

Perspectives on Accelerating Global Payment Acceptance

Over the last two decades, electronic payments have made significant progress displacing cash and other paper-based payment methods in many markets around the world.

Electronic payments provide consumers with convenient and secure access to their funds. They lower transaction costs for merchants and can expand the pool of customers from whom payments are guaranteed. What's more, electronic payments are helping more low-income families enter the formal banking system and allowing governments to collect additional tax revenue by reducing unreported transactions. They are also important engines to enable digital and mobile commerce as well as broad-based economic growth.

Nonetheless, the expansion of electronic payments acceptance has been uneven, especially in emerging markets. On a global basis, an estimated 43 percent of consumer payments today are made with cash.¹

Prepared by:

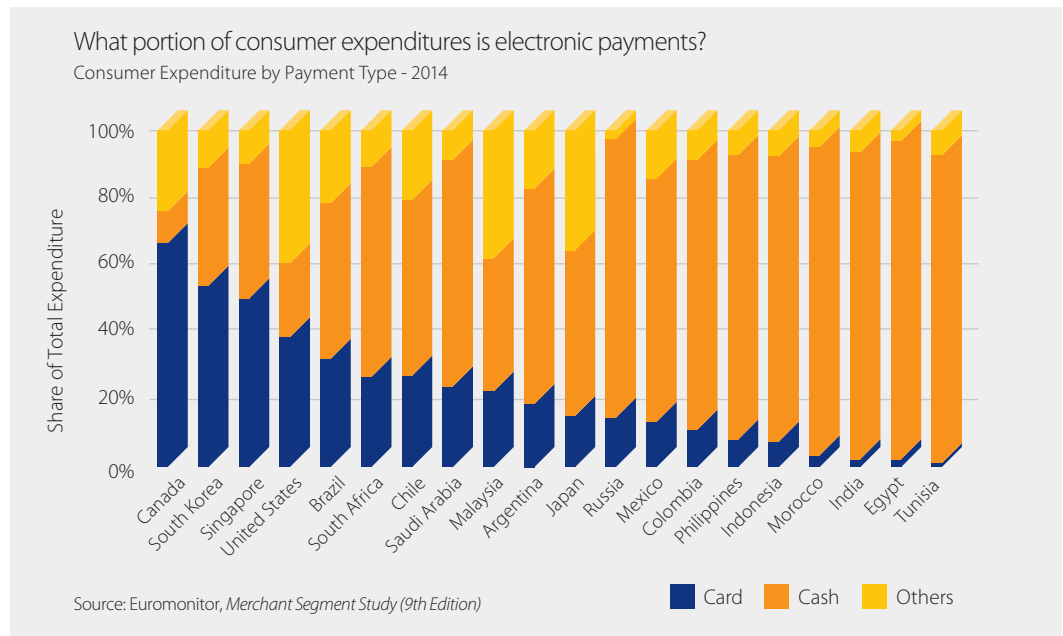
Sameer Govil
govils@visa.com
Senior Vice President

David Whitelaw
dwhitela@visa.com
Senior Director

Full policy paper at:
www.visa.com/acceleratingacceptance

FIGURE 1

Even though electronic payment card usage has gained significant traction, cash still represents more than 80 percent of consumer expenditures in many countries



In many markets, the biggest obstacle to accelerating the shift toward electronic payments is the absence of an appropriate acceptance infrastructure, such as point-of-sale (POS) terminals. Developing a network of merchants equipped to accept electronic payments requires enormous effort, and traditionally, three types of barriers stand in the way:

