

How to implement online payment?

Online payment methods are becoming increasingly important in the European tourism market. Credit and debit cards, digital wallets and bank transfers are the most common types. Non-card payments are becoming popular. The rise of mobile technology drives demand for mobile payment methods and last-minute bookings. Preferences differ per European country. To increase your sales, you need to select the right online payment methods for you and your target markets.

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1. Product description

Online payment can be defined as money that is exchanged electronically. This typically involves the use of computer networks, the internet and digital stored value systems. After clothes and sports goods, [travel products are the second most popular online purchase in Europe](#). In fact, [from 2017 onwards the majority of European travellers' bookings have been made online](#). To do business on the European travel market, you need to provide international payment methods.

International payment has always been a challenge in the tourism industry. Over the years, various business models have led to substantially different payment needs. For many tourism companies, their business model is evolving rapidly from business to business (B2B) into direct online sales to consumers (B2C). [Direct online bookings are the fastest growing sales channel](#), expected to account for around a third of the European travel market by 2020.

However, in some developing countries online payments are a barrier for growth. Besides payment systems sometimes not working or being too expensive for small businesses, they often simply are inexistent. Because [European travellers are used to problem-free online purchases](#), they do not always understand why their travel payments need to be complicated and take a long time. As a result they may lose confidence, become suspicious and decide not to book a particular holiday.

Industry experts indicate that there is no short-term solution, as many payment issues are greater than simply the technology. They involve changes in the banking infrastructure and government regulation. For banks and payment providers to support small business, they must see the business opportunities and economic benefits. Tourism boards can work with them to streamline the process of providing merchant services to small businesses.

In the meantime, you should be prepared for the arrival of online payment methods in your country. When available, online payment methods offer you promising opportunities. This study helps you get started.

Among European e-shoppers, [the most popular payment methods are credit and debit cards, digital wallets and bank transfers](#). Other online payment methods are not commonly used for travel purchases, such as direct debit (SEPA) payments, which are popular for regular and predictable payments like subscriptions. Direct Carrier Billing charges directly to a subscriber's monthly phone bill, but this is not common practice in Europe.

Card payment

On average, [Europeans have 1.5 payment cards per person](#). In practice, this means pretty much all Europeans have a debit card. About half of your potential European customers will have a credit card. To buy online with

their credit card or debit card, customers enter their card details into a payment gateway. There are global card schemes like MasterCard and Visa, as well as local cards like Carte Bancaire (France).

Credit card

The credit card is one of the most popular methods for paying internationally and paying online. It allows the cardholder to make purchases on credit, thus essentially loaning from their bank. The cardholder pays the money back at a later date.

Advantages

- **Security and credibility:** credit card payments come with many customer protection mechanisms. This means customers are generally more willing to pay by credit card.
- **Currency conversion:** the customer carries the burden of currency exchange. This means that you can charge in your own currency and the customer pays the converted amount.
- **Faster payment:** in most cases, you can get access to your funds more quickly than through other methods. For example, a foreign bank cheque may take 30 days to clear, whereas credit card funds may be available within 24 to 48 hours.

Disadvantages

- **Country restrictions:** in some countries international credit card payments are not allowed, or blocked/controlled by their central bank.
- **Fraud:** if you cannot offer payment through a secured system, you could ask your customer for their details and charge their card yourself. However, you need a copy of the front side and back side of the credit card. Because this is highly sensitive to fraud, European travellers are very hesitant to work with this method.
- **Price:** the use and acceptance of credit cards costs money. Travel is considered a high-risk category because of the time between the sale and the actual consumption of the service. This means that travel companies often have to pay 3-5% per transaction, even small tour or activity operators. On top of these fees, you can expect to pay a per-service fee and monthly statement fees. You need to take these costs into account when pricing your products.
- **Protection for consumers but not for merchants:** in case of a dispute between a consumer and a merchant, credit card companies tend to favour the consumer. With a chargeback for example, usually you must prove you delivered the product and back this up with documentation. This “guilty until proven innocent” approach can be a real challenge for small businesses, especially if you rely on prepayments to secure services for your customers.
- **Deposits & rolling reserves:** it can be difficult for travel companies and tour operators to secure merchant accounts without large deposits or rolling reserves. This means a portion of the credit card volume processed is secured to cover the risk relating to chargebacks. Sometimes this involves more than 30% of transaction receipts.
- **Increased security requirements:** having a merchant account requires [Payment Card Industry \(PCI\)](#) compliance and secure certificates. These increased security requirements can cost anywhere from a few hundred to thousands of euros, depending on the transaction volume. If you do not undergo these processes and your data is compromised, you will be subject to huge fines. Intermediary companies can handle almost all PCI requirements for you.

