



# Fundamentals of Digital Payments

# Learning Journey

## Day 1

- What are P2P Payments and Digital Wallets
- Global and Industry Landscape
- Economics of 'P2P Payment' and 'Digital Wallet'
- Revenue vs. other Payment Products
- Merits of P2P and Digital Wallets
- Deep dive on P2P Products and their Revenue models
- Key challenges
- Group Case Study – Weyay, KEM and Liv

## Day 2

- What are Payment Gateways
- What are different Payment Gateway services
- How do Payment Gateways work
- How do Payment Companies make Revenue
- Payments Business valuation enablers

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# DAY 1: Peer-to-Peer Payments and Digital Wallets

# 1. What are P2P Payments and Digital Wallets

# Peer-to-Peer Payment

Peer to Peer (P2P) Payment is a method by which a user can send money digitally from his account to another person's account using the Internet or a Mobile device

When an account holder signs up for a P2P Payment service, they need to connect a personal bank account to the service - typically through an online portal or mobile app



# Digital Wallets

Apps that allow conducting financial transactions via devices. They secure payment information and may hold digital currency of value. They enable in-store and ecommerce payments

Digital wallet can be setup as:

Closed: funds usable only with the Issuer

Semi-closed: funds usable at partner merchants that get added over time

Open: Use at any merchant and allow fund withdrawal at ATMs





# The “P2P Payment” and “Digital Wallet” connection...

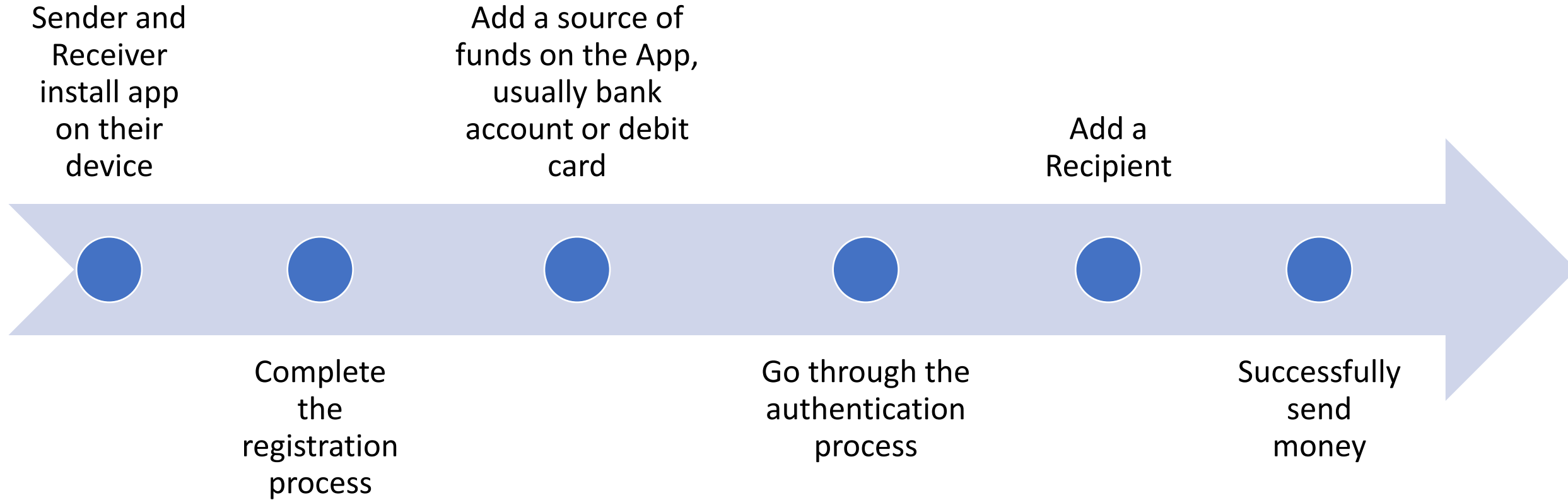
While the terms are used interchangeably, technically –

P2P Payment is the functionality to allow instant transfers without the need for a bank account directly

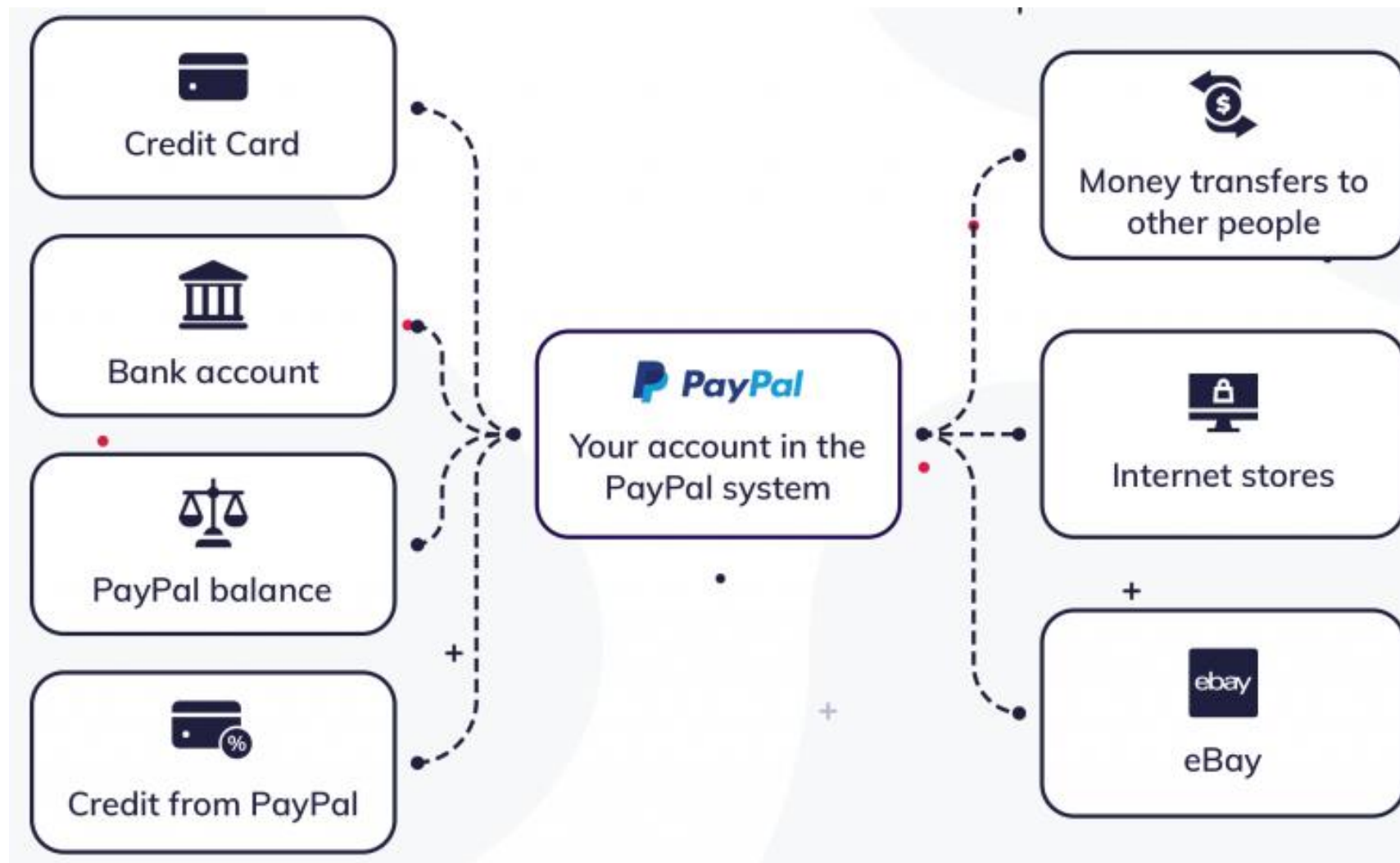
Digital Wallets hold a digital currency of value. Digital Wallets also enable P2P transactions if the functionality is made available



# How do P2P Payment Systems work?



# P2P Payment setup can include multiple channels and use cases



## 2. P2P Payments and Digital Wallets Landscape

# P2P Payments and Digital Wallets have surged across GCC

BANKS	FINTECHS	TELECOM	RETAIL & ECOMMERCE	RIDE & DELIVERY	TECH & SOCIAL
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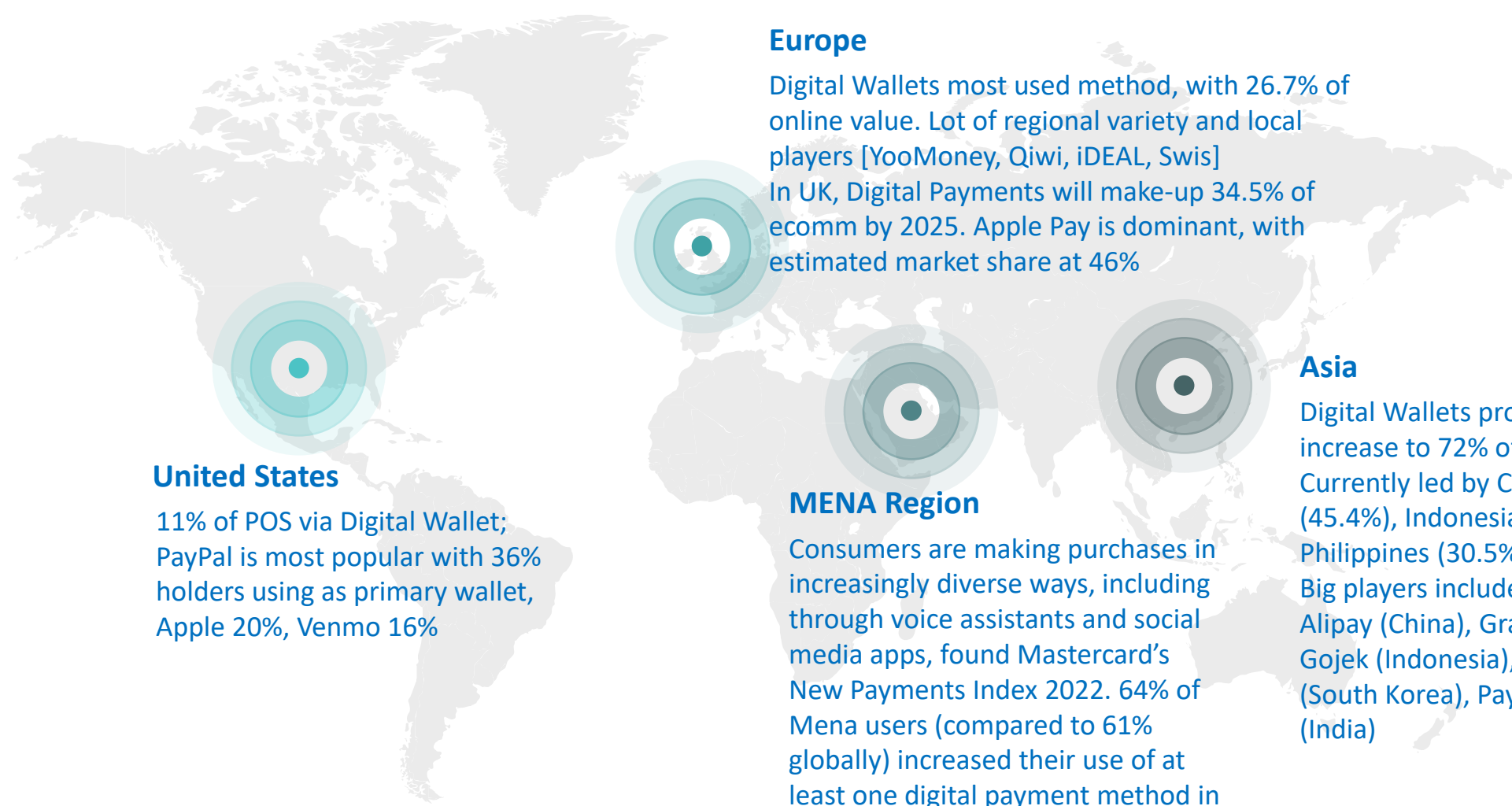
...and many more coming up!



