

# Visa e-commerce cross-border handbook *for U.S. retailers*

## Chapter 9: cross-border payments



\* Visa claim based upon global number of general purpose cards, number of transactions and purchase volume.

more people go with Visa.\*





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## Chapter 9: cross-border payments

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## Chapter 9: cross-border payments

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### Preface

A set of guidelines and tips for e-commerce in Canada requires special attention to cross-border payments, which is the focus of this chapter.

The chapter assumes that you will not set up a local online presence—at least in the short term, and touches on a number of topics as they pertain to accepting payments from Canadian consumers. Specific focuses include payment methods, multiple currencies, risk management and chargebacks.

This chapter gives an overview of the specific options and the general environment around Canada's payment systems, as you develop a greater understanding of the opportunities available in the Canadian market.

# Chapter 9: cross-border payments

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## Introduction

Expanding your operations to participate in cross-border e-commerce will allow consumers from Canada to shop at your website, but it does involve accepting payment types used by these consumers. This chapter assumes that you will not set up an online presence in the local country—at least in the short term. While fairly straightforward, there are a few key considerations that will impact the customer experience in different ways.

### Subtopics

#### Accepting Payments from Canada

- Payment methods
- Multiple Currencies
- Taxes, Customs, Duties, Shipping
- Accepting Canadian Payments
- Risk Management
- Chargebacks
- Best Practices

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## Payment Methods

As a first step, you will need to determine what forms of Canadian payment to accept while keeping it easy and convenient for your new customers. The primary method of online payment for Canadians is still credit cards. Nielsen research showed that 79% paid for online shopping with a credit card followed by alternative payments,<sup>1</sup> although soon Canadians will have the ability to pay online worldwide with their new debit cards from the card schemes. Research that Visa co-sponsored in 2007 on e-commerce and social media in Canada also showed similar online payment behavior.<sup>2</sup> Accepting Canadian credit and debit cards will be seamless if you already accept these payment types today. For other payment types, you will need to check with your payment services provider.

In order to accept payments from Canadian consumers, you will need to amend your online checkout to accommodate for the address differences. The “bill to” and “ship to” addresses must include the Canadian postal code format (alpha-numeric), Canadian provinces/territories instead of states and the country Canada. If you do not already have Address Verification Service (AVS) in place, it is recommended that you add this tool as part of your online security strategy as discussed in the following fraud management and security chapter.

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<sup>1</sup> Online Shopping: A Canadian Perspective, Nielsen Global Omnibus survey, 2008

<sup>2</sup> E-commerce and Social Media in 2007: A Canadian Perspective, A study sponsored by Visa and Yahoo Canada! and prepared by the J.C. Williams Group

Similar to how you communicate the accepted payment methods to your U.S. customers on your website, clearly indicate the same for your Canadian customers. For added consumer confidence, you may want to include information about the security measures in place on your website as well as those used during the checkout to help provide assurance that their payment information is safe and secure.

## Multiple Currencies

You will need to decide whether to localize your website to allow your Canadian customers to pay in their local currency or to keep everything in U.S. dollars.

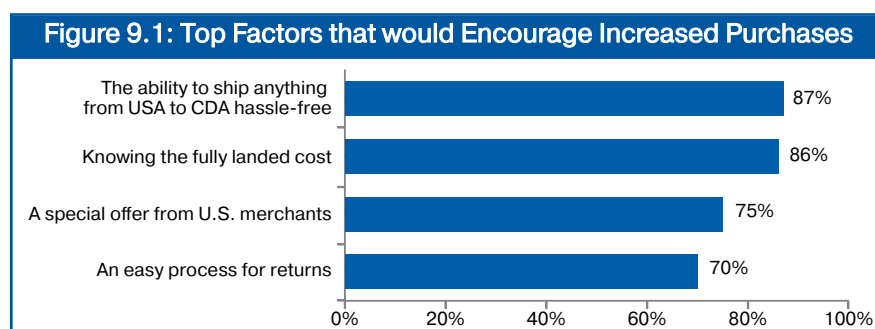
While Canadian consumers prefer localized websites, accepting foreign currencies is more involved and requires not only website changes (from providing pricing in local currency to the design of the web pages), but also system changes on the back end. For more information, contact your acquirer/payment processor.

Some considerations to keep in mind include consistency of pricing between Canada and the U.S. and presenting only one currency to your Canadian customers. Although the Canadian dollar fluctuates against the U.S. dollar, as the CAD dollar nears par, Canadians expect similar pricing. By presenting pricing in Canadian dollars, it does require regular updates to account for currency fluctuations, but these should be done on the back end to minimize any customer impact.

