Guide to alternative payments

Alviere

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Alternative payment methods allow consumers and partners to pay using accounts and digital wallets funded through direct deposits and bank transfers. Money movement that bypasses card networks is attractive for both payers and receivers. As traditional payment methods incur effort and cost, there are compelling reasons to pursue alternative means of payment.

McKinsey, in its **Rise of Alternative Payments report**, states:

> “85 percent of merchants are planning to accept new alternative payment methods – defined as nontraditional payments, like digital wallets, account-to-account (A2A) bank transfers and buy now pay later (BNPL) – in the next one to three years.”

In this guide, we'll explore how alternative payments can impact consumer purchase, streamline partner and supplier payments, and reduce the costs associated with processing payments.

ALTERNATIVE PAYMENTS DEFINED

The broadest definition is any payment that is not cash. Currently, cards are the most prevalent payment method for consumers, due to their ubiquity and ease of use. However, the use of digital wallets is growing exponentially, driven by its appeal to digital natives, with Gens X, Y, and Z driving increased adoption.

A more updated definition excludes cash and credit card payments, with money moving freely without card networks. Excluding cash and cards, alternative payment methods include:

- Pay-by-bank or direct bank payments - Payments via ACH, wire transfer, checks, and direct deposit.
- P2P - Payments made from one person to another, typically through an app-based platform.
- Account-to-account - These ledger-based transactions occur without intermediaries, when payer and recipient share a financial institution, or singular ledger.

The evolution of payments
Dating back to the **Lydians**, coins became the monetary unit, eventually evolving to paper money and checks. The advent of credit cards removed the reliance on physical materials, taking us a step further towards digitization. Now, digital exchanges dominate the payments landscape with a multitude of options, including contactless, mobile wallets, and electronic bank transfer.

Why does this matter? Because the drivers behind the evolution to digital payments are the same: Speed, accessibility, and cost. The questions currently faced by businesses and consumers alike:

- What's the fastest way to get paid?
- What's the easiest way to pay?
- Can payments effort and cost be reduced?

More options for payers and payees
Easing the burden for payers and payees is the fuel for payments innovations, and also gives each more options. Previously, recipients were paid the way the business dictated. With more options available, employees, partners, and suppliers now choose the payment that benefits them the most. For example,

> Sellers on an online marketplace may opt for faster payment through a marketplace-branded account that can then be used for purchases on the marketplace, or saved with interest, much like a traditional bank account. This scenario supplies a competitive advantage to the marketplace, and can also return a percentage of the yield on balance.

CONSUMERS WANT FAST, CONVENIENT, AND SECURE PAYMENTS

Fast: Instant payments
Real-time everything, driven by broad access and technology, has lifted expectations for payments, including payouts and payroll. Giving faster access to funds for marketplace sellers & hosts, free-lance workers, and employees drives retention and satisfaction. For employees, providing access to wages earned at any given point in time avoids payday loans and their excessive interest and high fees.

Marketplaces that give sellers an incentive to continue to use (and prefer) a specific platform reap the rewards in the long-term, honoring the sellers with fair rates and immediate access to payouts, vs waiting weeks or months for their due.

> **Uber's Pro** program fuels driver loyalty, ensuring an available and committed workforce for Uber's millions of customers. The Pro program is a tiered rewards program that unlocks benefits for drivers as they complete more rides or deliveries.

Convenient: Meet me where I am (on a smartphone)
Commensurate with growth in smartphone ownership, **forty-six percent of U.S. consumers** report having made a mobile payment. With phones within reach throughout the day, the average daily smartphone use is **four hours and 37 minutes**. It follows that paying bills, moving funds, and checking digital wallet balances would be part of that phone use, offering more engagement and mindshare for business..

Online, in-app purchases allow consumers to see an item in their feed, and in a few clicks, make the purchase. [**Deloitte**] estimates that in-app payments could constitute as much as one-half of overall social commerce payments by 2030. Wallets can further streamline this process, removing the need to select a payment type and enter the information for each purchase.

Secure: Digital payments
McKinsey reports that nine out of 10 consumers say they have used some form of digital payment last year. Sixty-nine percent of respondents ranked trust and security among their top criteria. Trust is an interesting attribute for digital payments, effectively measuring the offering brand's overall trustworthiness, perhaps a reflection of past consumer experience and service. That trust, coupled with relevant regulatory compliance and payment security monitoring, assures users of ongoing diligence.

