





# Payments have come a long way

Methods have diversified and evolved: even the once-pioneering chip and PIN seems old fashioned when compared to fingerprint and facial scanning, or one-click purchasing.

The popularity of “buy now, pay later” schemes are also on the rise, growing at a rate of 39% annually in the UK.



Annual rise of “buy now, pay later” schemes in the UK

With so many ways to pay, buying things is easier than ever for customers. But as consumers come to expect more choice, businesses face growing pressure to offer all of these different options. There are cost implications and technical hurdles to leap over, as businesses grapple to integrate new methods into existing payment flows. Not to mention mounting concerns around fraud – both in terms of preventing it, and in stopping over-zealous fraud management impeding the customer experience.

This all has to work smoothly, too: in a world where 87% of consumers will abandon their shopping if they feel a checkout process is “complicated”, providing as seamless a payment experience as possible is crucial.

Understandably, businesses want to solve these problems in a cost-effective way. The challenge is huge. But on the bright side, so is the opportunity: Online payments continue to grow in popularity – they skyrocketed up to 38% of all retail sales in the UK as of May 2020, compared to just 18.8% in 2019.

Clearly, the digital demands of customers are ever-changing, and with the ongoing global pandemic, online sales will only keep rising. And so too will the demand for more secure, smoother and efficient ways to pay and receive payments. Businesses and payments providers need to be ready to respond to this change, and Open Banking payments is the answer.



**Of consumers will abandon their shopping if they feel a checkout process is complicated**



**Of retail sales in the UK were made by online payment methods in 2020**



# The impact of COVID-19

**Every industry was affected by the COVID-19 pandemic, but some were lucky enough to see positive impact.**

There was a major increase in demand for digital payments and wallets as cash was discouraged – a rise that’s likely to continue as lockdown ends and normality resumes. In fact, according to research by [ACI Worldwide](#), online payment transaction volumes for retailers rose by [74% in March 2020](#) compared to the same period last year, while in a study from [paysafe](#), over [half of consumers](#) said they have used a different payment method to normal since the COVID-19 outbreak.



**Rise in online payment transaction volumes for retailers compared to same time last year**

Rapid adoption of digital payments – for example, a restaurant suddenly offering click and collect payment – has undoubtedly saved some businesses from extinction, while reducing risk of payment fraud for both them and their customers. However, data provided by [Action Fraud](#) shows that there was a 400% increase in fraud reports throughout March 2020 – why?

As everyone flocked to new payment methods and online purchasing, scammers took advantage of those still using easily exploited legacy solutions such as entering long card numbers online – something they wouldn't have been able to do with next generation payment systems.

One of the most effective security initiatives being introduced is Strong Customer Authentication (SCA). But its introduction, which offers greater protection through two-factor authentication – has been hampered by financial institutions legacy payment flows. With Open Banking, SCA has been built into its payment journey as standard. Using your personal online banking security, such as facial recognition or your fingerprint to approve payments. This can be done in your banking app, or on your desktop, allowing Open Banking payment journeys to work seamlessly and securely.



**400%** Increase in fraud throughout March 2020 according to data from action fraud



# Case study: Ordo Neighbour 2Neighbour

**Ordo, a platform for simple, fast and secure invoicing, tracking and payments, recently partnered with Yapily to power its new payments initiative, Neighbour2Neighbour.**

It aims to help small businesses, volunteers and their neighbours during the COVID-19 crisis by making it easier to run errands on behalf of other people who are self-isolating or otherwise vulnerable.

Previously, volunteers would have to share confidential details with strangers in order to receive payments, or use physical cash which is no longer accepted in many places due to potential risk of infection.

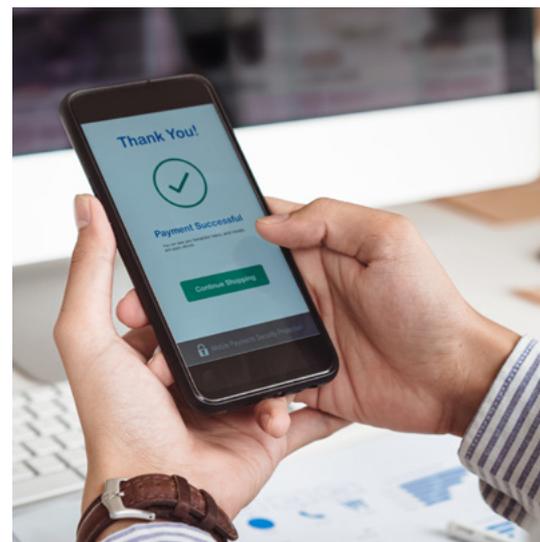
Neighbour2Neighbour enables volunteers to instantly request and receive payments digitally from those who need help, via Yapily's secure and scalable Open Banking API. In other words, Ordo can access its users' account information, as well as initiate and track payments using only an email address and phone number, making it simple to pay a neighbour or friend for helping with the shopping.