Debit card

Another popular online payment method is using debit cards. Unlike with credit cards, payments using a debit card are immediately transferred from the cardholder's bank account.

Advantages

- **Availability:** the penetration of debit cards is huge in Europe. This means that most Europeans will be able to pay online with their debit card.
- **No loan:** customers are spending money that they have saved instead of loaning from the bank.

Disadvantages

- Difficulty in resolving disputed charges: for customers it is more difficult to resolve disputed charges on payments by debit card than payments by credit card. This may lead them to favour credit cards.

Bank transfer

Bank transfers can be conducted through online banking or at the physical location of the bank. Where online banking is available, it generally replaces the online use of debit cards. European banks usually provide their own online banking services. If bank transfers to your country are not possible, you could open a bank account in another country. Preferably in your target market, or a country close to it.

There are multi-bank systems that connect to the online banking portals of several banks, like iDEAL (the Netherlands) and GiroPay (Germany). Another common type of online bank transfers is via a third party overlay that requires the consumer's online banking credentials, like SOFORT (Germany) and Trustly (Europe). Western Union, a traditionally popular provider of money transfers to developing countries, now also offers online transfers.

Advantages

- Availability: almost everybody in Europe has a bank account.
- No chargebacks: when the bank has received the payment, the consumer cannot reverse the transaction.
- Relatively low fees: compared to card or alternative payments, the transactions costs of online banking are low.
- Real-time payment guarantee: when a consumer initiates payment, their bank authenticates the transaction and guarantees payment.

Disadvantages

- Time: although you receive a real-time payment guarantee, actually receiving the money generally takes longer. Bank transfers are often directed via one central (state) bank, which can take several days.
- Legal issues: when opening a bank account in another country, you might encounter legal difficulties. Sometimes the only way is to open a branch or a fiscal representation in that country.

Digital wallets

Digital wallets or eWallets, like PayPal and Paylib (France), allow relatively fast and easy online transactions. These virtual counterparts of physical wallets are rapidly gaining popularity. Worldwide, [digital wallets are expected to become the leading online payment method by 2019](#). They can be connected to users' bank accounts via their credit and/or debit card.

PayPal is the most common digital wallet. [In some European markets, PayPal handles nearly 20% of online transactions](#), like in Germany and the United Kingdom. However, in some countries PayPal is not supported.

There are two types of digital wallets:

Preloaded digital wallet

A preloaded digital wallet is prepaid. Users have to fund the wallet before they can pay for an online transaction. They can add funds to the wallet by various means of payment, such as cards or online banking. The balance on the wallet can be used to pay for online and mobile transactions. This type of digital wallet is the traditional eWallet model.

Pass-through digital wallet

A pass-through digital wallet authenticates the user. The actual transaction is made through a linked payment system like a bank account or credit card. At the moment of payment the user selects a "stored" payment method to finalise the payment to the merchant. This way the user does not have to store funds in the wallet.

Most traditional preloaded digital wallet brands have added pass-through options. This allows the user to choose their preferred payment method at the point of checkout.

Advantages

- Popularity: digital wallets are becoming an increasingly popular payment method.

Disadvantages

- Limited support: some countries do not support the most popular digital wallets like PayPal.
- Fees: digital wallets often come with considerable fees, including both transaction costs and a percentage of the total sum.

Payment gateways

If you would like to offer your customers multiple payment options, you can use a payment gateway. Payment gateways allow your customers to buy securely from you online. They manage the transfer of funds to your merchant account and bank account. Worldpay is a payment gateway provider specialised in the travel industry. Other popular gateways for travel providers include Adyen and DirectPay.

Advantages

- Security: payment gateways pose little risk of credit card fraud or scams. Protecting your customer's sensitive data is vital to their success, making it a key priority. Also, European consumers consider payment gateways to be trustworthy.
- No separate applications: you do not need to install an application for each payment method. You can buy packages based on the payment methods customers in your target country prefer.
- Cancellation policy: payment gateways usually allow you to implement a cancellation policy. This prevents you from missing out on money if your customer does not show up.

Disadvantages

- Transaction process: transactions cost money and are sometimes paid in batches. This can be either at a set date or when the transactions have reached a certain amount.

2. Which trends are influencing the market for online payment methods?

Preference is shifting to non-card payment methods

Travellers increasingly prefer to use alternative payment methods for their bookings. Most of them only use card payments because there no other options are available. For example, around 23% of German travellers pay their bookings via PayPal and 34% via credit card. This makes credit cards their most commonly used payment method for travel bookings. However, 73% of those who paid by card indicated that they would have preferred an alternative payment method.