Businesses benefit from more revenue at lower cost
Cash and checks no longer dominate the payments landscape for consumers, and increasingly for B2B payments. Pay-by-bank, or direct payments, bypass more costly routes for both payers and payees.

Consumers prefer card payments for ease of use and the ability to pay with digital wallets. Tap-to-pay has never been easier, and recent advances in technology will continue to reduce buyer friction.

> **Scan and Go** at Sam's Club allows consumers to shop, scan and then walk out with their purchases, bypassing checkout lines. One in three shoppers used the technology, and its use has contributed to impressive growth, especially with younger, digitally-savvy consumers.
>
> **Walmart+** loyalty program members can arrange for return items to be picked up at their homes, earning a placement on **Fast Company's innovator list**. Returns are deemed "a cornerstone of e-commerce and essential to keeping customers loyal."

Gartner estimates that by 2025, organizations offering a unified commerce experience by frictionlessly moving customers through journeys will see at least a 20 percent uplift in total revenue.

For the business, removing card networks from transactions is a powerful incentive. Each swipe incurs transaction fees, which can be particularly expensive for high-volume, lower dollar transactions. That is, four purchases of $15 each will be more costly to the merchant than one transaction of $60. As consumers increasingly opt for digital wallets, offering the ability to pre-fund for their next purchase is extremely compelling for merchants, with lower transaction cost.

B2B Payments evolution
Many organizations rely on network card payments to help manage funds and to accumulate cashback and discounts on their spend. However, using these cards does carry fees for the receiving company. There is a powerful incentive to offer non-card payment options for business buyers. Increasing the payment options for existing loyalty programs is a natural extension of capabilities, and can serve as a gateway to offering additional financial products.

REDUCING THE COST OF PAYMENTS

In its **Top 5 Payments Trends Shaping the Payments Landscape in 2024** report, LexisNexis says reducing payments cost is an imperative for businesses. Each year, $2.7 Trillion is spent on manual invoice processing, with an average global fee of $12 per rejected or repaired transaction. Automating more of the internal processes solves a significant portion of this problem, but payment fees will be persistent. Account-to-account (A2A) payments can lessen the fees associated with existing payments.

According to the Worldpay **Global Payments Report,** A2A payments are projected to grow at 13 percent CAGR through 2026, reflecting the interest in alternative payments for both business and consumer transactions.

> A **B2B payments eco-system** is when funds flow seamlessly from one account to another within the same infrastructure. In a traditional bank model, this could be described as money movement between two accounts at the same bank. Applied to a B2B scenario, a large distributor or franchisor would provision accounts for all retailers or franchisees. These accounts would house all payments and expenses without requiring bank-to-bank transactions.

CONSIDERATIONS FOR ALTERNATIVE PAYMENTS

Like any new product or service, offering new ways to pay requires careful consideration of a customer base, purchase patterns, and the business' ability to execute. Key questions include:

- What payment methods do we currently offer?
- How do most of our customers buy today?
- Where are friction points during the purchase path?
- Do our competitors offer more payment methods?

It's also important to use macroeconomic data and consumer trends to align with purchase behavior. Generationally, there are stark differences in how customers prefer to pay. While it's important to deliver the preferred method(s) for the company's primary demographic, it would be myopic to cater only to that group. Acquiring new customers also requires considering the complete customer experience, including the last mile purchase process.

Armed with data on current and prospective customers, adding new payment methods is an iterative process. Melding consumer payment trends, customer purchase patterns, competitive actions, the existing infrastructure and strategic goals provides a rich environment for discovery and innovation. The question becomes, "what would satisfy our customers' demand for convenience and contribute to our strategic initiatives?"

DESIGNING YOUR FINANCIAL PRODUCT PROGRAM

Assess: Start with what you have

The obvious place to start is with the existing solution. Even if a full reinvention is warranted, it's important to take a close look at why the current (or previous) payments infrastructure is insufficient. And consider all elements. If customer complaints are the primary driver for change, are there internal considerations as well? Are there opportunities to improve, become more efficient? Or, conversely, what about the previous system does work? This thorough examination typically crosses functional boundaries. Involving payments, CX and loyalty teams, product managers and finance experts. Effort, cost and experience are the three facets of the exploration.