# Global conditions in the last 3 years has fueled growth for P2P & Digital Wallet

- Due to the COVID-19 epidemic, the use of cards and cash for regular purchases is now strongly threatened by P2P systems
- Although this change is mostly observed among younger generations, the switch is now also seen among older people
- By the end of 2023, P2P transactions in the USA are predicted to reach USD 1 T. Globally, the P2P market size is projected to reach USD 9.1 T by 2030
- Forecasts show that the Asia-Pacific region and industries including hospitality, transportation, retail, and media-entertainment will have the fastest increase in P2P payments in the upcoming years

# P2P and Digital Wallet are gathering pace, both globally and regionally



## United States

11% of POS via Digital Wallet;  
PayPal is most popular with 36%  
holders using as primary wallet,  
Apple 20%, Venmo 16%

## Europe

Digital Wallets most used method, with 26.7% of  
online value. Lot of regional variety and local  
players [YooMoney, Qiwi, iDEAL, Swis]  
In UK, Digital Payments will make-up 34.5% of  
ecom by 2025. Apple Pay is dominant, with  
estimated market share at 46%

## MENA Region

Consumers are making purchases in  
increasingly diverse ways, including  
through voice assistants and social  
media apps, found Mastercard's  
New Payments Index 2022. 64% of  
Mena users (compared to 61%  
globally) increased their use of at  
least one digital payment method in  
the last year, including digital cards,  
SMS payments, digital money  
transfer apps and instant payment  
services.

## Asia

Digital Wallets projected to  
increase to 72% of ecom by 2025.  
Currently led by China (83%), India  
(45.4%), Indonesia (38.8%) and the  
Philippines (30.5%)  
Big players include WeChat &  
Alipay (China), Grab (Singapore),  
Gojek (Indonesia), KakaoTalk  
(South Korea), Paytm & PhonePe  
(India)



# Landscape beyond 2023 looks extremely promising

**52.5%**

digital wallet e-commerce transaction value by 2025



## The global e-wallets landscape: 2023 and beyond



**1bn** crypto users with digital wallets by 2023

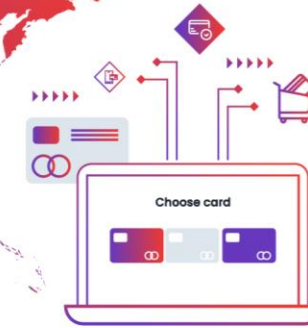
**15%**

increase in e-wallet POS market share in the US by 2025



**34.5%**

share of e-commerce spend by e-wallets in the UK by 2025



**72%**

of online payments made by e-wallet in Asia by 2025

**2024**

e-wallets predicted to be the top e-commerce payment method in Australia

**30%**

of European e-commerce transactions by e-wallet in 2024



**64%**

of 18-34 year olds use e-wallets in the UK

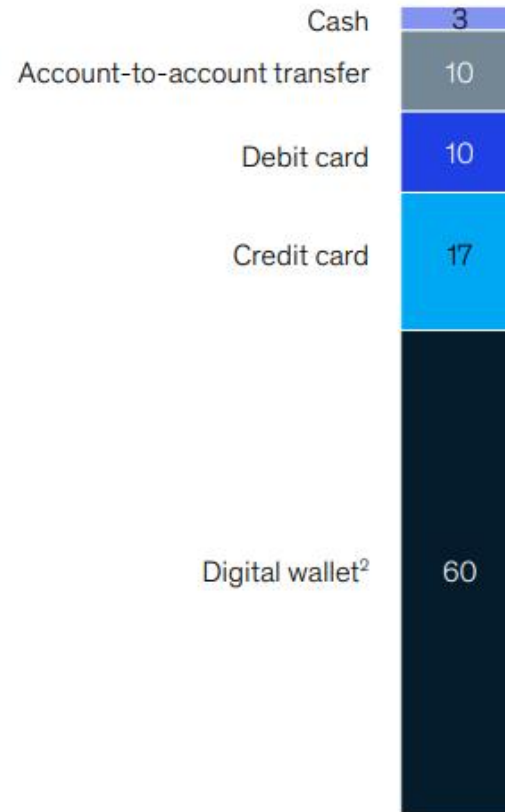


# Within MENA, Digital Wallets are gaining consumer preference

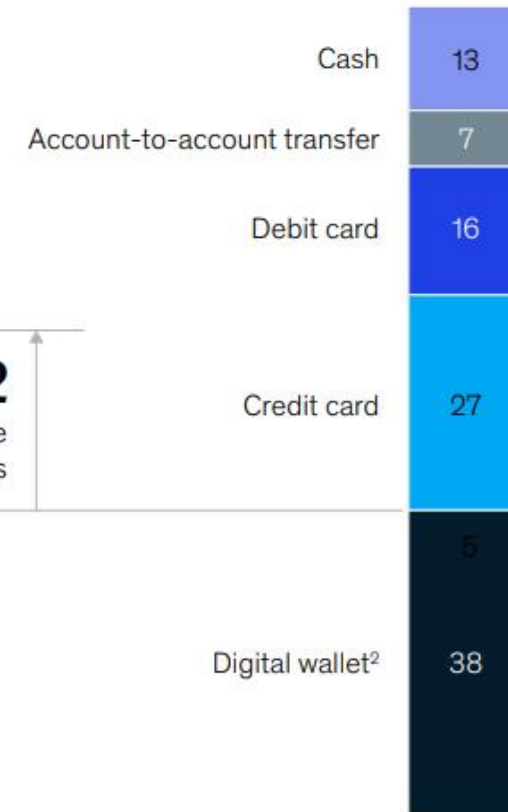
Middle East experts say digital wallets will be the most preferred mode of payments; expectations in Asia are more diverse.

Most preferred payment mode in next 5 years,<sup>1</sup> % of survey respondents

Middle East (n = 30)



Asia-Pacific (n = 56)



+22  
percentage  
points

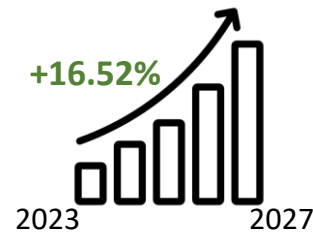
Note: Figures may not sum to 100%, because of rounding.

<sup>1</sup>Question: In the next 5 years in your market, what would be the preferred modes of payment for consumers? Rank from most preferred mode to least preferred.

<sup>2</sup>Including mobile money and pass-through wallets (Apple Pay, Samsung Pay, etc).

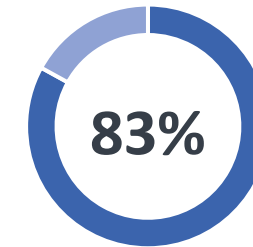
Source: McKinsey MEA payments survey and APAC industry survey

## Market Growth



Market including Digital Wallets expected to grow by 16.52%. Total volume expected to be **\$22.67 Billion** by 2027.

## Fintech Adoption



**83%** Population in Kuwait open to using technology in 2023.

The market for Digital Investment, which often utilizes digital wallets for transactions, is projected to reach a managed asset (AUM) value of **\$69 million** in the same year.

# P2P and Fintech in Kuwait

Age Group  
15 & Over



For the population aged **15 and over**, nearly **80%** has an **account with a financial institution**,

almost **1/4th** has a **credit card**, and over **1/3rd** makes **online purchases** and/or **pays online bills**.



**80%** of the population in Kuwait felt the **government** and **telecommunications** providers felt they were ready to **shift to online services**.



**Banking** in Kuwait is dominated by **retail business**, with **personal loans/financing** comprising **40%** of total facilities.

**44%**

**Peer-to-Peer (P2P)** money transfer had the highest adoption in Kuwait at **44%**.

**17%**

In second place it was **accounts aggregation** at **17%**

**9%**

in third place is a tie between **connected home insurance** and **crowdfunding** at **9%**,

**8%**

in fourth place is **connected health** at **8%**.

# Activity: Pros vs. Cons

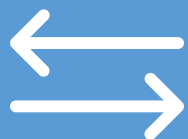
List out the Advantages and Disadvantages of using P2P Payment Systems

## Advantages

## Disadvantages

# 3. Economics of P2P Payments and Digital Wallets

# P2P Payments and Digital Wallets operate with 'High Volume-Low Margin'



Transactional and service business in nature  
Revenues are dependent on generating high volumes and value



Margins are wafer-thin; Service is a cost for business, typically low-ticket transactions, and even Regulation/Policy may cap Revenues













Many businesses are setup as Acquisition or Service channel, generating profits through cross-sell

# P2P/Wallet Revenues are much smaller compared to other Payment products

	CREDIT CARDS	DEBIT CARDS	PREPAID CARDS	P2P & WALLETS
<b>Annual Revenue Per Customer</b> [Typical Mass-Mass Affluent portfolio, GCC; Indicative only]	USD 700 - 3000	USD 150 - 500	USD 10 - 100	USD 1 - 50



# Some of largest P2P brands have huge customer base but low Revenue/User

Brand	Users	Revenue, USD <sup>1</sup>	Rev/User pa, USD
 PayPal	426 M	25.4 B	59
 Pay	150 M	4.5 B	30
 Alipay	1.3 B	134 B	100
 PhonePe	350 M	86 M	0.6
 Cash App	80 M	12.3 B	154
 paytm	350 M	660 M	1.9
 venmo	70 M	850 M	12.1
 Zelle	61 M	No direct revenue	-
 WESTERN UNION	150 M	5.1 B	34
 Remitly	5 M	610 M	122

# However, P2P & Wallet do have merits that serve business objectives

	CREDIT CARDS	DEBIT CARDS	PREPAID CARDS	P2P & WALLETS
<b>1 Business Complexity</b> (Revenue model, Operations, Risks, Regulation, Service, etc.)	VERY HIGH	VERY HIGH	MEDIUM	LOW
<b>2 Revenue &amp; Yield Potential</b> (Types, Quantum)	VERY HIGH	VERY LOW	LOW	VERY LOW
<b>3 Acquisition Ease</b> (Channel dependency, Onboarding, Acquisition costs)	VERY LOW	VERY LOW	HIGH	VERY HIGH
<b>4 Customer Relationship</b> (Cross-sell, Lifetime Value)	HIGH	VERY HIGH	VERY LOW	MEDIUM

# Revenue lines have expanded with increase in Products & Use cases



- Subscription Fee • Service Fee • Transaction Fee • Forex
- Interchange • Interest, Default fees (lending only)

- Partnership Commissions • Float Income • Cross-sell Revenue • Advertising • Valuation

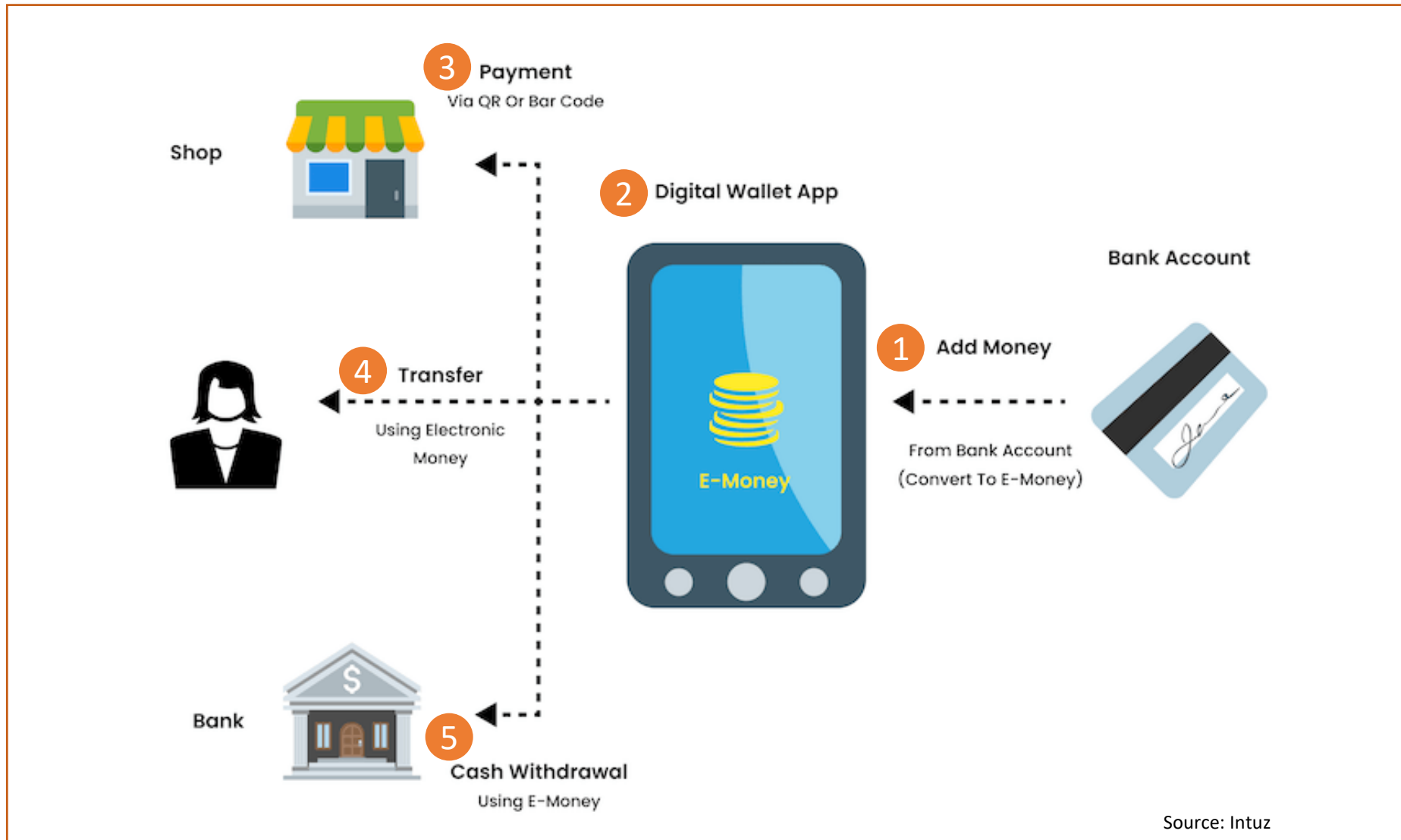
- Lower Cost Per Acquisition (CPA) • No Branches, ATMs
- Digital Service channels

