



Winning in the ecommerce space with Open Banking payments

WHITE PAPER

JULY 2022



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The fast-changing world of ecommerce

The way we shop and pay has evolved dramatically over the past few decades as first instore card payments and then online purchases from our clunky desktops began to offer much greater convenience. Now, the world of commerce is becoming a truly omnichannel experience driven by emerging technologies including Open Banking, as a wealth of payment choices stack up alongside traditional cards to enable seamless ways for people to pay. Open Banking retail payments offer a win-win for merchants and their customers. They can lower costs, reduce fraud and increase conversions, while offering consumers greater choice, convenience and transparency at the point of purchase.

Seamless user experiences, enabled by APIs, give customers access to a wealth of finance choices such as buy now pay later (BNPL), which are fast evolving in Europe as the PSD2 directive boosts payment security and innovation. Ecommerce now accounts for up to 15 percent of total retail sales in the region where 75 percent of internet users shop online. Importantly, European consumers are fast adopters of digital technologies. Current users have increasingly used smartphone wallets, wearable devices, QR codes and cryptocurrencies to pay in the last twelve months, Mastercard's global [New Payments Index 2022](#) shows.

Designed for the digital economy, Open Banking retail payments are set to boom over the next year as both consumers and retailers realize the wholesale benefits of ushering the emerging payment technology into the mainstream.

Ecommerce now accounts for up to 15 percent of total retail sales in the region where 75 percent of internet users shop online.

Consumer interest in Open Banking is rising

Over the past year, 81 percent of European consumers have used a digital tool for at least one financial task, according to Mastercard's global New Payments Index, which notes a rise in the use of BNPL, digital wallets and cryptocurrencies. These emerging trends show no signs of abating with 93 percent likely to use a digital payment method in the year ahead, even as cash snaps its downward spiral as consumers venture back to physical stores.

Forty-four percent of consumers sampled in Europe know at least a little about Open Banking², but the Index finds people are performing financial activities connected to their bank account more than they might think.

Most European consumers are making use of account information services to support their everyday financial tasks, with 34 percent agreeing they feel comfortable sharing their financial information with apps to access payment tools that help them manage their money. A larger 44 percent of Generation Z, and 42 percent of millennials, agree they're comfortable, which suggests there will be growing interest as these groups age.

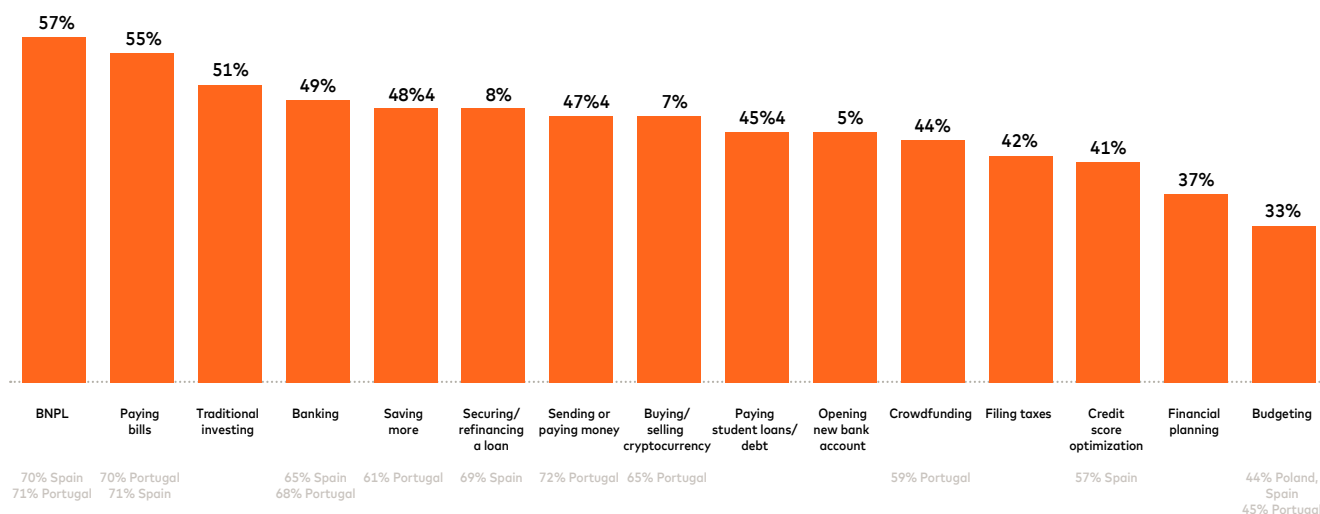
In Europe, 45 percent of consumers find making a payment to be the most beneficial use case for Open Banking, rising to 56 percent among those in Italy, Poland, Portugal and Spain.