# How payments innovation can save you money

**Up until now digital payments have been dominated by card networks. But this is changing, as Open Banking starts to offer new ways to pay directly from bank to bank.**

This reduces the emphasis on unnecessary middlemen within the current legacy payment journey, where a small number of providers have held the market ransom with high transaction fees. And businesses have suffered as a result. Through Open Banking payments there's an astronomical amount to be gained from the savings on card transaction fees.



There were 1.6 billion debit and credit card transactions in March 2020 alone (and that's just in the UK!) with a total spend of £57.5 billion - after factoring in a 1% fee on each transaction, that's £575 million paid to card providers in one month. Even a smaller saving on these fees than that provided by Open Banking would help businesses - and could even be the difference between going under and staying afloat in these uncertain times.

### Ecommerce

There's plenty of shift already underway, and not just from the fact that one third of adults in the UK say they now regularly shop for food online. For example, ecommerce businesses in the UK such as Amazon, eBay or Shopify process an average of 120 million transactions per year, with an average value of £67 each. With a card network fee rate of 1% per year, that's £80,400,000\* wasted by merchants annually. Compare that to Open Banking fees, which would cost merchants £6,360,000\*\* per year - saving businesses 92%, which equates to £74,040,000!

### Travel and hospitality

The travel and hospitality sector is one that could benefit from payments innovation the most. With an average of 1.2 million transactions per year with an average value of £300 each, that's a lot of card network fees to be paid - £3,600,000\* every year, to be exact - and that's if the rate remains at 1% per transaction! In comparison, the industry would only need to pay £420,000\*\* in fees if they switched to Open Banking, a massive 88%, equivalent to £3,180,000, in savings that businesses will be free to reinvest in whatever they see fit.

# £575<sub>M</sub>

Would have been paid in transaction fees (1%) in the UK alone in March 2020

# £80.4<sub>M</sub>

Spent on card transaction fees by merchants each year



Saving on fees if the travel and hospitality industry switched to Open Banking

## Financial services

The financial services industry could save millions by moving to Open Banking. With an average of 1.2 million transactions per year with an average value of £429, card network fees (1%) are costing the industry £5,148,000\* every single year – while Open Banking would cost £660,000\*\* over the same period, freeing up 87%, which equals £4,068,000 in savings.

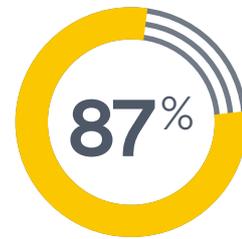
So, why is it so much cheaper? Previously, this journey included payment service providers (PSPs) and Payment Gateways as well as banks, which slowed down the information travelling back and forth between banks. Under Open Banking, the merchant's bank deals directly with the consumer's bank, without unnecessary middlemen. This reduces the amount of steps and therefore fees in the payment flow, meaning faster and cheaper transactions. These valuable savings could be reinvested into the business or passed onto the consumer. But that's not the only exciting prospect Open Banking has to offer.

Other opportunities are grounded in the customer experience. It's set to become even easier to get what you want as online payment options grow in availability. But when the average number of steps in a checkout is 5.08, there's still a long way to go to make the payment process completely frictionless. However, Open Banking powered payments have the ability to change customer experience significantly.

Plenty of organisations are already moving quickly to take advantage of new online payment journeys through Open Banking. And as these payments grow in further popularity with consumers as a way to pay, the savings and efficiencies on offer will become even greater for both merchants and consumers. If you adopt Open Banking payments now, rather than waiting, then you can secure a big win for the era of payments to come.