- Merchant Service Fee (MSF) • Subvention (lending only)

# Revenue line descriptions

Subscription Fee	Monthly/Annual fee charged to the customer
Service Fee	Flat fee charged for a service or even transaction
Transaction Fee	Flat or % fee charged per transaction
Forex	Fee charged for transactions in or conversion to foreign currency
Interchange	Fee collected from merchant and paid to card issuer per Visa/Mastercard policy
Interest (lending only)	Fee charged as % on principal amount lent for a time period
Commissions	Income from 3rd party sales or licence use
Float Income	Interest income generated on end-of-day balances in a wallet pool account
Cross-sell Revenue	Income earned by selling other products & services
Advertising	Income generated by promoting 3rd party brands
Valuation	Estimated worth of a business calculated based on revenue potential over time
Cost Per Acquisition (CPA)	Total applicable direct costs for onboarding a new customer
Merchant Service Fee (MSF)	Flat or % fee charged per transaction from a merchant
Subvention (lending only)	Cost of interest for lending borne by the merchant on behalf of the customer

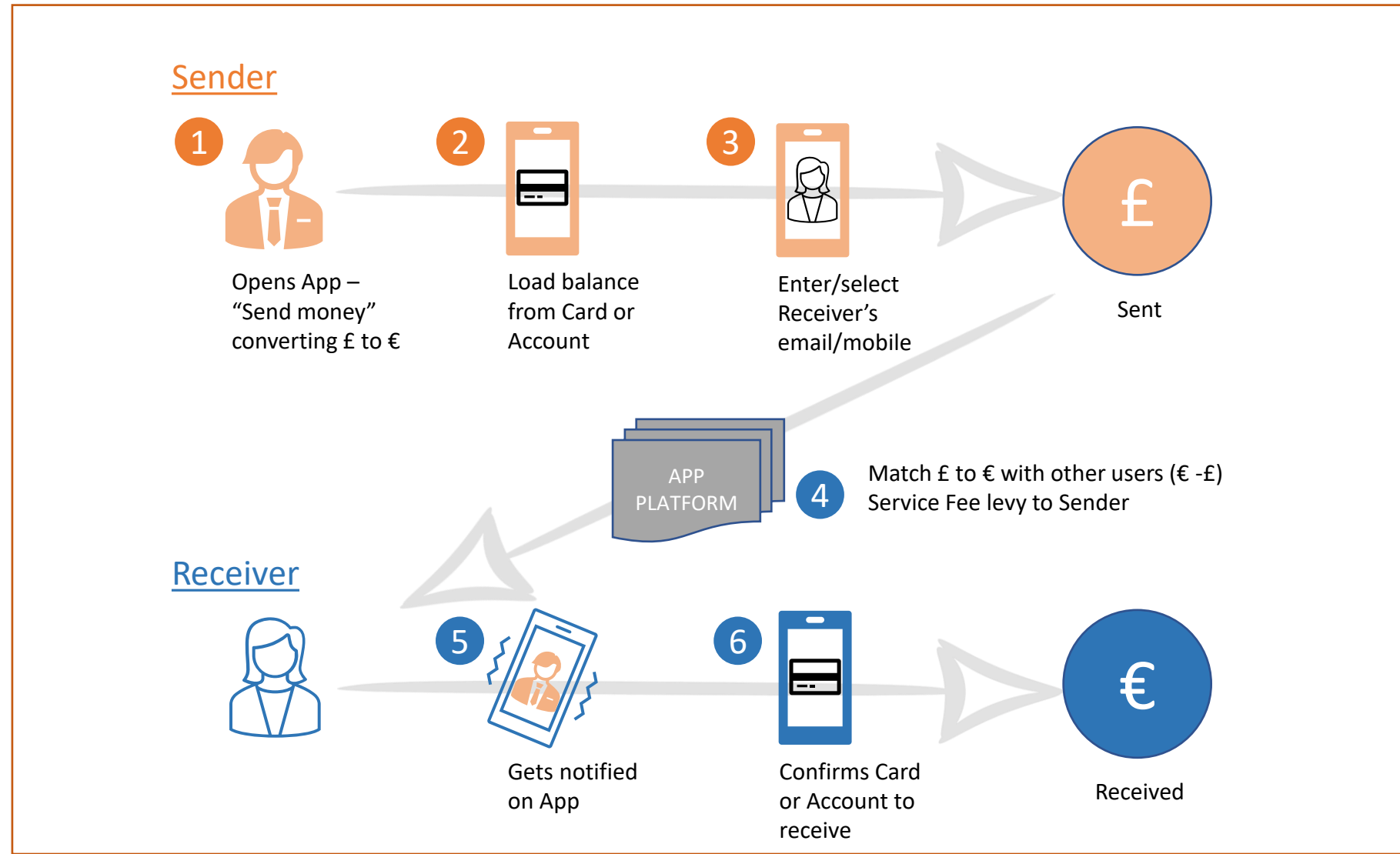
# Deep dive: P2P Domestic Wallet



# Deep dive: P2P Domestic Wallet Revenues




Subscription Fee	<b>Skrill</b> <ul style="list-style-type: none"><li>• USD 5 pm (waived on 1 txn in 12m)</li><li>• Prepaid card application USD 10</li></ul>
Transaction Fee	<b>V venmo</b> <ul style="list-style-type: none"><li>• 3% on credit card payments</li><li>• 1% on bank transfers (min \$0.25 - max \$10)</li></ul>
Interchange Fee	<b>\$ Cash App</b> <ul style="list-style-type: none"><li>• 0.1% to 2% of transaction amount</li></ul>
Float Income	<b>liv.</b> <ul style="list-style-type: none"><li>• AED 3000 minimum monthly balance</li></ul>

# Deep dive: P2P Remittance

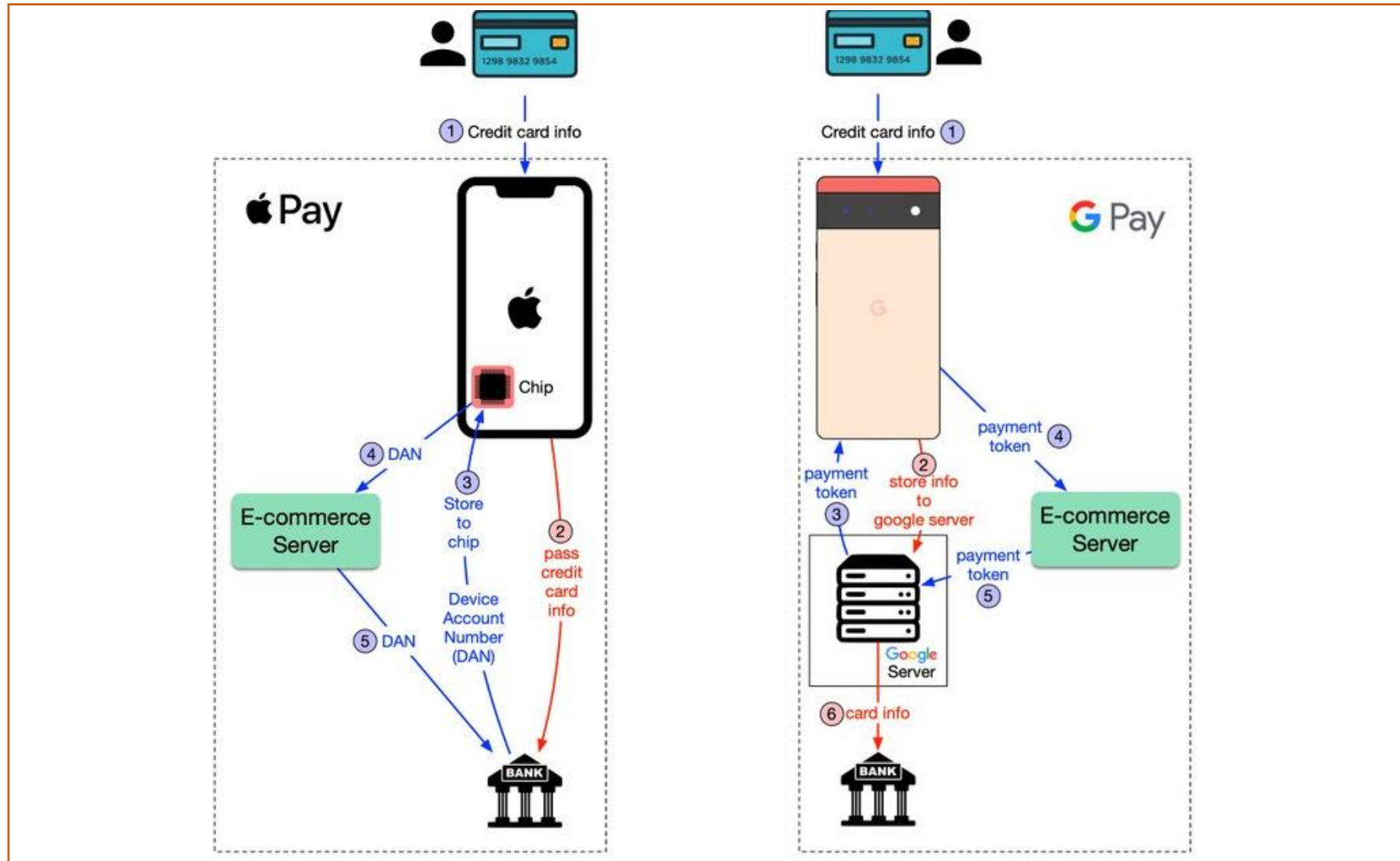






# Deep dive: P2P Remittance Revenues

Forex Fee	 <ul style="list-style-type: none"><li>• Free in same currency</li><li>• From 0.41% for sending</li><li>• USD 4.14 to receive USD</li></ul>
Service Fee	 <ul style="list-style-type: none"><li>• 2% for account funding</li><li>• 1.75% + GBP 0.5 for ATM withdrawals above 2 pm</li></ul>
Subscription Fee	 <ul style="list-style-type: none"><li>• GBP 7 (one-time) for Debit card</li></ul>

# Deep dive: P2P Digital Wallet and Pays



# Deep dive: P2P Digital Wallet and Pays Revenues

Transaction Fee	 <ul style="list-style-type: none"><li>• 0.12% on credit</li><li>• 0.05% on debit</li></ul> <p>Applicable to the Issuer bank</p>
Transaction Fee	 <ul style="list-style-type: none"><li>• 0.0% on credit</li><li>• 0.0% on debit</li></ul> <p>Applicable to the Issuer bank</p>

# Activity: Capex vs Opex Costs

List out the Capex and Opex Costs of setting up a Digital Wallet

Capex  
(Initial, One-time, Setup)

Opex  
(Ongoing, variable, Cost of  
running business)

## 4. Key Challenges facing P2P Payments & Digital Wallets

# Being new businesses, P2P Payments and Digital Wallets face many challenges

Rapidly evolving landscape, both from Customer and business perspective, pose constant, newer challenges that need attention, effort and investments



