

Online Merchant Services

White Paper



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Consulting | Software | Outsourcing

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Introduction

Internet access has been available in Pakistan since the mid-1990s. PCTL started offering access via the nationwide local call network in 1995. By early 2006 Internet penetration had remained low. There are signs that this was changing, however with increasing availability of wireless and broadband options throughout the country. An aggressive IT policy, aimed at boosting Pakistan's drive for economic modernization and creating an exportable software industry is also being perused. There is no doubt that has been helping increase the popularity of the Internet. The market certainly has huge potential, but there is a long way to go. This report looks at the development of e-commerce in Pakistan, with specific focus on Citi Bank's initial Online Merchant Account Services.

Internet Usage and Population Statistics:

YEAR	Users	Population	% Pen.	GDP p.c.*	Usage Source
2000	133,000	141,217,486	0.1 %	N/A	ITU
2005	7,500,000	163,985,373	4.6 %	US\$ 690	ITU

* Note: Per Capita GDP in US dollars, source: United Nations Department of Economic and Social Affairs.

Fixed-line Penetration

4% (5.9 million lines) as of early 2006.

Mobile Phone Penetration

23 Million (14% penetration) as of early 2006.

Citibank's Initiative

About Citibank

Citibank is the consumer and corporate banking arm of Citigroup, which is the largest company in the world as of March 2007. Citibank since its inception back in 1812 has been providing financial services world over utilizing latest technologies and introducing numerous banking innovations. Keeping pace with today's world, electronic payment systems have been of major concerns for banks world over. The use of plastic money has come into use in many ways, we see credit cards, debit cards, loyalty cards, fuel cards, shopping cards and much more coming up every day. To be able to accept this plastic money a wide spread acceptability is required by the merchants selling their products and services, online payment methods are one of them and banks around the world offer their merchant account services to cash in the payment processing charges and benefit from the increasing liquidity. The internet is filled with virtual companies and online stores doing successful business in this global economy.

Description

Citibank started its operations in Pakistan back in 1990 and has dominated the market with pioneering services within the local market. Currently Citibank is the only bank in Pakistan offering internet merchant account services for businesses registered in Pakistan.

Implementation

Citibank offers Internet Merchant Accounts from its' various branches across Pakistan. . The yearly service charges are PKR 20,000 with a per transition discount of 3.5% to 4.5%. The service caters only for VISA and MasterCard, both of which are partners with Citibank.

A minimum 2 week period for payment clearance processing, this means that from time of order to money in the bank is often up to a month. This not only discourages traditionally minded businesses from operating e-commerce facilities, but also places an unacceptable financial burden on small and medium enterprises with limited cash flows.

Result

There is very limited e-commerce activity within Pakistan, with most institutions preferring to avoid the hassles associated with the current state of e-commerce



and online merchant accounts. As the turnaround time for payments is quite long, prospective merchants are unwilling to make investments for which they have to wait for up to a month for recovery. Customers are also discouraged by lack of security certifications and perceptions about lack of security in online transactions.

Currently Citibank currently lists 15 active online merchants, where as there are over 5000 active Credit Card merchants with listed for Citibank alone. As a separate annual fee is charged for an Online Merchant Account as well as a separate application process, most merchants prefer not to avail this option.

A lack of vision has also hampered Citibank's progress. By ignoring the emerging use of cellular technology in the country, a vast market has been left untapped.

Lessons Learnt

An evaluation of the current e-commerce and Online Merchant Services in Pakistan leads to the following conclusions:

- The process for setting up an Online Merchant Account has to be simplified to encourage activity in the sector.
- The turn around time for releasing payments has to be reduced to reduce investment in e-commerce for the retailer.
- Credit Card Merchants should be provided Online Merchant Accounts as part of their services.
- Customers have to be provided with security and privacy assurances, by the retailer as well as the Online Merchant Services provider.
- Website and online transaction on them should be verified by a recognized independent security service.
- The scope of services must include all major credit cards as well as alternate online payment methods like Paypal, Google Checkout etc.
- Focus on integrating cellular based services to allow consumers multiple payment options under one umbrella.