The preference for alternative payment methods is especially strong among millennials, born between 1980 and 1999. This further drives the increasing demand for non-card payment methods in the long run.

Tips:

Study the options in your country and invest in alternative payment methods. For example, [check whether PayPal is available in your country](#).

Research the most popular alternative payment methods in your target countries.

Mobile payments are on the rise

Mobile bookings are becoming increasingly common among European travellers. [Mobile's share of online travel bookings increased with double figure growth rates in 2016](#). Almost a third of Scandinavian online travel bookings were mobile. Markets like Germany (15%) and Austria (17%) were lagging behind, but also showed strong growth. For Europe as a whole, [mobile is expected to reach a 25% market share in 2017](#).

These mobile bookings drive the demand for mobile payment methods. This suggests [mobile payments are an interesting opportunity for the travel industry](#). Worldwide, mobile payments are estimated to have a 16% share of the travel market. Their share in general online sales is double, at 32%. Obviously there is considerable untapped potential in the travel industry.

European customers are increasingly using mobile devices to pay for goods or services. [The number of Europeans using mobile payment methods tripled in 2016](#), an impressive increase. Some 77% of Europeans have used a mobile device to make a payment and 54% do so on a regular basis. Mobile payments are especially popular in Scandinavian countries, while France and Germany lag behind.

Some 44% of European mobile payment users buy high-value items like holidays with their mobiles. 71% of them use digital wallets on their mobile device. By 2020, the most popular mobile payment devices are expected to be smartphones (89%) and tablets (71%).

Again, this relatively new payment method is most popular among millennials. Combined with the increased availability of mobile booking, this makes mobile payment a key trend for the coming years.

Tips:

- Make your online payment gateway compatible with mobile technology.

- Focus on compatibility with smartphones and tablets.

- For more information, see [What does the Mobile Payments user in Europe look like?](#)

Mobile technology drives last-minute bookings

Last-minute bookings are a hot topic across the tourism industry. For example, [adventure travel providers list last-minute bookings as a key general industry trend](#). They are especially popular in the tours and activities sector. [Most European travellers book their tours and activities whilst on holiday](#), or shortly before.

Mobile technology fuels the popularity of this type of bookings. Providers report a [huge increase in last-minute tour and activity bookings on mobile](#). In addition, [most last-minute accommodation bookings are made on mobile devices](#). This means you need a good online presence, compatible with mobile devices. If travellers cannot easily book mobile with you, this could drive them to your local competitors.

Although especially popular among millennials, [last-minute bookings are a trend across all ages](#). About 1 in 3 millennials often make last-minute holiday plans, compared to 1 in 4 older travellers. Driven by the mobile revolution, this type of bookings is obviously here to stay.

Last-minute bookings make it easier for travellers to pay in person, thus avoiding any difficulties regarding online payment. However if your guest prefers online payment, you have an extra hurdle to overcome: time. The payment has to be arranged fast.

Tip:

Think about how you want to deal with last-minute bookings. Can you offer last-minute online payment? Research the fastest way to get money from Europe to your bank account. Keep in mind that urgent transfers may cost more.

3. How to select the right payment method for your business

Selecting the right payment method is crucial. In general, [providing the top 3 payment methods in your target market can increase conversions by up to 30%](#). The popularity of payment methods varies greatly per European country. Western European consumers are generally most open to making cross-border online payments. Local payment methods are crucial. For example, [in the Netherlands, the local payment method iDEAL accounts for 57% of all online transactions](#).

The following figures give an overview of the most commonly used payment methods in some key European source markets. This provides an indication of which methods travellers in your target market would use, given the choice.

Figures 1-6: The most used online payment methods in European countries

Tips:

Study the preferred payment methods for your European target countries. Select the providers that are right for you. Look at aspects such as availability, customer experience, reputation, currency compatibility, security and pay-out policy.

Give your customers a choice of payment methods, including the preferred methods in your target countries. If possible, offer at least credit card and PayPal payment options as these cover most markets. Check [which specific credit card schemes and alternative payment providers are most popular](#) in your target countries.

Consider using a payment gateway provider to handle your payments for you.

Look into the possibilities of opening a bank account in a European country. Sometimes this can be cheaper than using your own bank account for a payment gateway.

Clearly state on your website which payment methods you provide.

Ask colleagues in your industry how they have arranged international payment. Their experience can be valuable, as each country has its own rules.


If you are a member of chambers of commerce or business/industry associations, find out if they have a partnership with a merchant processor. You might be eligible for preferred rates through an association membership.

Many European countries have [national e-commerce associations](#) that look after the interests of online merchants and suppliers. These associations can provide you with more in-depth market


knowledge. They also give you access to a network of e-commerce experts and industry related events.

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