## 1. Acquisition

Onboarding customers at a low and sustainable cost of acquisition



## 2. CLV

Generating, sustaining and maximizing Customer Lifetime Value



## 3. Security

Protecting Customer Data and Preventing breaches

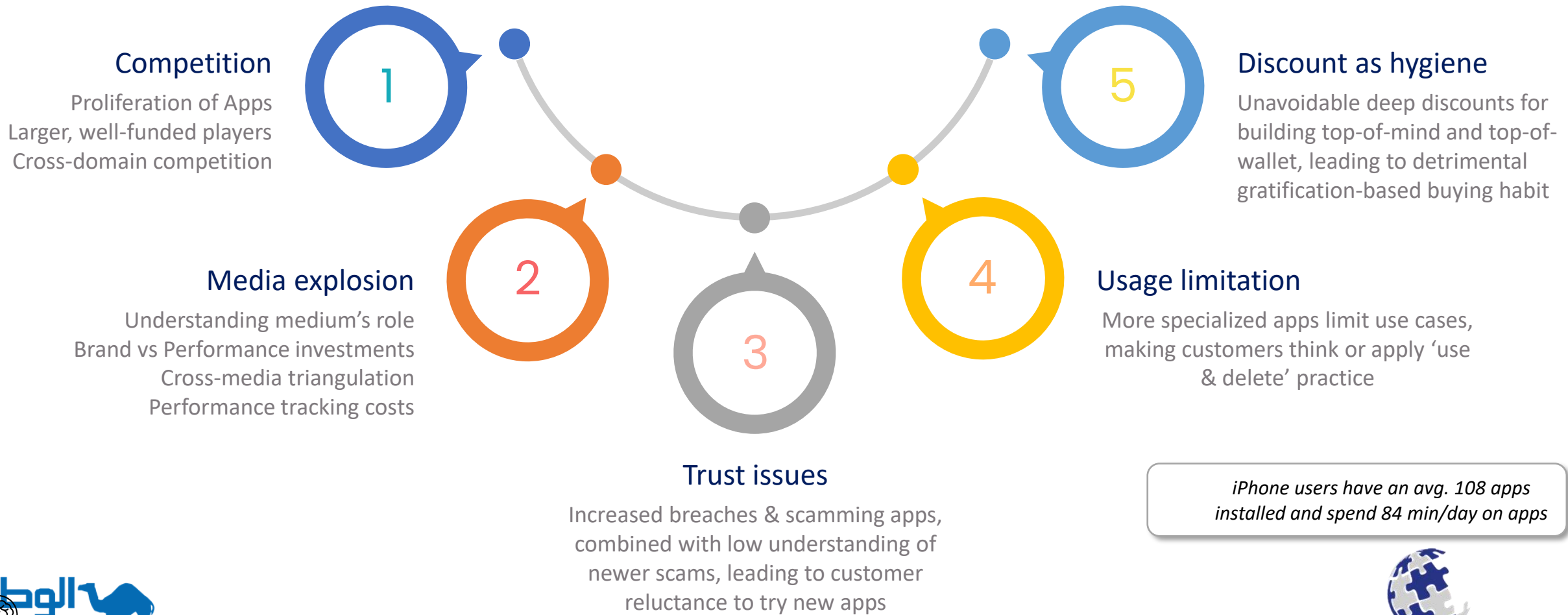


## 4. Regulation

Adhering to evolving Regulations and implementing Compliance monitoring

# 1 Acquisition costs are soaring, as competitors jostle for customers

The fight for 'mind' and 'mobile' space is leading to Cost per Install (CPI) of USD 1-6 and Cost per Acquisition (CPA) of USD 300-1000 in MENA markets

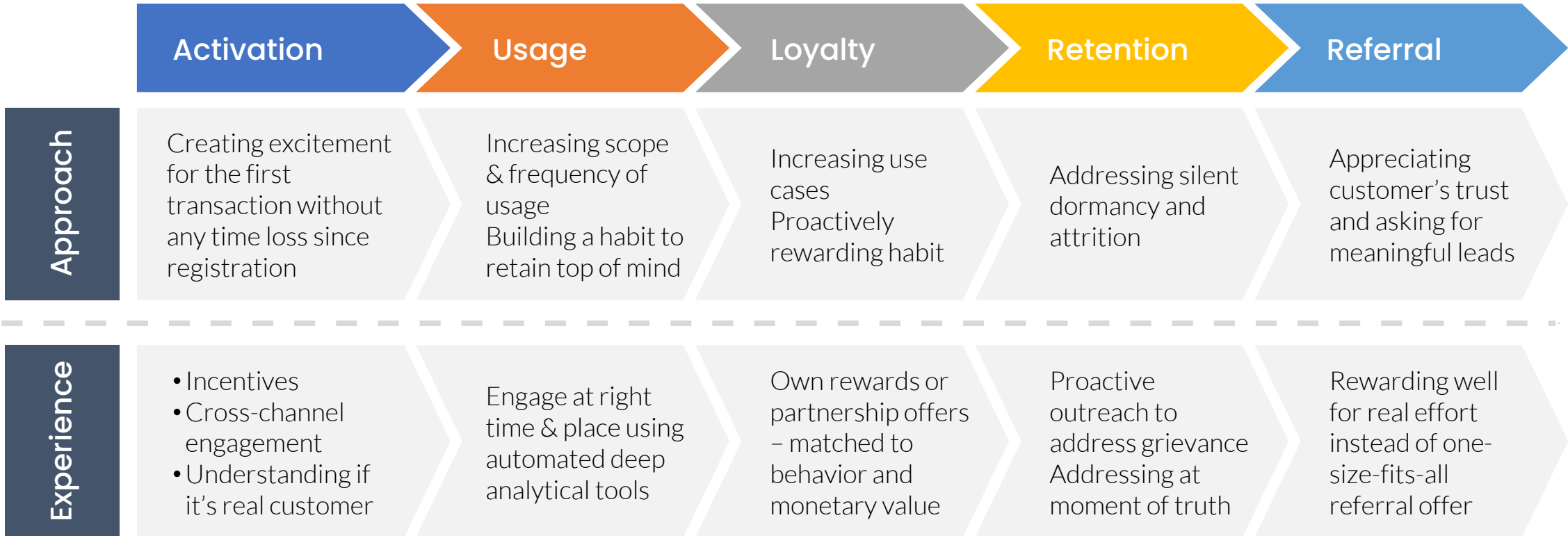


*iPhone users have an avg. 108 apps installed and spend 84 min/day on apps*



## 2 Building Portfolio remains tricky in a Buyer's market situation

Maximizing CLV requires intrinsic touch-point planning, constant engagement, introducing new use cases and attending to grievances in a favorable manner



# Example of strong Customer engagement – Activation

## “Jaheziyat” / Jahez weekly festival



- From Jul-Dec, every Tuesday, 3PM sharp, Jahez customers had a chance to order one sponsored item for free from the app
- With limited quantities, it was about being among the first to place order to get the free item delivered to the doorstep
- The promotion became a huge success as customers waited for the start time everyday to get their hands on the sponsored item
- The Police had to intervene because of the traffic that was caused by all the Jahez delivery bikes flooding the streets to get to the sponsoring stores!

# Example of strong Customer engagement – Loyalty

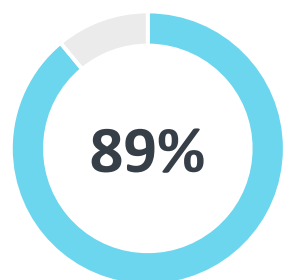
## Liv KSA Livion Rewards



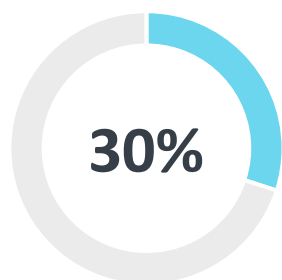
- Liv provides loyalty points called 'livions'
- Livions can be earned for all kinds of interactions with Liv. app and card
- e.g. Log-ins, Bill payments, Money Transfers, or Using card for spends and transactions
- Livions give access to all games and contests that Liv runs from time-to-time
- Livions are valid for 90 days from the day they're earned – so they need to be used and earned again and again

# 3 Security threats pose a big hurdle, increasing doubts and time to adopt

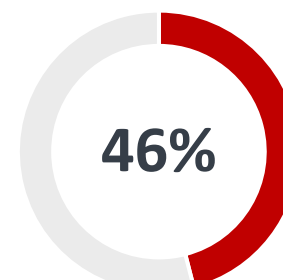
While customers are open to adopting, risk of data security incidents remains extremely high in a dynamic, high-tech ecosystem



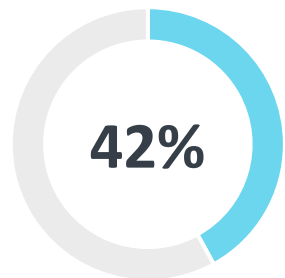
**Progressed**  
Used at least one emerging payment method<sup>1</sup>



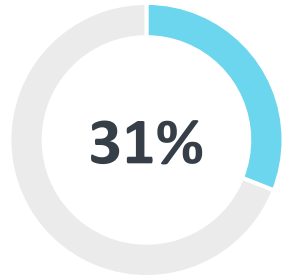
**Reduced**  
Used less cash in the past year<sup>1</sup>



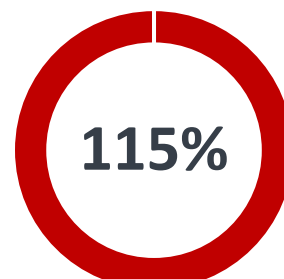
**Encountered**  
Personally encountered fake websites<sup>3</sup>



**Tapped**  
Used a tappable smartphone wallet<sup>1</sup>



**Clicked**  
Used a digital money transfer app<sup>1</sup>



**Faced**  
Faced phishing scams directly<sup>4</sup>

**15 Million**

**Email Attacks**  
Kuwait saw a massive number of attacks which include malware attacks<sup>5</sup>



**30%** Avoid companies that don't offer online payments<sup>2</sup>



<sup>1</sup> Mastercard New Payments Index 2022 | <sup>2</sup> Statista report 2021 | <sup>3</sup> Kaspersky Digital Payment Survey – KSA | <sup>4</sup> Times of Kuwait | <sup>5</sup> Kuwait Times



## 4 Regulations for Digital Banks in Kuwait

The Central Bank of Kuwait (CBK) has issued comprehensive guidelines that outline the requirements for establishing digital banks in the country. These regulations are part of CBK's efforts to embrace technological advancements to enhance financial stability and innovation.

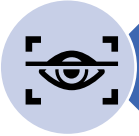
### 3 Main Models For Digital Banks As Per CBK's Framework:

- A digital unit within a traditional bank.
- A partnership between a traditional bank and a digital institution.
- A standalone digital bank.