Dream: Unleash innovation

Once the current process and system inventory is complete, it's important to shake off the binds of the current solution. Consider pure innovation: If we were creating our payments solution from scratch for our most valuable and desired customers, what would it look like? Too often processes of the past, while justifiable, become limiting to pure innovation. Understanding and balancing the true requirements with the nice-to-haves is a powerful exercise across all disciplines.

Assure safety: Apply a compliance mindset

Accepting payments of any kind involves risk, as fraud can appear in most all cases. Diligence, security and safety protocols and ongoing vigilance should not be minimized, and cannot be avoided with any payment method. It's an inescapable truth, and one that protects the business.

The amount of risk a company is willing to accept to accept various payment types is a critical foundational element for existing and new payment strategies. The most risk averse would only accept ACH or wire transfers, however, that limits the number of buyers. Understanding the risks associated with each payment method, and applying best practices towards managing and mitigating risk is a decision only the company offering the financial product can answer.

This is where applying external knowledge from fraud and compliance experts can shape what is possible — and acceptable — for the company to offer. Best done early in the design and discovery phase to erase any last-minute surprises or unexpected input from those not previously involved in the discussions.

Architect: Understand the existing technology stack

As with any initiative that involves technology, understanding the implementation and implications for existing systems is paramount. The complete ecosystem is impacted by changes or additions to payments. Key systems include point-of-sale (POS), customer relationship management (CRM), accounting, and loyalty management platforms all play a role in processing payments from customers.

Not only is it important to know how these systems will connect and be impacted by change, but can be an area for improvement and innovation. Planning around not only what is, but what could be, requires system and integration expertise to ensure a seamless workflow and implementation. This includes discussions of QA and testing in the planning timeframes.

Go time: Launch, manage, and support teams
Launching a new payments method requires enrolling customer facing teams as well as a thoughtful approach to launch. A brand that has built trust with its customers can leverage that when offering a new payment method, and in fact, may go largely unnoticed until purchase, when a new option appears. It's also possible that the launch of a wallet, for example, may bring added value to customers, and require some enticement for initial use. Promoting alternative funding options (non-network) offers significant savings to the provider, but is seen as an equivalent, or require more effort from the consumer. Understanding that dynamic can frame the incentives for use, in either the short- or long-term.

As with any program, there are myriad elements to oversee, during design, development, launch, and optimization phases. Allocating a cross-functional or dedicated team at the outset will better drive success.

Taking a phased approach
It's important to understand the inherent incremental nature when offering financial products. While some programs are greenfield, new-from-scratch efforts, many more are phased approaches. Adding the next logical step to an existing process can be the stepping stone towards the larger initiative, while demonstrating early success with a minimum viable product (MVP) approach. This can serve to assuage concerns about disruption, cost and effort.

Into the future: Continuous improvement
Taking the first step towards alternative payments provides a window into purchase behaviors to drive future initiatives. Building on payments innovation opens the door to additional services, each adjacent to the previous step. Offering wallets then leads to funding sources, including pay-by-bank, ACH, and direct deposit options, sidestepping network fees and processes. Using the savings from alternative funding methods expands loyalty programs and rewards customers.

Adding cross-border remittances to accounts and wallets, provides more options to customers when sending money, and feeds the program with FX rates and fees. What starts as payment innovation with a keen eye towards better CX ends with newfound capabilities, and increased trust. Companies offering a wide variety of payment methods reap the rewards from customer loyalty, more purchases, as well as savings in both direct cost and effort.

THE NEW IMPERATIVE: ALTERNATIVE PAYMENTS

Alternative payments is a set of options to offer to customers and partners. It's the perfect marriage of how they want to pay, and how and when the business wants to manage payments. Adding more options can remove resistance and obstacles, speeding payments and lowering the cost of processing.

Direct bank or account-to-account transfers bypass expensive networks, and offer the same ease and convenience to buyers. Stored value wallets retain customer funds for next purchases and holds rewards along the way. Meeting customers throughout the buying journey with convenience, speed and security rewards the business with more revenue, lower costs, and a path to the future.