Accepting card payments only in U.S. dollars, the actual cost of goods your international customers pay will depend upon the foreign exchange rates at the time of purchase plus any additional conversion fees, such as any assessed by their card issuer, which they will then see on their monthly statement. You can also check whether your payment services provider can perform currency conversion at the time of settlement.

## Taxes, Customs, Duties, Shipping

Before asking for payment, you will still need to choose whether you will show your Canadian customers the fully landed cost of their purchase, including the appropriate Canadian federal and provincial/territorial goods and services taxes (GST, PST, or HST) as well as the customs and duties that apply to the items in addition to the shipping cost. Canadian consumer preference is for full transparency as it helps in their purchasing decision. In a recent survey, 86% of respondents agreed that knowing the fully landed cost would help to increase their cross-border purchases as identified in Figure 9.1 below.



*Ipsos Reid Online Omnibus Survey for Visa Canada, Oct.–Nov. 2009*

Anecdotal stories abound from Canadian cross-border shoppers being asked by the shipper to pay anything from a nominal amount up to the full cost or more of their purchase in customs and duties fees (on top of the amount already paid for the purchase to the merchant) when their order is delivered to their door. The sticker shock has resulted in many deliveries being returned and the Canadian shopper hesitating to make any further online cross-border purchases due to the negative experience.

Calculating the required Canadian customs and duties can be quite complex so you may want to use a third-party that specializes in these areas. Many fulfillment, logistics and shipping firms also include this as one of the many services they offer to retailers. For more information on exporting goods into Canada, a good place to start is by reviewing Chapter 7: Customs Laws and Procedures and visiting the Canada Border Services Agency website at [www.cbsa-asfc.gc.ca/import/menu-eng.html](http://www.cbsa-asfc.gc.ca/import/menu-eng.html). Chapter 6 also provides a list of some of the International checkout vendors.

Third parties can also calculate the appropriate Canadian federal and provincial/territorial goods and services taxes that need to be applied to U.S. purchases depending on where the Canadian consumer resides. If you decide to do this internally, it is important to note that there are different provincial/territorial rates in addition to the government goods and services tax. And some provinces/territories have or are moving towards a harmonized sales tax (HST) between the two. More information on these can be found at the end of this chapter.

The cost of shipping is another factor in the Canadian consumer's decision-making process when conducting a cross-border purchase. Canadians understand that shipping will be an additional amount to their purchase, but expect it to be reasonable. Mark-ups on the shipping should be avoided as high shipping costs can result in online purchases being abandoned.

If a third-party vendor is used, it's always best to clearly indicate this on your website and explain the nature of the relationship, (i.e., whether the vendor takes care of everything on your behalf or handles only the shipping and returns), as this will determine whether the Canadian consumer makes one payment in full to you the retailer or if another payment is required to the vendor for shipping across the border.

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## Accepting Canadian Payments

There are different processing fees associated with accepting international payments. While continuing with your local acquirer/processing relationship helps to keep operations simple by not having to set up shop in each and every country, it may involve other fees. Your payment services provider can outline these in more detail for you. The potential for obtaining new customers and additional sales ongoing can far outweigh the costs of conducting business internationally.

Accepting international payments brings new risks. Statistics continue to show that

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**Fraud Management** cross-border payments have higher fraud. You can take a few steps to help mitigate these risks to increase your online sales. While explained in more detail in Chapter 10, a good practice is to monitor and adjust your fraud strategies to account for different patterns between domestic and cross-border payments. More information on fraud management and best practices is available from your acquirer/processor, the card brand schemes and industry solution providers.

Related to managing payment fraud are the various card fraud monitoring programs. In addition to the domestic programs, there may also be cross-border programs. Contact your payment services provider for more information about these programs and the various fraud mitigation tools/services from the card brands (e.g., AVS, CVV2 and payer authentication, which comes with liability shift) and vendors in the industry to provide you with a layered security approach.

The processes for chargebacks and returns for accepting payments from Canada should be similar to your domestic practices.

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## Chargebacks and Returns

You should become familiar with the chargeback representment rights associated when using various payment card fraud tools and services. For example, with Visa's international address validation service (IAVS), it can only be used to confirm addresses if the card issuer supports this tool, which all Canadian Visa Issuers do. If you submit an address outside the U.S., you will receive the response message "G" for Global. In such cases, you should take further steps to verify the address. You will be liable for any chargebacks if you accept the transaction, even if the card issuer approves it. You can work with your merchant bank to ensure that all supporting evidence for the representment is submitted.

Merchants that use payer authentication services, such as Verified by Visa or MasterCard SecureCode, are protected by their merchant bank from receiving certain fraud-related chargebacks, provided the transaction is processed correctly. If you do not participate at this time, more information is available from your acquirer/processor or at [www.visa.com/verified\\_merchants](http://www.visa.com/verified_merchants).