### Guidelines Divided Into 4 Sections:

- Definition of a Digital Bank
- Legal Framework
- Licensed Activities
- Phases & Procedures of their establishments

# P2P Payments and Digital Wallets raise serious Money Laundering concerns



By using P2P systems, criminals may be able to conceal their identities or engage proxies to avoid activating AML safeguards



P2P platforms may give money launderers an unregulated way to transfer illegal funds to recipients



Transactions frequently include the transfer of funds across international borders



Regulatory discrepancies like requirements for reporting suspicious behavior or identification verification may be exploited by money launderers



It may be difficult to prosecute individuals for money laundering due to the practical problem of tracking illegal payments between jurisdictions



Techniques like P2P can be used to take part in "structured" transactions. This requires sending money via numerous transactions between various platforms



Due to the ease of use of P2P lending, fraudsters are more likely to engage in organized transactions and give illicit money a more accurate appearance



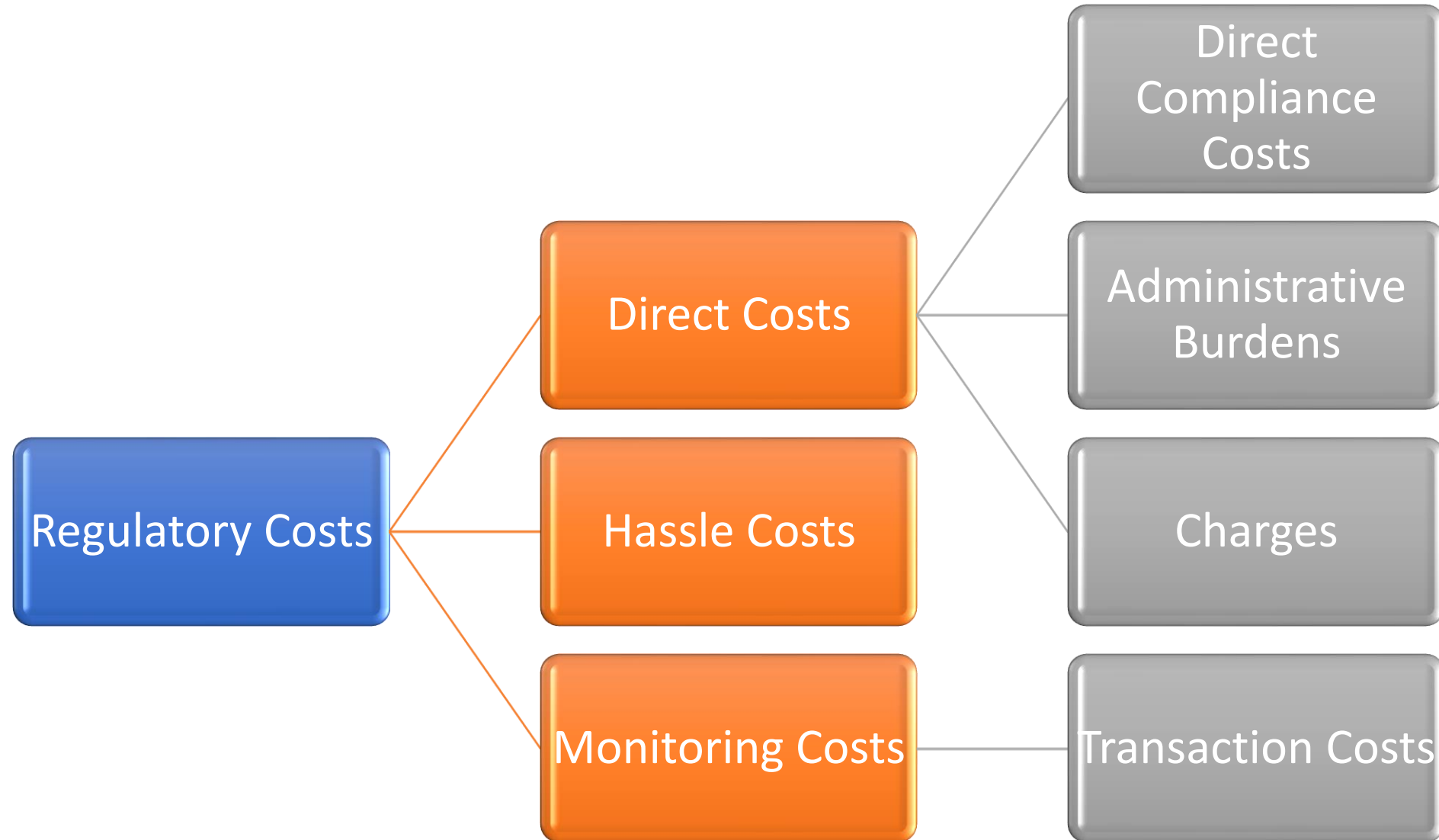
# KYC and AML norms require strict vigil to ensure Safety and Compliance

KYC policies are the first step in a holistic AML approach as it starts with identifying the client

KYC helps to protect against identity theft and ensure that P2P platforms aren't involved, knowingly or not, with money laundering, terrorism financing, human trafficking, or other criminal organizations

Financial institutions must comply with regulated sets of AML/CFT regulations to detect illegal activities and report suspicious activity to the authorities

# Regulatory Compliance requires investment in highly skilled resources





# Group Activity – Regional P2Ps and Digital wallets

Split into 3 groups and choose 1 of the following for the activity



Address the following points

What is their customer proposition?

How does the P2P function work?

What are the Fees and Charges?

How does this Bank operate?

What challenges does it face?

What product/market gap can be leveraged for NBK?

# End of Session: Activity

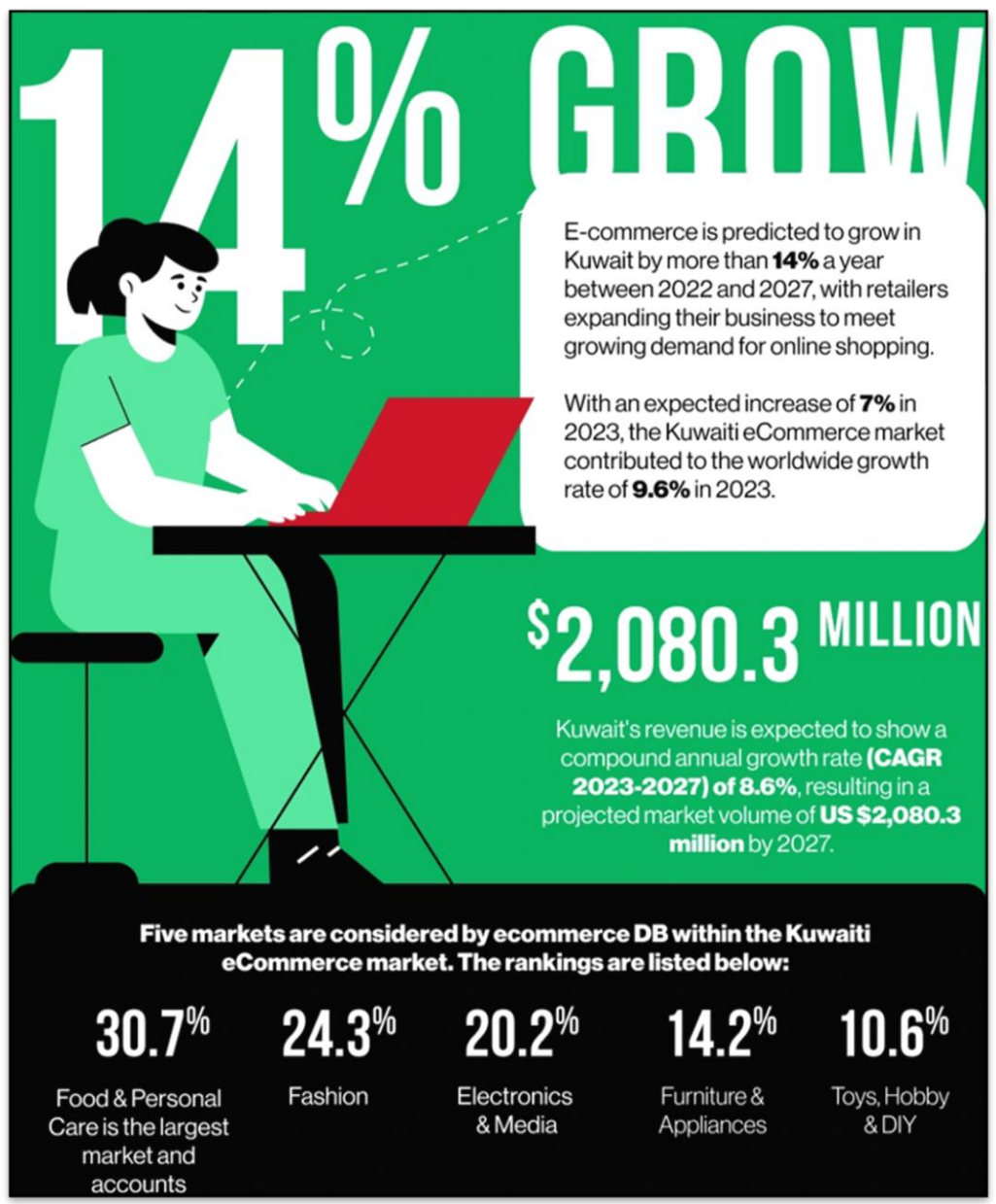
- What is the unbanked population of Kuwait?
- What pain points exist in the Payments space?
- Which area in P2P/Wallets will be your area of focus?
- What is a potential value proposition?
- What is the scale the proposition can achieve?



# DAY 2: Payment Gateways

# 1. Ecommerce Landscape in Kuwait

# Ecommerce in Kuwait has seen a rapid growth that's projected to continue



# Market Leaders in e-commerce in Kuwait

## Kuwait E-commerce Market Leaders

- 1 6th Street
- 2 Namshi General Trading L.L.C
- 3 H & M Hennes & Mauritz AB
- 4 Ubuy Inc
- 5 Sprii DMCC

\*Disclaimer: Major Players sorted in no particular order

## Market Concentration

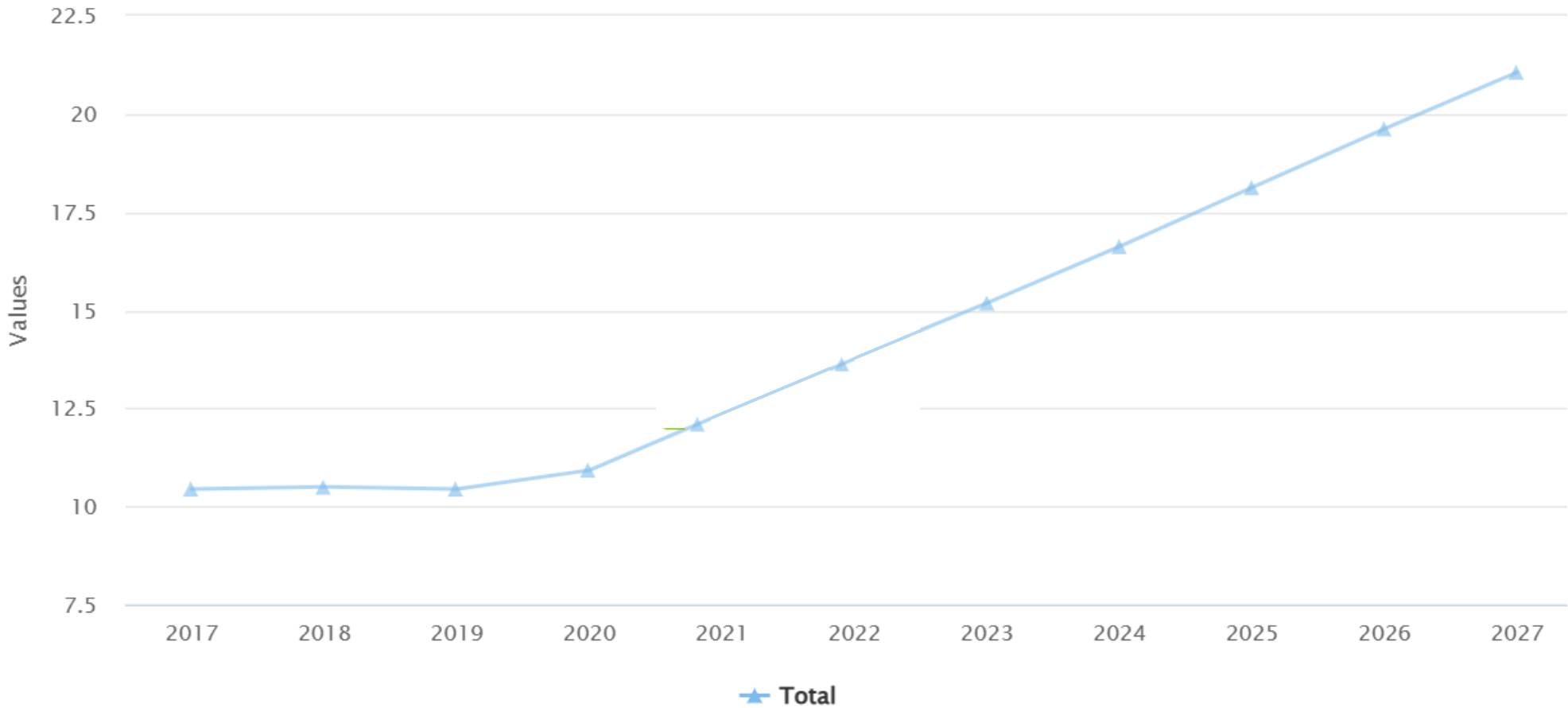


Source: Mordor Intelligence



# Average Transaction Value per User

AVERAGE TRANSACTION VALUE PER USER



# Ecommerce – Key Data for Kuwait



The Kuwait E-commerce Market is expected to grow at a CAGR of above 14.28% during the forecast period, 2022-2027. The e-commerce industry is growing exponentially as more e-commerce businesses step into the country.