# £5.1M

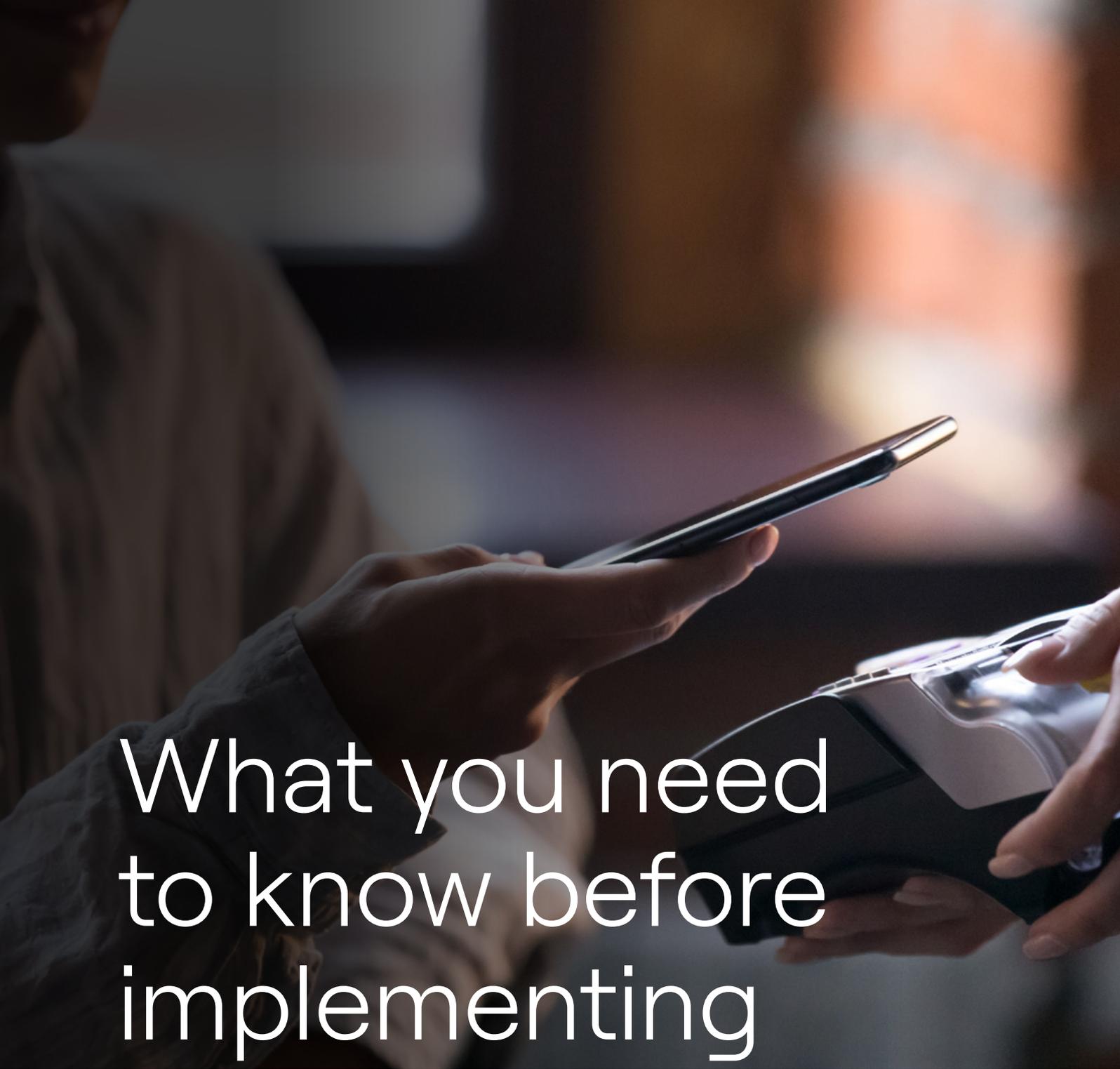
**Cost to the financial services industry every single year on card network fees (1%)**



**Annual saving to financial services businesses if they adopted Open Banking**

\* Card network fees are dependent on transaction volume. We have assumed the higher the volume, the lower the card transaction fee

\*\* Open Banking fees are indicative and based on usage, transaction volume, support and implementation costs

A close-up photograph of a person's hands holding a smartphone over a payment terminal. The person is wearing a dark jacket. The background is blurred, showing warm, bokeh lights. The text is overlaid on the lower half of the image.