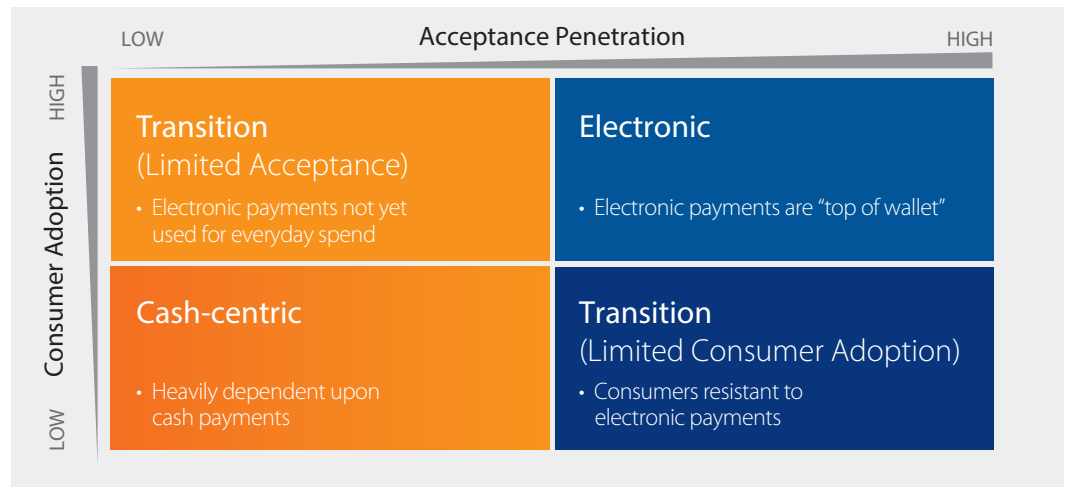
1. Inadequate physical infrastructure and data resources
2. Lack of appropriate incentives or sub-par investment returns
3. Government policies and regulations

While a high level of merchant acceptance is absolutely critical to reducing the use of cash, it takes significant time and effort in any market to get businesses to embrace electronic payments. Expansion

of acceptance typically follows a specific pattern in the market: it begins in the travel sector favored by international cardholders, moves to large-ticket purchases, and finally penetrates everyday-spend categories and beyond, largely driven by debit cards. This sets up a virtuous cycle wherein additional acceptance drives greater card usage, which further incents investment in acceptance. So, what can be done to accelerate the development of acceptance infrastructure around the globe?

New technologies and new business models offer the potential to speed up, if not leapfrog, the traditional patterns of acceptance growth. Smart policy levers can also help – whether led by government, the private sector, or a public-private partnership. However, the effectiveness of any of these options depends upon a country’s readiness to accept electronic payments. Countries typically fit into one of four categories described in the framework below:

FIGURE 2
Framework for Understanding
the “Payments Readiness”
of a Market



With this framework, Visa assessed various policy levers to help clarify which ones may be best suited for certain markets. Each lever is reviewed in the next section and summarized in a table at the end of the document.



A. Regulatory & Market Support

1. Merchant Incentives: Governments may provide incentives or subsidies for POS terminals, or tax reductions such as value-added tax (VAT) credits for transactions using electronic means of payment. Merchant incentive programs tend to be successful in Cash-centric or Transition (Limited Acceptance) markets that have limited payment infrastructure but possess a card base of sufficient scale.

2. Regulation of Market Economics: Governments may directly regulate the market-established acceptance costs paid by merchants or acquirers. Such approaches usually involve capping or regulating the Merchant Discount Rate (MDR)² that merchants pay to acquirers or the Interchange Reimbursement Fee (IRF) that acquirers pay to issuers. These types of regulations are usually instituted for specific and unique domestic purposes, typically in established markets. To the contrary, fee caps can have significant unintended consequences by stifling innovation and reducing investment outlays, which may hamper overall growth.

3. Consumer Incentives: Governments may provide incentives for consumers, such as VAT rebates or income tax deductions based upon usage of electronic payments. Typically, consumer incentives work

best for countries in the early stages of electronic payments evolution (Cash-centric markets) to spur everyday usage, but they have been successful in all market types.

4. Disincentives for Cash: Governments may impose taxes or bans on cash withdrawals or deposits above a certain amount to make cash more expensive to the consumer or merchant. The effectiveness of these limits has been questioned, since they can actually serve as an incentive to keep cash outside the banking system in order to avoid triggering the limits. In general, this type of policy may work best in markets where a significant shadow economy underpins merchants' preference for cash.

5. Government Adoption of Electronic Payments: Governments may lead by example by disbursing social welfare and other funds electronically, enabling government agencies to accept electronic payments, and promoting the use of products such as purchasing cards by government employees. These programs have the highest incremental impact in markets where payment cards have reached scale but merchant acceptance and consumer electronic payment volume lag behind, namely Cash-centric and Transition (Limited Acceptance) markets.