Several factors are compelling the growth of the e-commerce market in Kuwait, such as high internet penetration, growing usage of 5G networks, increase online shopping, various e-commerce startups entering the country's e-commerce market, and other such factors.



E-commerce remains predominately limited to online banking and financial brokerage services. As it stands today, most Kuwaiti companies do not conduct online business-to-business or business-to-consumer transactions.



E-commerce is projected to reach a market value of \$2,080.3 million by 2027. With an expected increase of 7.0% in 2023, the Kuwaiti eCommerce market contributed to the worldwide growth rate of 9.6% in 2023.



Food & Personal Care is the largest market and accounts for 30.7% of the Kuwaiti eCommerce revenue. It is followed by Fashion with 24.3%, Electronics & Media with 20.2%, Furniture & Appliances with 14.2%, and Toys, Hobby & DIY with the remaining 10.6%.



# What are new consumer behaviours that will sustain Ecommerce

Mobile is blurring the line between online and offline shopping

Customers expect more personalized experiences

Shopping has become a social activity

Shoppers are becoming their own salespeople

Shoppers have greater access to goods

# Payment Methods as percentage of total Ecommerce Transactions

Characteristic	Worldwide	North America	Latin America	Europe	Asia Pacific	Middle East and Africa
Digital / mobile wallet	49%	29%	19%	27%	69%	17%
Credit card / charge card	21%	31%	39%	25%	13%	31%
Debit card	13%	21%	18%	17%	8%	13%
Bank transfer	7%	8%	10%	14%	5%	16%
Buy now pay later	3%	4%	0%	8%	1%	1%
Cash on delivery	3%	2%	4%	2%	3%	14%
Direct Debit	1%	1%	1%	4%	-	2%
PrePay	1%	2%	-	1%	-	2%
Other	1%	1%	1%	1%	1%	2%
Pre-paid card	1%	1%	1%	1%	-	3%
PostPay	1%	-	7%	-	1%	-

4 of 5 transactions require online authentication

## 2. What are Payment Gateways?

# What is this?



# What are Payment Gateways (PGs)?

- It is the technology that transmits Payment data of the Customer from the Merchant to the Issuing Bank for authorization/approval
- PG provide a safe and secure infrastructure that bridges the gap between your Merchant and the Customer
- In-store, a point-of-sale terminal (POS) or mobile POS system looks at card chips to validate the shopper's credit card – Payment Gateways are online versions of the in-store POS terminal that helps in authorizing transaction for payments
- Only when the data is authorized by the Customer's payment card bank, the money is debited to the Customer's card and the Merchant gets paid

# Payment Gateways form the engine that help authorize transactions



## How Payment Gateways Work

1. Customer inputs Card details on checkout page and submits order



2. eCommerce site sends Payment info via Payment Gateway



3. PG forwards the request to the Payment Network (Visa/Mastercard)



4. Network routes the transaction for authorization to the Credit Card Issuer



6. PG receives the authorization and sends the funds to the Merchant



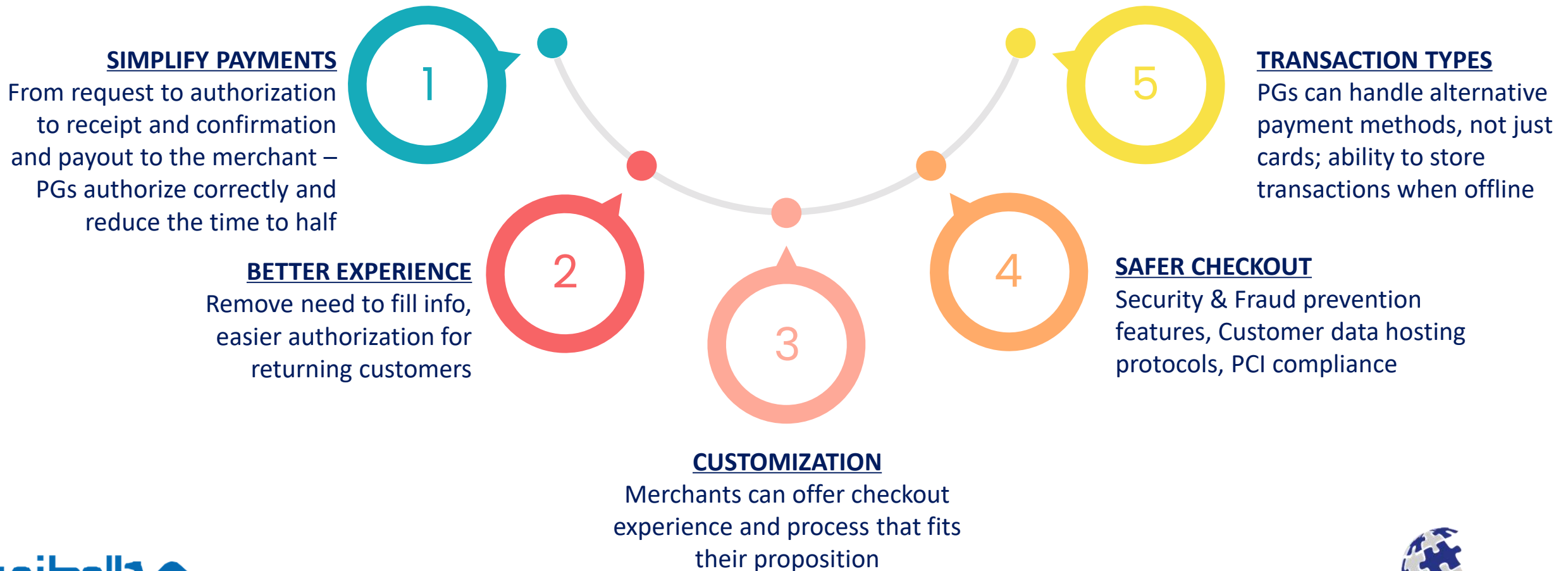
5. Credit Card Issuer verifies credit availability and authorizes payment



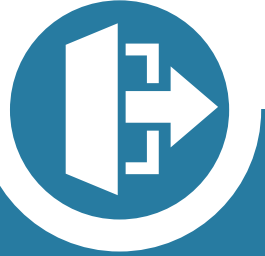
### 3. What are different Payment Gateway services?

# The need for Payment Gateways

PGs take away the hassle of transaction monitoring, safety, authorization and settlement – keeping both the Merchant and the Customer safe







## Hosted Payment Gateway

01

- Redirect customers from checkout page to a separate webpage to complete the payment
- Customer's payment experience is independent of the shopping experience
- PROS
  - Easy to implement as it is only a redirection and not integration
  - Gateway is responsible for the security of transaction and customer's data
- CONS
  - Customers see external PG branding
  - Redirecting can harm conversion rates
  - Customer may not trust the PG
  - Retuning customer may have to fill data again

**Secure Payment Page**  
This payment page has been created by WorldPay for the supplier. Please review your purchase details, then select a card or payment to proceed to the next page.

**Select Language** English

**Choose currency** £10.00 (Pounds Sterling)

Description **Order Description**  
Amount **£10.00**

**Select your payment method** ⓘ

       
Diners MasterCard Visa Amex PayPal Maestro

   
JCB

ⓘ

payments powered by **WorldPay** For help with your payment visit the: [WorldPay Help](#).





## Integrated Payment Gateway

02

- Use the PG's API so the gateway is integrated within the website's checkout page
- Customers remain within the website for payments and don't need to be redirected
- PROS
  - Customers have a seamless experience with no external PG brand visible
  - Conversion rates are better
  - Returning customers may not have to fill data again
- CONS
  - Requires API integration and time
  - Website is responsible for transaction security and customer data

magnati

PAYFORT®

amazon payment services

# Payment Gateways have expanded Services to cater to new use cases

Payment Gateways have also become extremely sophisticated software platforms and offer a gamut of Payment related services

Multi channel  
Web, Mobile,  
Kiosk

Alternative Payments  
Digital Wallets,  
Internet Banking,  
PayPal, China pays

Recurring  
Payments

Single Click pay via  
Click2Pay

Payments Links via  
e-invoicing

Dynamic Currency  
Conversion

Multi-Currency  
Authorisation &  
Settlement

Airline Acquiring

3D Secure  
Authorizations

Payment  
Tokenization

Fraud  
Management  
System

Chargeback &  
Refunds

Instalment Plans &  
BNPL

Payment Gateways have expanded operations to become full Payments Processing Companies

...with multiple Business Domains

...serving Specialized Solutions

...targeting different Customer Segments

i.e. Individual consumers, Merchants and Retailers, Financial Institutions/Banks, Government Entities



## MERCHANT SOLUTIONS

- In-store payments
- Online payments
- Integrated solutions
- Mobility Payments

## GOVERNMENT SOLUTIONS

- Abu Dhabi Pay
- Ajman Taxi
- eDirham

## PROCESSING SOLUTIONS

- Insurance solutions
- Acquiring solutions
- Fintech solutions
- Value added services – Fraud Management
- Instant Issuance
- Wallets

## CONSUMER SOLUTIONS

- Prepaid Cards
- Multi-currency Cards
- Corporate Gift Card
- Stored Value Account

## Telr

### Telr Growth

- Deals with online payments

### Telr Secure

- Provides real-time monitoring to protect revenue with antifraud safeguards

### Telr Social

- Providing online payments on social media platforms

### Telr BNPL

- This service is powered by Tabby for installment payments

### Telr Finance

- Pre-approved business loans

# Stripe (Global) – Services Offered



Stripe Payment	Stripe Billing	Stripe Terminal	Stripe Connect	Stripe Issuing	Stripe Radar	Stripe Atlas	Stripe Capital	Stripe Corporate Card
<ul style="list-style-type: none"><li>• PG to accept online payments from credit and debit cards, ACH bank transfers, mobile wallet</li></ul>	<ul style="list-style-type: none"><li>• Recurring billing platform to create and manage subscriptions, invoices, and other recurring payments</li></ul>	<ul style="list-style-type: none"><li>• Accept in-person payments using card readers and point-of-sale terminals</li></ul>	<ul style="list-style-type: none"><li>• Manage payments for other businesses or individuals such as freelance workers or contractors</li></ul>	<ul style="list-style-type: none"><li>• Create, manage, and distribute physical and virtual credit cards</li></ul>	<ul style="list-style-type: none"><li>• Machine Learning and advanced fraud prevention techniques to detect and prevent frauds</li></ul>	<ul style="list-style-type: none"><li>• Provides support and resources to help businesses incorporate and set up their online business</li></ul>	<ul style="list-style-type: none"><li>• Provides businesses with access to capital through a line of credit</li></ul>	<ul style="list-style-type: none"><li>• Allows businesses to easily track and manage company spending</li></ul>

# Activity: Use Cases and PG services

List out 5 differentiated Consumer businesses (use cases) and mark Payment Gateway services that NBK can offer

CONSUMER BUSINESS	RELEVANT PG SERVICE/S



## 4. How do Payment Gateways work?

# PGs handle various types of Transactions for successful completion

## Authorization

- Used to determine whether the cardholder has enough money to pay. The actual transfer of funds is not included. Authorization ensures that a consumer can pay for the goods bought and validates that the payment is safe and secure

## Capture

- When the authorized payment is actually processed. Funds are then sent to Merchant's business bank account

## Sale

- First, the cardholder is authorized, then the funds may or may not be captured. A payment for immediate purchases like recurring or subscription payments and e-tickets is also referred to as a sale

