

POSITION PAPER:

# Retail payment fit for the retail future

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## About Nordic Initiative

Nordic Initiative is the leading platform for Nordic retail industry initiatives. Together retailers are solving important industry challenges faster, smarter and more efficiently than participants can do on their own. By bringing together knowledgeable, impatient, bold and proud leaders across sectors and borders we are reaching our vision to have Nordic become the global reference for retail excellence.



## About this paper

This is a position paper describing what the Nordic retailers expect from payment provider ecosystems in order to support seamless and effective customer journeys regardless of composition of in-store, online and/or

mobile channels. The paper is written and supported by Tier1 retailers who collectively provide services to all citizens in the Nordic region, representing billions of payment transactions every year.

## Purpose of this position paper

Payment has always been an important part of the consumer journey in retail. The Nordics are on the path towards a cashless society, where regulation and new technology drives the pace of the change. But as complexity increases, and new players and innovation thrive, retailers are forced to take a stronger grasp on the surrounding partners to enhance the competitive edge of retail experiences.

Every year retailers facilitate billions of purchases and interact frequently with more consumers than any other sector. This makes the retail sector by far the biggest users of payment solutions and the most important interface towards consumers. It's a common position in the retail industry that the payment industry approach to adapting to the needs of the industry aren't met. The current solutions are dominated by banks, card schemes and bigtech payment platforms with business models and solutions that do not fit the future of retail (consumer centricity, interopera-

bility, robustness etc). Despite regulator efforts to incentivise the payment industry to shift focus (such as PSD2), needs are still not met. The API's do not work in accordance with the requirements, the mechanisms for strong customer authentication are cumbersome and not standardised.

The participants in Nordic Initiative have written this paper as a call to action and an invitation to dialogue with:

- banks, card schemes and solution providers,
- other retailers that have identified the same challenge as us,
- regulators who want our input and
- innovative newcomers wanting to help!

The participants in Nordic Initiative offer the following descriptions of what principles and guidelines representing retail payment services fit for future retail, together with a collective invitation to address the hurdles of retail payment.



# Principles

## Standardised, rich and effective APIs

APIs must support customer centric retail experience across different channels. API providers should adhere to industry standards and market best practices catered by independent bodies to provide predictable time to market for new and changed capabilities. Independent bodies, referred to as standardisation regimes with a governance catering for both demand and supply side of payments.

## Resilience at the retail front

Threats against infrastructure, including dependence on mobile phones, represents new challenges for retailers, when it comes to ensuring that they fulfil their role in the societies they are a part of. It is therefore important for retailers to use robust solutions, which can operate and adapt through times of crises.

## Enable A2A payments at scale

The EU agenda driving towards increased European autonomy has proven that change will not come from incumbents. Regulator's efforts have proven not to be sufficient to drive adoption of open payments (PSD2). Retailers urge the payment industry to come up to par with card scheme payments. Merchants need richer messaging and more functionality to handle payments in the real scenarios, especially for ecommerce and mobile payment use cases (i.e. refund/part refund, re-authorize).

## Support merchants in fighting fraud

Currently merchants must buy or develop their own solutions for fraud management. Incidents of fraud generate poor customer experiences, even if merchants have liability shifts and get their money. Merchants should have more support in fraud prevention.

## Low, predictable and simple fees

The payment solutions should be cost effective across the total cost of the value chain. Levelled to actual and measurable risks. Not proportional to the amount of a basket to enable the merchant to orchestrate prioritisation of preferred payment services

## Flat fees

Retailers urge suppliers to offer flat fixed transaction fees instead of percentages regarding the amount of the basket. As the majority of the financial transactions in the nordic market is online debit transactions, the risk and cost for these are the same regardless of amount, to ensure transparency, and have the possibility to do surcharge without discouraging the customers from increasing their baskets, retailers would like the opportunity to choose flat fees on transactions instead of percent based.

## Improved support for different retail scenarios

Variable recurring payments, flexible risk based payments, different use cases are not limited to concepts like Pay first, buy later (Petrol), Pre-orders (goods available long time ahead, hence long auth period needed or "deposit"), hospitality or channels ecommerce, in-store, subscription, in-app to provide a better fit for applying appropriate services to different retail scenarios in the perspective of the retail customer.

## Lower the burden of change (no lock-in)

Payment providers must adhere to standards and best practices acknowledged by the retail community to lower the burden of change and remove lock-in effects (different standards or other barriers that make it difficult to change vendors to co-exist in the same retail ecosystem).

## Improve retailers ability to control the orchestration of customer dialogues

Payment providers must allow the retailer to be in control of the client relationship and the transaction data generated in the retail channel to ensure all embedded service offerings are aligned with the retail brand.

## Modularity and combination of suppliers

Nordic retailers individually compete by combining the best that the market can bring regard to digital transformation so as to create retail excellence. The participants see value in being freely able to combine services in each retail platform. Retailers are therefore interested in the modularity, interoperability or bundling of services to ensure embedded service offerings are aligned with each retail brand.

**«The participants see value in being freely able to combine services in each retail platform.»**



# Hurdles urged to be addressed by the payment industry



## Contextual authentication with the ability to be levelled up when required

The retailer needs an effective way to identify a customer. The quality of ID should be based on the situation the payment is being made, e.g. regular, small, on the run payments. Buying a coffee would require less quality of the ID than large, one-time purchases (buying a TV).

## Real time clearing and settlement

The funds must be available for the retailer at the time of the commitment of the purchase to ensure that liquidity risks are minimised in a viable manner.

## Non-demand driven scheme fees

The card schemes need to lower their fees on in-store payment to reflect the low risk of the transaction (is it not the same scheme fees already now with SCA in ecom) to ensure that the demand side is levelling the cost side of supplies.

## Payment and loyalty interplay

Previously merchants could create payment tokens by saving card/bank account details and thereby recognize customers and present personalised

offers via the checkout process. With the trend of tokenization this is increasingly difficult across payment methods and retailers require a unified way to reduce complexity when identifying loyalty program members directly via their (tokenized) payment instruments to enable a unified way of identifying customers.

## Unified commerce

With payments increasingly performed not only in-store, merchants with omnichannel and franchise setups need full flexibility in payment modifications like re-authorizing, adjust authorizations, (part)captures and (part)refunds, to be able to create good customer experiences regardless of where customers want to for instance return a product bought online. Retailers need improved payment management capabilities across channels.

## Modernised Proof of Delivery and liability shift

Modernised rules for proof of delivery where the payment provider takes liability for orders delivered, and where physical/digital signature is not collected, (like unmanned pickup lockers and other distribution channels where other proof of delivery like digital trace of opening locker etc.) should be sufficient for a more balanced risk allocation between payment provider and merchant

## Return money to customers

Payment providers have their focus mostly on the checkout experience. But merchants need full solutions that make it easier to return money to the initial funding source with a stable solution merchants can rely on. This applies to all payment providers that want to tap into card schemes business like Swish or A2A payments in order to cater for full solutions beyond checkout.

## Retail friendly ecommerce payments

User friendly payment solutions in ecom are primarily based on card schemes offered through duopolistic market offering. While domestic schemes are not yet offering viable payment services in the online space, and the outcome of the PSD2 hasn't reached the retail industry, the dominance of the global schemes are increasing. Retailers require better offerings from local schemes. PSD2 payment offerings are fragmented and immature making it hard for them to compete with existing offerings.



Scan the QR-code to learn more about this initiative and the retailers that supports the position paper.

Feel free to contact us if you have any questions or comments on: [contact@nordicinitiative.com](mailto:contact@nordicinitiative.com)