B. Increased Private Investment Opportunities

1. Issuer-funded Investments for Acceptance: These programs, commonly known as Acceptance Development Funds, require that card issuers contribute funds to projects and infrastructure that directly support payment acceptance. Examples include direct terminal subsidies and support to develop new technologies and market education. These funds have found success primarily in Transition (Limited Acceptance) and Electronic markets.

2. Specific Merchant Segment Initiatives: Payment networks may employ targeted initiatives, such as adjustments to interchange fees that lower the cost of accepting payments in specific market segments. Once acceptance and usage is clearly established in the segment, fees can be readjusted to restore economic balance across the network. This lever is most successful in markets where gaps in acceptance exist despite sufficient scale in card issuance.



C. New Technologies & Channels

1. New Platforms for Payment and Acceptance: New channels and modes of access, such as mobile payments and the provisioning of "card-on-file" accounts, are providing consumers with easier ways to pay. For merchants, new technologies, such as wireless networks and mobile POS devices, are disrupting the traditional POS terminal. The growth of payment facilitator networks and new commercial models are enabling small business acceptance of electronic payments. This lever is relevant to all market categories, since technological advancements can enable leap-frogging of existing legacy infrastructure barriers to accelerate merchant acceptance.

2. Enhancing and Securing the Customer Experience: New technologies are removing friction from payments, and new business models are changing how consumers and merchants interact. These developments are being supported by enhancements in risk management and security such as EMV chip, Near Field Communication, tokenization, biometric authentication and geolocation, which are critical to protecting consumer information and easing consumer concern about security. This lever focusing on "responsible innovation" is critical for all market categories.

Collaborative approach toward electronic payment acceptance

With an estimated \$21 trillion in annual purchases still conducted using cash and nearly two billion adults without access to a financial payment account,³ the expansion of acceptance represents a global opportunity to realize significant benefits from electronic payments. However, every country or region is different both in terms of its readiness for electronic payments as well as the needs of its government, consumers and businesses. Each requires a different mix of policies that is carefully calibrated for its market.

A collaborative approach between financial institutions, regulators and other key stakeholders is also necessary. Only by working together can we develop sustainable acceptance measures that can enhance and fast-track the benefits of electronic payments for all.

Summary of policy levers and market types

		Cash-centric	Transition		Electronic	
			Limited Acceptance	Limited Consumer Adoption		
Illustrative Markets		Egypt Myanmar Guatemala	UAE Indonesia Uruguay	Greece Japan	Israel Hong Kong Canada	
Policy Levers	A. Regulatory and Market Support					
	Merchant incentives	<ul style="list-style-type: none"> Straightforward way to lower cost of electronic payment acceptance Most effective when combined with consumer incentives 	●	●		
	Consumer incentives	<ul style="list-style-type: none"> May be best suited to counter strong cash preference or shadow economy Critical to fine-tune programs & use clear success metrics 	●	●	●	●
	Disincentives for cash	<ul style="list-style-type: none"> Proven difficult to enforce due to ability to evade regulation Best deployed paired with electronic payments incentives 	●		●	
	Government adoption of electronic payments	<ul style="list-style-type: none"> Supports increased government transparency Opportunity to lead by example, serve as catalyst for other segments 	●	●		
	B. Increased Investment Opportunities					
	Issuer-funded investments for acceptance	<ul style="list-style-type: none"> Successful, market-based approach to balancing economics Creates broader private sector cooperation to grow infrastructure 		●		●
	Specific merchant segment initiatives	<ul style="list-style-type: none"> May be best suited to close clear gaps in acceptance Should be paired with operational or technological changes 		●		●
	C. New Technologies & Channels					
	New platforms for payment and acceptance	<ul style="list-style-type: none"> Regulatory bodies must provide supportive rules & governance framework Market participants must be sufficiently incented 	●	●	●	●
Enhancing and securing the customer experience	<ul style="list-style-type: none"> Hard to pick winning technology in advance—markets need flexibility All stakeholders must be able to commit funds to investments 	●	●	●	●	

1 Euromonitor, *Passport*, 2015.

2 In some markets, the MDR is known as the Merchant Service Fee (MSF).

3 Euromonitor, *Passport*, 2015; Bank of International Settlement Committee on Payments and Market Infrastructures and World Bank Group (2015), *Consultative report – Payment aspects of financial inclusion*.

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