81%

of European consumers have used a digital tool for at least one financial task

Financial activities connected to bank accounts

Among all consumers, % selecting



Source: New Payments Index 2022

The perceived benefits among those in Europe who have linked their financial accounts to other apps in the last year include convenience and speed:

- **36%** of consumers in Europe say 'faster transactions' are a benefit
- **33%** say 'it's more convenient to see all my finances in one place'
- **30%** say 'it's easier to track transactions between accounts'

Top barriers to using Open Banking among all European consumers are financial security (35%) and personal identity security (32%). Given the advanced fraud prevention measures associated with Open Banking, this perhaps speaks more to the need for greater education by merchants, providers, and banks.

Mastercard's global New Payments Index 2022 highlights three bank account-related European payment trends for the year ahead:

Digital money transfer

45%

are likely to use apps to shop, send money or pay bills digitally



BNPL or instalment plans

39% are likely to use the option to defer or split purchase payments into affordable chunks.



QR code

40% are likely to use their phones to scan a code which allows them to make a digital payment.



How do Open Banking payments work?

Open Banking payments integrate neatly with existing options such as the credit card, debit cards and digital transfer services most commonly offered by ecommerce retailers at checkout.

Unlike more traditional payment options, Open Banking allows anyone with a bank account to initiate swift and secure digital payments which can arrive almost immediately to a retailer's account (depending on the country). It's a simple process: After selecting their items and heading to checkout, customers select the option of paying directly from their bank to initiate the payment process.

They simply select their bank in the payments window and then authenticate themselves using their secure password or biometric information. For consumers, hitting the payment button is the final step in the process that quickly sends funds from their bank account into the retailer's account.

Giving retailers faster access to funds can improve their cash flow management and help them cover essential costs such as rent, wages and utility bills.

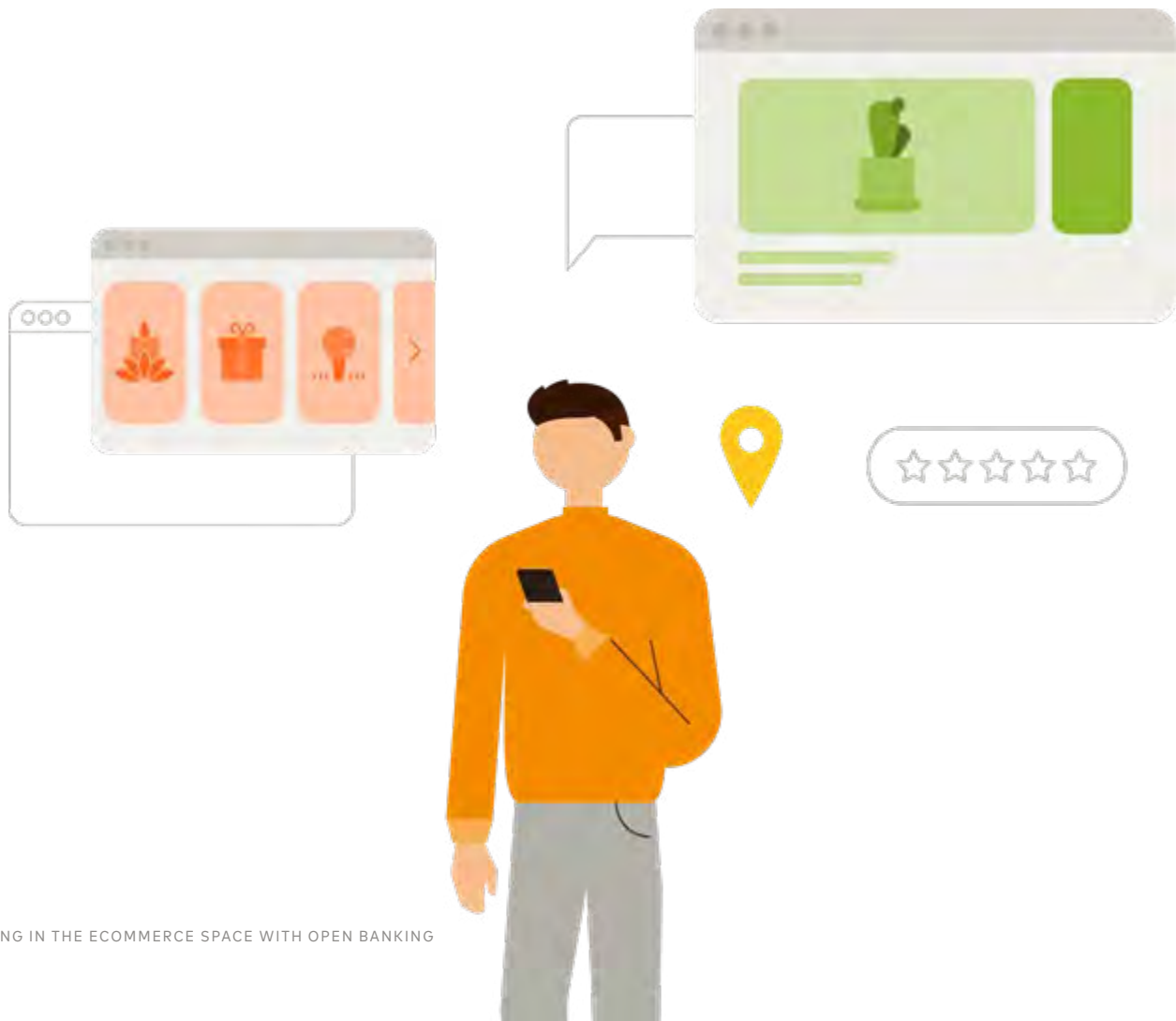
Recently, Mastercard broadened its Open Banking payment services with the launch of the Pay by Link option, which allows businesses, including merchants, to send payment requests via text message, QR code or email to their customers, who can pay directly from their bank account with a simple authorization. All payment information is included in the request, reducing the risk of error and bringing greater convenience to consumers and businesses alike.