# What you need to know before implementing Open Banking

**Seizing the opportunity of digital payments  
innovation doesn't have to be taxing.**

Here are the key points to keep in mind when looking to implement Open Banking:



### Transaction fees

As we have seen, Open Banking presents the opportunity for a lot of savings on card fees, something that has the power to make a big difference to businesses of all sizes - but that doesn't mean there are no more fees at all. Open Banking providers will offer different pricing structures to suit your business, taking into account the volume of transactions you're likely to conduct. This in turn leads to greater savings, which you can use to reinvest into your business, or the cost-savings can be passed onto your end user.



### Accessing your money

With Open Banking payments, there are no merchant accounts - meaning no days spent waiting for the money to arrive in your own account, just bank-to-bank instant payments. The UK and EU financial institutions are leading the way with instant bank to bank payments, and we can expect the world to follow this trend.

If you have an international customer base, it's worth thinking about how payment regulation and bank integration in other territories will interact with your new Open Banking system.



### Open Banking coverage

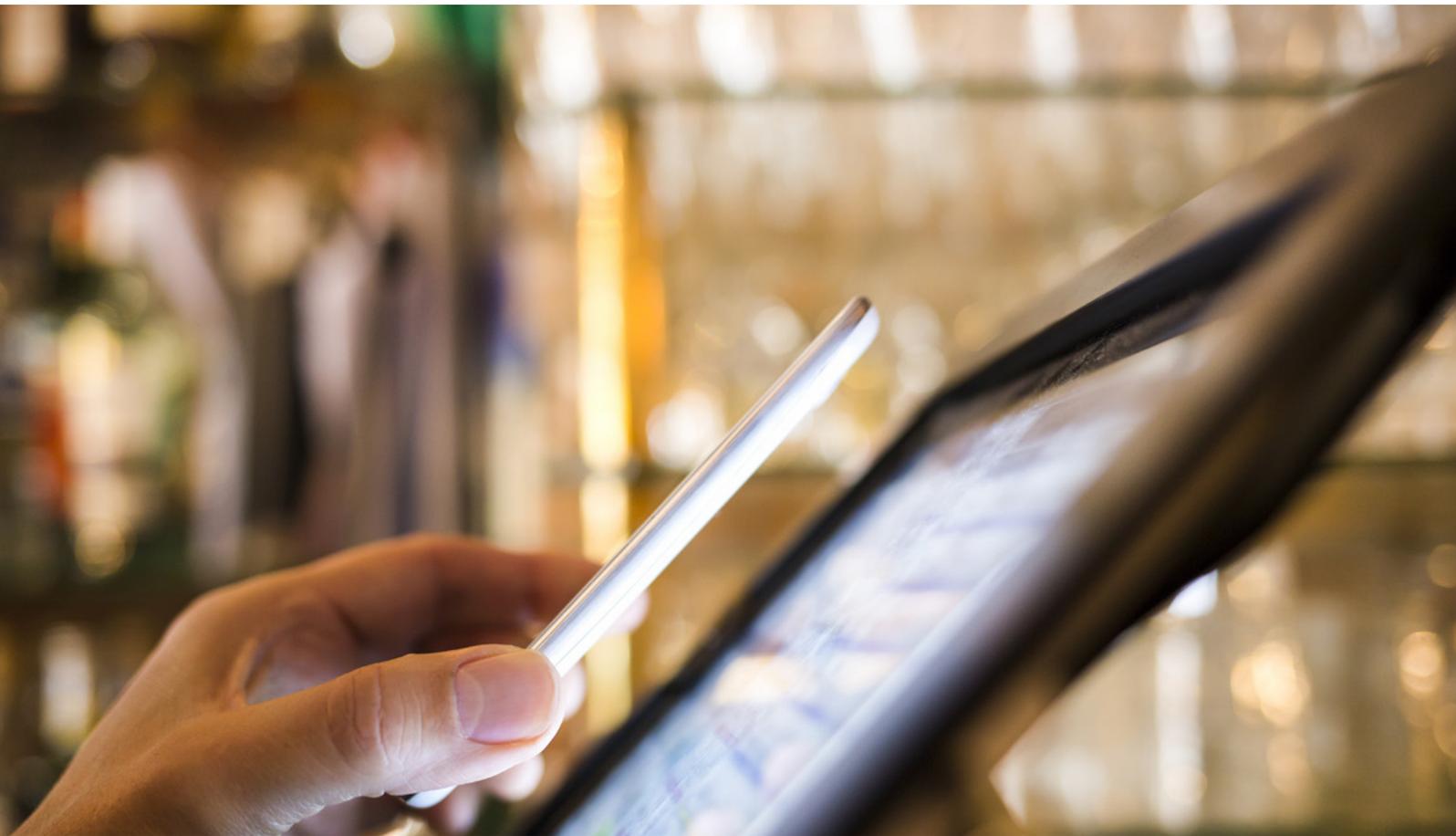
Open Banking coverage varies, meaning that not every provider will be able to connect with every bank. It's essential for businesses to offer payments between all of the banks in the UK and EU, enabling customers to pay regardless of who they bank with. On top of this, your provider may be planning to launch integrations as Open Banking becomes available worldwide, so it's a good idea to check the range of banks they support beforehand.