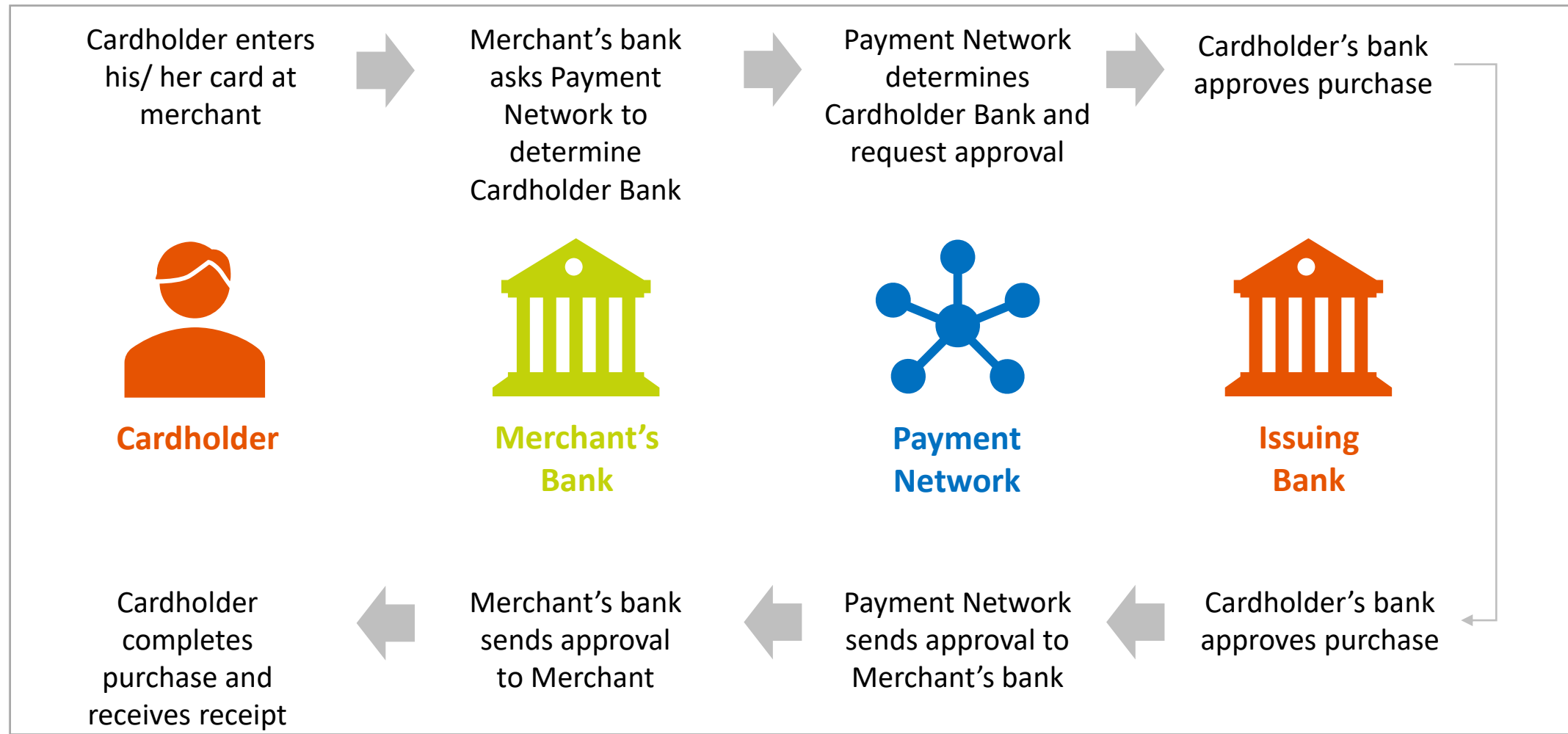
## Refund

- After a customer requests a refund, it needs to be processed and money needs to be returned

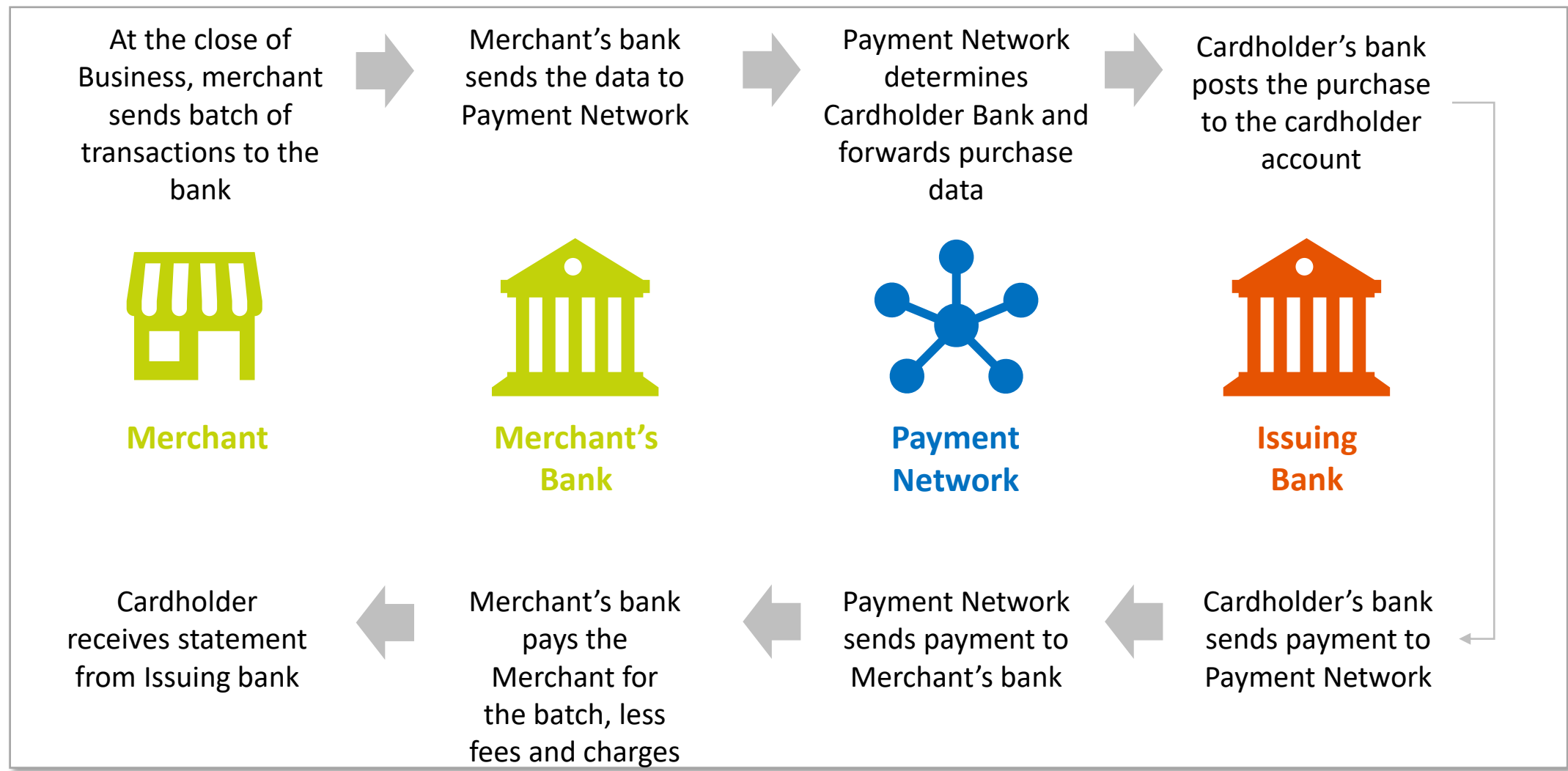
## Void

- Like a refund but can be processed if the money was not yet captured

# 'Authorization' Flow as carried out by Payment Gateways



# 'Clearing & Settlement' Flow as carried out by Payment Gateways



# PGs also carry out the 'Refunds' and 'Chargebacks' transactions

## REFUNDS

- Refunds' refer to repayment of sum of money from the Merchant to the Customer. They may arise due to a cancellation of the transaction following/due to non-delivery of goods or return of goods by the customer e.g. if the goods are defective

## REFUNDS PROCESS

- Refund transactions follow the exact same process as an Authorization transaction, wherein all stakeholders need to approve the transaction

# 'Chargebacks' are more complicated due to the nature of transaction

Chargebacks are raised when a customer makes an online transaction and later initiates a dispute of the charge to their Credit Card Issuer. The dispute can be of 2 kinds –

## FRAUDULENT CHARGEBACK

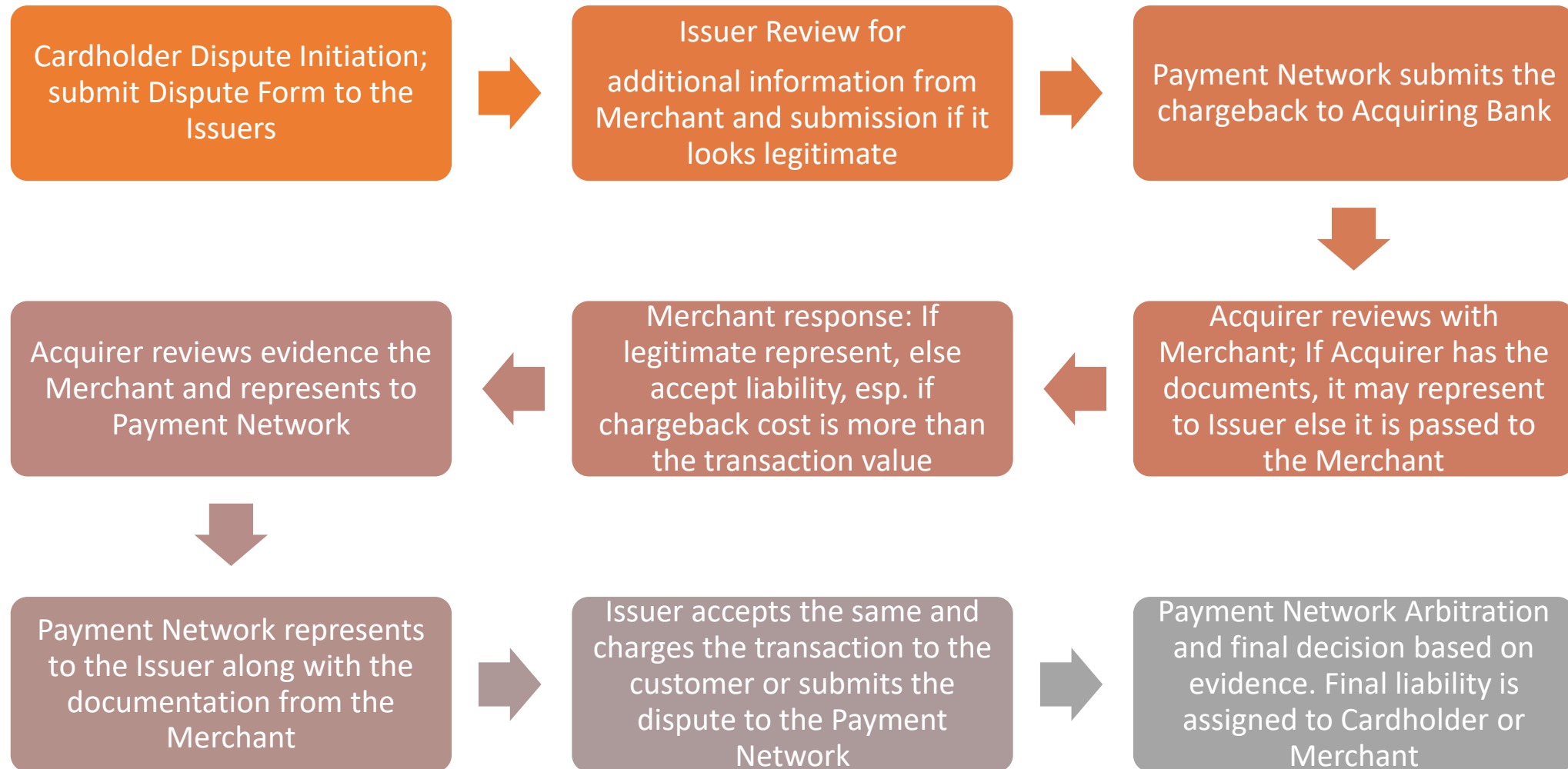
- Cardholder is an actual victim or target of fraud
- Raising a request to the Issuing bank to get their money back
- 'First-party' or 'friendly' fraud – when Cardholders claim to be a victim when they may not be or try to keep the goods without paying by not recognizing the charge on their card

## NON-FRAUDULENT CHARGEBACK


- Cardholder actually made the transaction
- Declare that they are unhappy with the goods/services or tried to cancel in advance and are attempting a refund
- Case of genuine, transparent transaction where Cardholder seeks genuine support in getting their money back



In either case, the Merchant remains responsible and must address the chargeback claim via the Chargeback process (next slide)

# Chargeback Lifecycle entails several steps as per Network defined protocol



# PGs also integrate '3-D Secure' and 'Risk-based Authentication' Services



### Purchase Authentication

We've sent you a text message to your registered mobile number ending in 2329.

