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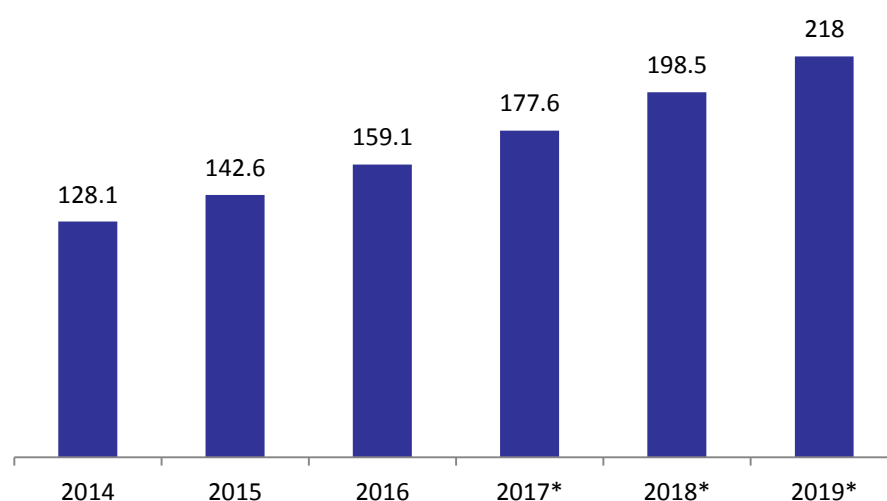
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Digital payments are surely but steadily gaining traction in Lebanon and the MENA region. This is evidenced by the growing number of businesses establishing online presence and/or businesses listing their products on a marketplace's online shelves. The convenience and the competitive prices listed online are making online purchases more appealing. The latest survey by Arabnet on the e-commerce ecosystem in the MENA region showed that more than 65% of users are repeat users.

Number of digital buyers in the Middle East and Africa from 2014 to 2019 (in millions)

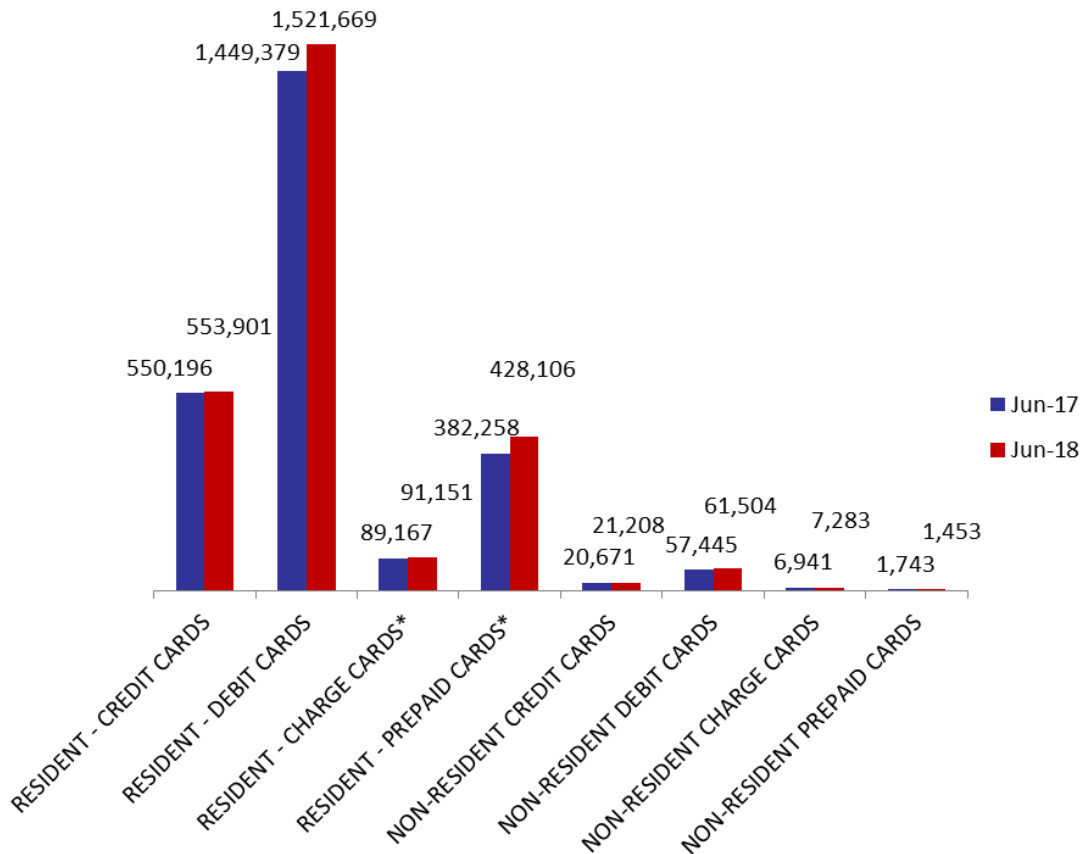


Source: Statista

Despite gaining appeal, shoppers are still wary of online payments. According to Arabnet, 75% of sales transactions are cash on delivery in the MENA region. The preference towards Cash on Delivery is a trend often cited by Lebanese e-commerce businesses and explained by consumers' hesitance to share credit card information with online retailers. On this point, it is worth mentioning that payment gateways and online merchants are not allowed to store card information as it is strictly against the rules of the card schemes Visa and Mastercard. Usually, if the merchant is not the provider of the payment gateway, upon payment, the consumer is redirected to a separate page on which he shares his credit card information, which prevents the merchant from accessing the card information and let alone storing it. If the merchant is the same as the payment gateway provider, the possibility of storing the information becomes more likely, but remains illegal and heavily penalized if detected.