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## Chargeback Monitoring

In addition to the payment card domestic chargeback monitoring programs, there may also be global chargeback monitoring programs. Check with your acquirer/processor for more information.

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## PCI DSS

All merchants must comply with the current Payment Card Industry Data Security Standards (PCI DSS) requirements regardless of whether the transaction is domestic or international.

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## Best Practices

- Accept the most widely recognized payment methods used by your international customers
- Be consistent in your pricing if you have separate U.S. and Canadian websites
- Clearly indicate what currency international consumers will be using to pay for their purchases
- Provide the full landed costs (taxes, customs, duties, shipping) as early as possible in the checkout
- Apply the same due diligence and payment management practices to cross-border transactions as you would domestic
- Centrally manage your payment platform, infrastructure and operations

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## Implications

- **Strategy:** How you present your website to Canadian customers and the level of transparency you provide will impact their shopping experience and ultimately your return on investment when you expand your online business outside the U.S.
- **Financial:** The implications of making minimal changes to accept international payments versus providing a separate Canadian website (e.g., local pricing, transaction currency, fully landed costs) can vary quite significantly. The level of complexity involved will determine which path you undertake (develop in-house or outsource to a third-party), but they must be aligned with your overall strategy and financial goals to be successful.
- **Consumer:** Providing a better shopping experience for Canadians and payment options that they are both familiar and comfortable with will ultimately lead to new customer acquisition and sales.

## Checklist

| Review of Items               | Key Elements | Cross-border Emphasis Required |
|-------------------------------|--------------|--------------------------------|
| <b>Payment Methods</b>        |              |                                |
| ■ Credit and debit cards      | ■            | ■                              |
| ■ Alternative payments        | ■            |                                |
| ■ Address fields              | ■            | ■                              |
| <b>Multiple Currencies</b>    |              |                                |
| ■ Website localization        |              | ■                              |
| ■ Pricing                     | ■            | ■                              |
| <b>Customs, Duties, Taxes</b> |              |                                |
| ■ Local customs and duties    |              | ■                              |
| ■ Local taxes                 | ■            | ■                              |
| ■ Shipping                    | ■            | ■                              |
| <b>Cross-border Acquiring</b> |              |                                |
| ■ International fees          |              | ■                              |
| <b>Risk Management</b>        |              |                                |
| ■ Card brand tools            | ■            | ■                              |
| ■ Vendor tools                | ■            | ■                              |
| ■ In-house expertise          | ■            | ■                              |
| <b>Chargebacks</b>            | ■            | ■                              |

## Data Sources

- E-Commerce and Social Media Study: A Canadian Perspective: [www.visa.ca/en/merchant/pdfs/Visa-Yahoo-JCWG-Ecom-Social-Media-Study-Summary-2007.pdf](http://www.visa.ca/en/merchant/pdfs/Visa-Yahoo-JCWG-Ecom-Social-Media-Study-Summary-2007.pdf)
- Visa e-Commerce Merchants' Guide to Risk Management: [http://usa.visa.com/download/merchants/visa\\_risk\\_management\\_guide\\_ecommerce.pdf](http://usa.visa.com/download/merchants/visa_risk_management_guide_ecommerce.pdf)
- Card Acceptance and Chargeback Management Guidelines for Visa Merchants: [http://usa.visa.com/download/merchants/card\\_acceptance\\_guide.pdf](http://usa.visa.com/download/merchants/card_acceptance_guide.pdf)
- Canada Revenue Agency: [www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rts-eng.html](http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rts-eng.html)
- Canadian Provincial/Territorial Government Sites: [www.cra-arc.gc.ca/tx/bsnss/prv-lnks-eng.html?slnk](http://www.cra-arc.gc.ca/tx/bsnss/prv-lnks-eng.html?slnk)
- Canada Border Services Agency: [www.cbsa-asfc.gc.ca/import/menu-eng.html](http://www.cbsa-asfc.gc.ca/import/menu-eng.html)
- The Nielsen Company: [www.ca.nielsen.com](http://www.ca.nielsen.com)

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## About the Author

**Stephanie Wallat** is a Business Leader for e-commerce and Authentication at Visa Canada, where she is responsible for market acceptance of e-commerce platform initiatives (including cross border) and online security technologies and authentication programs. Stephanie also oversees the strategy development and implementation of initiatives in support of Visa's global e-commerce and authentication programs and works closely with Issuers, merchants, their acquirers/processors and other service providers in Canada.

Stephanie, who joined Visa Canada in 2006, has an extensive background in the IT industry managing strategic alliances, client and partner programs and marketing at companies such as Hewlett-Packard, Oasis Technology (a payments software solutions provider) and Hummingbird Communications.