Confirmation code

Confirm payment

Resend code

## 3D Secure

- 3D Secure is a 2-Factor Authentication (2FA) technique that requires a second level of authentication via a One-time Password (OTP) to prevent any misuse in case of lost/stolen card

## RBA

- Some banks use advanced analytics and assign a 'Risk Score' to determine the plausibility of a fraudulent transaction – if safe the 2FA is suppressed as part of 'Risk Based Authentication' (RBA)


## 3DS Liability Shift


- Implementation of 3D Secure (2.0) is a determinant of liability shift in case of a fraud

ACQUIRING PSP REQUEST	ISSUER RESPONSE	ISSUER LIABILITY SHIFT
<b>Challenge</b>	Challenge	yes
<b>Challenge</b>	Frictionless	yes
<b>No preference</b>	Challenge	yes
<b>No preference</b>	Frictionless	yes
<b>Frictionless</b>	Challenge	yes
<b>Frictionless</b>	Frictionless	no

**Pay with card**


Email  
janedoe@stripe.com

Card information  
5555 5555 5555 4444 

01 / 25      123 

Name on card  
Jane Doe

Country or region  
Ireland

Pay €2.00






# Activity: Risks and Costs

List out various Risks and Costs (Capex/Opex) of Payment Gateway businesses to keep

RISKS	COSTS

## 5. How do Payment Companies make Revenue?

# Payment Businesses Revenues are dependent on multiple factors

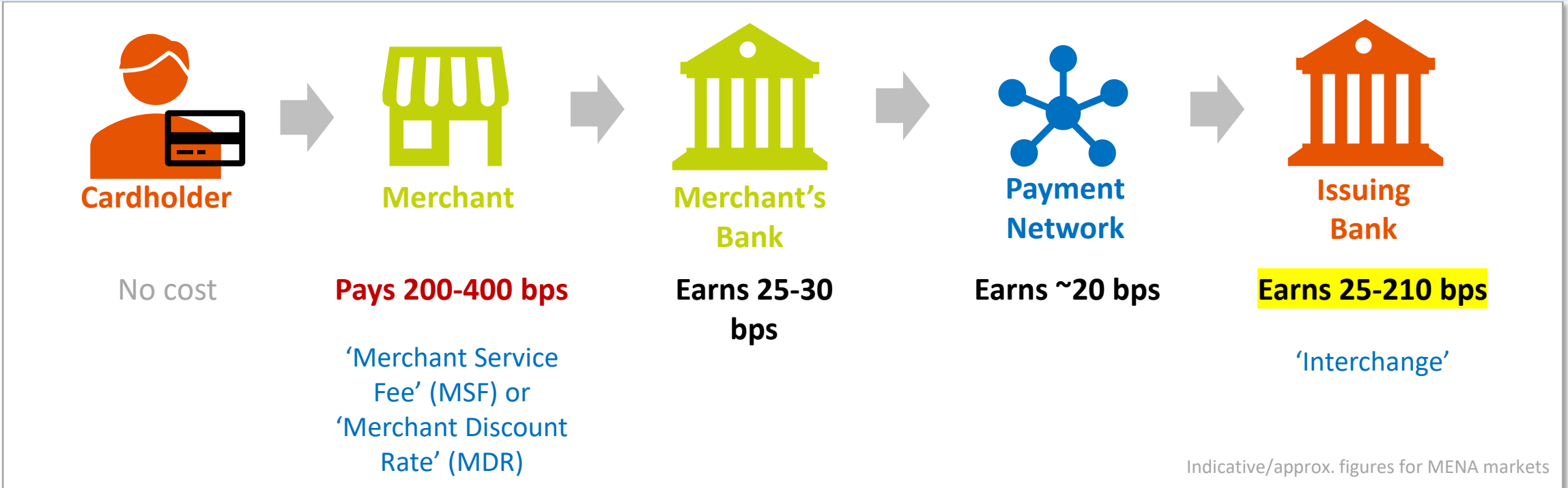
Revenues in Payments Business are determined based on –



- Generally, the Merchant pays a transactional fee to the Acquiring Bank for Card Acceptance Services
- This gets shared between Acquiring Bank, Payment Network and Issuer
- In addition, the Acquirer may also charge for additional services offered by it

# The Merchant bears the cost for Card Acceptance and all associated services

- Transactional fee earned from the Merchant is shared between other stakeholders
- Issuer receives the largest share of the fee as it owns the customers and takes the highest risk



- Interchange is set by the Network and determined by the Card type – more premium the Card, higher the Interchange
- Interchange is differentiated by Merchant category as well e.g. Lower Interchange for everyday categories such as Groceries (~50bps) or Utilities (~25 bps) and higher for cross-border transaction (up to 210 bps)

# Acquirers also charge other fee based on Service and/or Transaction

Charges vary with the mode of transactions

1. Transaction Discounting Rate: Every transaction that is successfully routed via the Payment Gateway infrastructure is levied a transaction processing fee
2. Charges on Foreign Transactions: Different currencies may be charged a markup or a higher TDR
3. Maintenance and Support Fees: Merchants have to pay annual charges for technical support, maintenance or other incidentals
4. Setup Costs: Associated with opening a Acquiring or PG account
5. Insta Pay: Allows offline shops to collect payment through credit/debit card or other online payment alternatives by sending a link to customers via email or SMS, which they then click to pay. For such transactions, a TDR is also applied
6. Subvention: Cost borne by the Merchant in lieu of an interest payable by the customer to avail of payment in multiple instalments

# Example – Payment Gateways Revenues

## stc pay

Online Transaction	1.70% of any transaction
Remittance	Between SAR 14 – 20
Recharge Limit	SAR 20,000

## Telr

AED 0 – 20,000 Volume	0% transaction fee AED 349/month
AED 20,001 – 50,000 Volume	2.69% transaction fee AED 1 per transaction AED 149/month
AED 50,001 above Volume	2.49% transaction fee AED 0.50 per transaction AED 99/month

# Example – Payment Gateways Revenues

stripe

Online Payments (UAE)	Per Transaction 2.9% + AED 1
International Payments	Per Transaction 1% for Intl. Cards + 1% for currency conversion
Card Charge	0.08% per successful card charge

# Stripe: Comparison with competitors

				Braintree		<b>stripe</b>					
Setup Fee	\$0	\$49	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Monthly Fee	\$0	\$25	\$0	\$0	\$25	\$0	\$0 (for US only)*	\$24.95	\$0	\$0	\$0
Transaction Fee	2.9%+30c	2.9%+30c	2.9% + 30c	2.9%+30c	0.10c	2.9%+30c	\$20 + 2.9%+30c	2.75%+25c	3.25% + \$0.40	2.75%	2.9%+30c
Countries	All	5	196 + 15 markets	8	4	25	3	2(US and CA)	1	4	3
Currencies	20	6	87	130+	22	100+	23	7	1	4	3
Card Types	5	6	8	7	5	6	5	Yes	9	6	4
Recurring Billing	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mobile Payments	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hosted service	Yes	Yes	Yes	Yes	Yes	Yes	Yes		Yes	Yes	Yes
Limits	\$10,000 per transaction	User Defined	User Defined			No limits			5000 GBP	No limits	\$10,000 per transaction



## 6. Payments Business Valuation Enablers

# Why are organizations hiving off Payment Companies?

<https://www.arabianbusiness.com> › banking-finance › 4... ⋮

## First Abu Dhabi said to start sale of \$1bn payments arm

7 Sep 2021 — First Abu Dhabi Bank PJSC has kicked off the sale of a stake in its **payments business Magnati**, in a potential deal that could **value** the unit ...

<https://www.finextra.com> › ... › payments ⋮

## Mashreq spins off payments business - Finextra Research

28 Mar 2022 — **Mashreq** Bank, one of the leading financial institutions in the UAE, has completed the transition of its existing **payments business** into a ...

<https://gulfnews.com> › business › markets › saudi-telec... ⋮

## Saudi Telecom spins off data center, cable assets to new firm

2 Feb 2022 — The firm is also building out its digital bank, **STC Pay**, and was an investor in a \$500 million venture capital fund launched in 2017. Carving ...

# Payments Business has unprecedented boom, creating massive valuations

- Payment Companies have seen unprecedented growth and almost have a guaranteed growing business in the near-term, causing a valuation boom based on future revenues
- Many organizations are hiving-off Payments Business to achieve standalone valuations and receive investment infusions
- Current, Business model has several enabling factors that will continue the growth momentum –

Boom in demand for Payment Services, esp. from eCommerce businesses

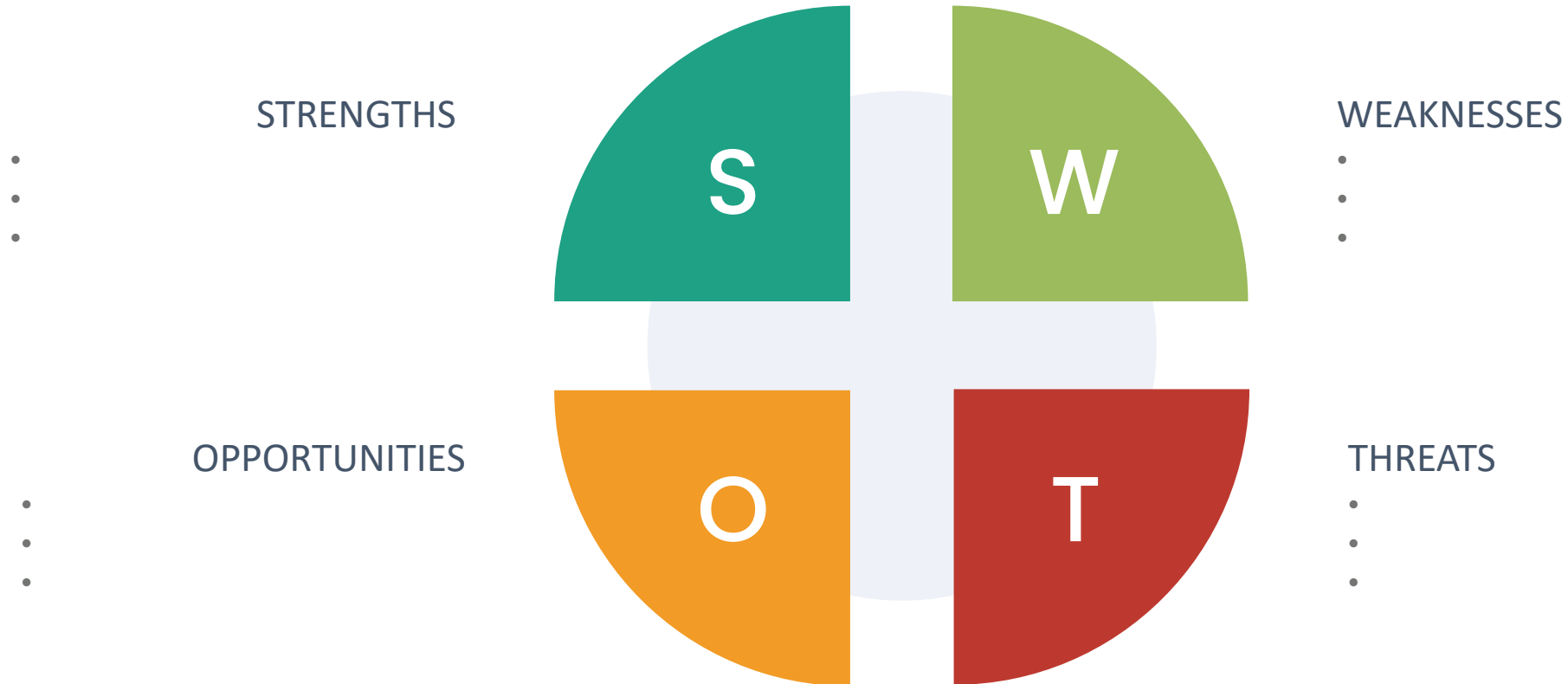
Shift to 'Payment as a Platform' Service, earning profitable fixed fee

Need for value-added services provided by Payment Companies e.g. Currency Conversion, BNPL, Instalments

Need for sophisticated digital payments solutions, already invested in by Payment Companies, e.g. Fraud Management, Chargeback Management

# Activity: SWOT

Complete a SWOT Analysis for creating a Payments Business for NBK



# End of Session: Activity

- What objectives can Payments Business serve for NBK?
- What are under-served eCommerce and Digital Business opportunities in Kuwait?
- What are the payments challenges faced by Merchants and Retailers across domains to start a digital business?
- What are 3-4 unique service propositions that can be launched as Payment Business in Kuwait?
- What consumer and regulatory challenges need to be kept in mind that affect Payments Business?
- What can be an entry Pricing and Revenue strategy for Payments Business considering the competition?

## NBK - Fundamentals of Digital Payment