Hesitancy to make online payments does not mean that shoppers are not using their credit or debit cards. Many online merchants are providing their clients with the possibility of paying upon delivery through an on-site POS machine. In fact, the appetite for credit and debit cards is on the rise as shown by figures from the Central Bank. According to the Central Bank of Lebanon, the outstanding number of payment cards (credit cards debit cards, charge cards and prepaid cards) stood at 2.69 million in June 2018 up by 5% from the same period last year.

Number of Outstanding Payment Cards by Type



Source: Banque du Liban

Perhaps a better understanding of how payment gateways function in Lebanon can make online shoppers a little more at ease with their online experience. According to Arabnet’s survey, consumer education beats competitive pricing as the top challenge in the MENA e-commerce scene. This proves that, for online merchants to appeal to consumers, consumers must first fully understand how to assess if the advertised safety of a certain website is credible or not.

Lebanese online shoppers can rest assured by the presence of top-notch global payment services. Cybersource, owned by VISA, and Mastercard Payment Gateway Services are available in Lebanon. Some gateway providers in Lebanon are banks, others partnered with banks such as Net Commerce and Credit Libanais and Fransabank, while Areeba is part of M1 Financial Technologies, a subsidiary of M1 Group after it had acquired Bank Audi’s payment cards and electronic services division business, systems, assets and team. It is worth mentioning that Net Commerce created its own payment gateway service has been present since 1999.

This shows that online merchants in Lebanon can benefit from the same payment solutions accessible to international giants. Cybersource, exclusively provided by BLOM Bank, is a leading payment gateway owned by VISA and it is the same payment gateway used by international merchants such as Amazon, E-bay, Facebook and Air France.

In talking about security, the most important element is figuring out how these international payment gateways ensure fraud prevention. Payment gateways provide many solutions to ensure the security of the transactions; most of the payment gateways require entering a 3 digits number available on the back of the card to ensure that the card is in the possession of the genuine cardholder. In addition to this code, payment gateways may require a one-time password for each transaction. The one-time password is used to make transactions more secure, since the cardholder is verified through a password provided by the issuing bank to the cardholder through SMS or email. The Payment gateway provided by BLOM, in addition to the above, uses artificial intelligence and advanced risk models to detect fraud in real-time. The payment gateway would analyze the transaction elements in terms of IP location, device used, cardholder behavior in order to assess the risk and inform the merchant whether to decline or proceed with the transaction.

Security procedures have to be tailored in accordance with the type of online payment. Payment gateways have designed solutions for one-off payments but also for recurrent payments. Recurrent payments such as subscriptions and bill payments are secured through Tokenization. The Tokenization technology is based on the concept of replacing sensitive data with a non-sensitive element, a token, which has no intrinsic value. In simpler terms, the card number is replaced with a token which will be used to settle future subscriptions. Since this token has no value, it will be useless for the hacker in the case of a breach.

The revenues of payment gateways provided by the banks are a mix of fixed and variable revenues. Banks charge volume-based fees to the merchants in addition to fixed monthly fees. Part of the charged fees goes to the card schemes and the remaining is revenue to the bank.

Despite the importance of security, it is not the only factor that determines the success of an e-commerce venture. In fact, customer retention and trust in this field is multi-faceted. From this, it is fair to say that security and personalization of the online experience are complementary. Fraud prevention ensures that the online customer will have a more serious intent of making a purchase if he believes it is safe to do so whereas the personalization will make the customer spend more time on the merchant's website, buy more because he is offered additional tailor-made suggestions and, more importantly, return and recommend the merchant's website. The biggest proof that customer satisfaction is at the core of achievement in e-commerce is the smashing success of Amazon, a trillion dollar company, with the customer at the heart of its philosophy. In order to attract businesses, payment gateway providers must therefore offer the merchants what's best for their consumers in terms of safety and assistance.

Moreover, certain merchants attempt a trade-off between customer satisfaction and risk. The Verified by Visa and Master Card Secure Code are additional security measures chosen by some merchants and compel customers to provide an additional code when shopping online. Merchants such as Ali Express and Booking.com do not use these codes which indicates that when it comes to **additional** layers of security, they are left to the discretion and strategy of the online merchant; choosing between fewer steps in the checkout experience or extra-layers of security.

From here, it is crucial for the online merchant to understand what their customers' priorities are. The only way to truly understand the customer is gathering data on customers' behavior and preferences. Intuitively, an online merchant can never go wrong with offering the customer a safe and fast checkout experience in addition to a clean, clear user-friendly design and, most of all, online and offline customer support.

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