## Smooth UX journeys

Payment journeys look different from website to website, from redirects to bespoke branded pages that fit seamlessly into the rest of your website design. If you are a regulated Third Party Provider (TPP), you have the power to own the entire flow without the need for any external branding or redirection to other websites. However, if you aren't a regulated TPP, you might want to use your provider's license instead - although the usage requirements will differ from business to business.

Many providers offer premade web and mobile flows, along with decoupled flows that allow users to conduct their payment through a web browser and approve the purchase on their phone without having to type in bank, card or personal details. Consider what would work best for your business, and make sure to enquire about what sort of flows your provider will be able to offer you.





# The future of payments is already here

**Open Banking has already gifted us dozens of tools that do away with the hassle of yesteryear's money management, so there's no telling how fast and efficient the future of finance will be.**

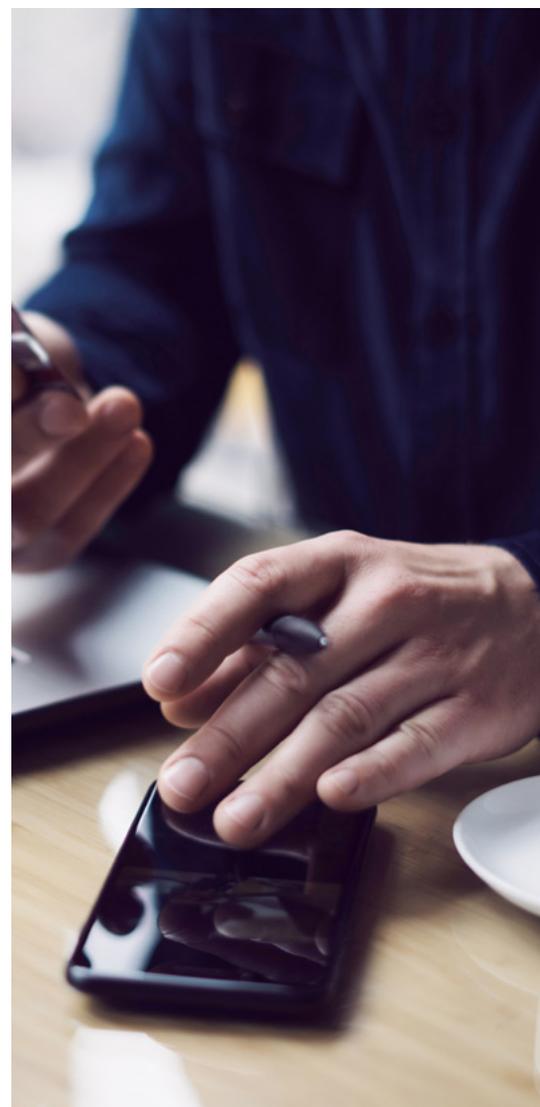
Ecommerce businesses can look forward to a 265% growth rate overall by 2021, so the future is there for the taking. Innovating your payments may seem like a mammoth task at the start but, with the right partner, it can be an easy win that guarantees you a seat at the table as a key player in the era to come.

# 265%

Overall growth rate for ecommerce businesses by 2021

From the massive reduction in fees and enhanced speed of transaction, to improved UX, limitless scalability and tight security, there's so much to be gained from a swap to Open Banking - not to mention the gift of real-time data that you can then use to make sure your next moves are evidence-based and guaranteed to succeed.

As the UK hurtles towards digital payments, businesses who refuse to innovate are risking revenue by not transforming their payments infrastructure. There will never be a better time than right now to adopt Open Banking and reap the richest variety of benefits that early adoption has to offer - as well as secure your business a healthy future.



If you are looking to explore how Open Banking payments could benefit your business, the Yapily team are here to help. Visit <https://www.yapily.com/contact/> for more information.