Acquirer and gateways can integrate Mastercard's white label solutions into the retail experiences they have already created for their merchant customers. The global, trusted network provides connectivity across 18 European Union markets and gives customers the opportunity to use Open Banking to optimise their workflows and add fresh revenue streams.

Open Banking improves the ecommerce checkout

In the European Economic Area (and the United Kingdom), PSD2 requires third-party providers to register with a national competent authority and obtain an electronic certificate to provide services. By the end of March 2022, 535 third-party providers had secured the necessary approvals to launch their Open Banking solutions. Two hundred, or 64 percent of third parties, are permitted to provide payment initiation services – a proportion that's growing each quarter³

In the UK alone, the Open Banking Implementation Entity reports 15 new Open Banking products were launched between November 2021 and April 2022 for a total of 129 products in the market. Perhaps best of all, the number of consumers using Open Banking products rose from three million in November 2021 to six million by June 2022. At the end of 2021, cumulatively over 26.6m Open Banking payments had been made in the UK – an increase of over 500 percent in 12 months⁴.



A more convenient and trusted experience for consumers

As ecommerce booms, increasingly sophisticated online consumers are choosing to shop and spend on those retail platforms that offer seamless digital experiences and a high level of security.

Open Banking payment ticks both of those boxes. It's an intuitive, safe and timesaving option for customers and allows them to access a wealth of next-generation value-added services.

Here's why it works:



Trust

Consumers generally have high levels of trust in their own bank and feel comfortable using their institution's authentication procedures and interfaces to pay.



Transparency

Open Banking offers a high level of transparency for consumers who can check their online bank statements to confirm their spend.



Reduced fraud risk

The risk of fraud is reduced by using bank authentication, which is subject to specific regulatory requirements for strong customer authentication. This increasingly includes biometric fingerprint or facial recognition alongside passwords.



Payment options

Open Banking lets consumers easily access a growing number of flexible payment options such as paying in instalments or BNPL.

Higher revenues and greater efficiencies for merchants

Integrating Open Banking payment initiation options into ecommerce platforms is a quick and cost-efficient process that almost instantly reaps a wealth of tangible rewards for retailers.

Alongside improving conversions and boosting sales, it offers lower transaction costs, trims overheads, and reduces the risk of fraudulent activity.

New ways to request payment via links sent by SMS, email or QR code are also making it easier for businesses to send invoices directly to clients who can quickly settle outstanding amounts through Open Banking. It's not just traditional merchants that stand to benefit. In 2021, the UK's HM Revenue & Customs (HMRC) became the first government department in the world to accept Open Banking payments. In just over a year, more than £2.4 billion had been paid using this method⁵.

Merchants anecdotally report the following benefits:



Offering Open Banking payments leads to higher sales conversion rates as consumers find it a convenient and trusted way to pay.



Merchants can use Open Banking data to improve their customer experience and increase brand loyalty, which can translate into a rise in future sales.



Complementary networks and capabilities from Mastercard

As Open Banking for ecommerce grows, merchants and retailers are looking to swiftly incorporate the technology into their payment systems to keep up with demand from business-to-consumer and business-to-business companies for frictionless digital experiences.

Mastercard brings a wealth of experience with its solutions that combine Open Banking connectivity with its global card and bank account networks.

Aiia, a Mastercard company, operates an Open Banking platform in 18 European markets. In the Nordics alone, it initiates millions of account-to-account payments each month for banks and ecommerce retailers.

Three leading acquirers and gateways are already leveraging Aiia's capabilities for their merchant customers:

"With Open Banking we can get account-to-account payments through one integration for all Nordic markets. This is a clear advantage when it comes to both implementation and maintenance of our services."

– Eeva-Liisa Marjomaa, Development Manager, Avarda



Avarda

Avarda is known for its omnichannel payments platform that offers complete white label solutions to retailers and merchants. To provide a smoother checkout experience, Avarda recently teamed up with Mastercard to boost its core payment products with Open Banking that now forms part of its core checkout and BNPL payment methods.

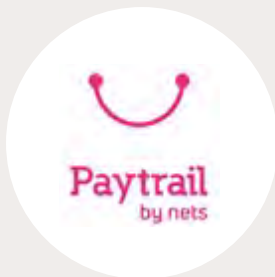
Avarda has launched a new user-friendly solution that shows consumers their invoice balance in real-time and information related to payments on the retailer's website.



Svea Finland

Svea is a European financial group that, among other banking and financial services, offers payment and financial solutions in the Nordic and Baltic states. Svea's Finnish branch has been working with Mastercard for a couple of years to activate Open Banking in Finland before rolling out its new solutions to clients in other territories.

"We had been looking into Open Banking opportunities for a while and were happy to take the next steps in partnering with Aiaa. Together we strive to deliver, expand and explore new opportunities in the e-commerce landscape," says Tomas Lundqvist, Svea's director of strategic partnerships and products in Finland.



Paytrail

Founded in 2007, Paytrail is the largest Finnish online payment company. It handles online payments for more than 20,000 customers as well as online payments for the State Treasury's Suomi.fi service. The company is part of Nets and acquired Checkout Finland in April 2021.

Using Aiaa's capabilities, Paytrail has implemented Open Banking payments in its checkout environment, redirecting end users directly to the bank when shopping online. This has resulted in more than a million Open Banking-based payments monthly. This number is expected to grow month-on-month as adoption rises.

Open Banking ecommerce payments that simply work

Open Banking offers growing potential for ecommerce as both retailers and consumers drive demand for the technology that offers a mix of lower costs, greater security and increased convenience. Teaming up with trusted network Mastercard allows retailers to leapfrog into the Open Banking arena and immediately start to enhance their shopping experiences and deepen their relationship with customers.

The value of global Open Banking payments is predicted to exceed \$116 billion in 2026 — a growth rate of over 2,800% in five years, according to Juniper Research. By disrupting ecommerce payments, Open Banking is helping build a better integrated digital ecosystem that promises to create a wealth of benefits for both consumers and businesses around the world.

To discover how Aiia can help to simplify payments for your ecommerce business, email sales@aiia.eu or contact your Aiia or Mastercard account representative.

Aiia, a Mastercard company

We work to shape the future of an inclusive digital economy where all businesses and people can live a simpler and more convenient life. Through our European Open Banking networks, partnerships, and passions, we seek to empower choice and security with a single infrastructure of payments and financial data.

The network allows businesses and financial institutions to integrate financial data and to offer account-to-account payments directly in their services to an estimated reach of 337 million European citizens.

Today, Aiia has more than 3.000 connected banks across 18 European markets, handled more than 100 million API requests on a monthly basis and more than 2 million account-to-account payment requests processed on a monthly basis for large banks and e-commerce payment gateways.

By enabling individuals, financial institutions, governments and businesses with Open Banking we help them meet the demands of the modern consumer. All while giving them the freedom to pay without having to press pause.

That's Open Banking that simply works.

1. European e-commerce report, 2021

2. Source: Mastercard New Payments Index. Research conducted by The Harris Poll and Mastercard Global Foresights, Insights and Analytics from March 21 to April 21, 2022.

Definition provided for Open Banking: Connecting your bank account to these tools is considered "Open Banking." Simply put, Open Banking gives you the ability to share your financial accounts' data to access innovative financial service experiences. Traditionally, only you and your bank could access your financial data. Open Banking allows you to share that data with another financial service provider —either a different financial institution or third party, for your own use. These third-party providers can include a wide range of fintechs, currency exchanges, merchants and other digital platforms

3. Q1 2022 Konsensus third party provider Open Banking tracker

4. OBIE

5. UK Open Banking marks fourth year milestone with over 4 million users, 13 January 2022



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