Creative Chaos' Analysis:

The Missing Links in Citibank's Initiative

Citibank's Online Merchant Services have not been an immense success due to the following reasons:

- Lack of enthusiasm from merchants has meant limited scope of products are available online; within and from the country.
- Limitation of services to inside Pakistan only limits orders from outside the country.
- Lack of benefits for customers has limited what people prefer to purchase online. Online discounts are a normal business practice with most successful online retailers as well as other benefits like free shipping, vouchers, gift points etc. Online Merchant Account providers should provide free points (benefits) to customers using their services to encourage online activity.
- Customers are unsure about the security of online transactions. Most online merchants are also not placing relevant security and privacy information online.
- Merchants are not offered any benefits for availing Citibank's Online Merchant Services, rather this adds to their cost of operations. Incentives like access to a unified portal (defined below), faster transfer of funds and better support and services should be offered.
- A unified platform that allows transactions through credit cards and / or cellular phones would encourage a larger segment of the market to avail services offered by the Online Merchant Account provider.

Avoiding Citibank's Problems

To avoid the problems mentioned above we suggest the following strategies be implemented:

- Proper security and information privacy protocols should be implemented for online payments. Vendors should be able provide direct links to the Online Merchant account provider to vouch for websites' security and validity.
- Incorporate multiple payments methods including credit cards, debit cards, online payment solutions (Paypal, Checkout etc.) and cellular based transactions as part of the Online Merchant Accounts services.
- Provide extensive assurances to end consumers about security and privacy features being availed, by the Online Merchant as well as the Online Merchant Account provider. Online Merchants should be able to refer to Account provider when citing security and privacy practices and procedures.
- Ensure against fraud by providing insurance options to merchants and consumers.
- Provide third party verification of vendor websites. This certification should be displayed prominently on the vendor's website.
- Guard against data theft by providing Secure Socket Layer (SSL) based connections when retrieving user information. The user should also be educated that only SSL connections should be used to submit information.
- Encourage vendor participation by reducing operating costs.
- Create an atmosphere where vendors are encouraged to utilize and promote e-commerce activity by providing simple set up and follow up procedures.
- Encourage consumer participation by promoting online commerce; consumers using cards (credit and debit) from the Online Merchant Account provider should be offered special rates / discounts.
- Encourage consumer participation by promoting security, privacy and how online transactions will make their lives easier while expanding their choices.
- Vendors without website should be provided web space on the Merchant Accounts provider's portal (defined below) to allow immediate online placement of products.

Creative Chaos Proposes

- A vendor focused strategy that focuses on the major players in the market. *(For details please refer to the next section)*
- Annual fees and other periodic service charges should be waived on Online Merchants.
- Agreements with major couriers and shipping agents should be in place to allow easy shipping options for Merchants and Consumers.
- Comprehensive procedures should be in place to make online commerce set up simple and user friendly.
- Merchants should be encouraged to participate with special education tools, promotions and benefits for online commerce activity.
- Consumers should be encouraged to participate by providing portals that access all online vendors with special online rates, discounts for using bank specific cards and assurances on security and privacy.
- Consumers should be encouraged to use Secure Socket Layer (SSL) connections and encrypted information.
- Consumers should be able to use mobile based technology to complete transactions. This is based on a simple Java application that uses SMS based protocols to allow commerce activities.
- Simple set ups for e-commerce should be provided for merchants with websites. Easy options for setting up new websites should also be facilitated.
- Community portals' access should be provided to all vendors. These portals will be a managed service provided by the Merchant Account Providers.

Vendor Focused Strategy

Citibank's initial Online Merchant Account service was not a tremendous success, mainly due to lack of enthusiasm from the vendors. As there is a limited scope of products available online, consumers are not confident in using e-commerce for their retail needs.

To improve the confidence and choice of consumers it is essential to provide them with a broad range of vendors and products online, along with assurances on the safety, security and convenience of online shopping. Consumers should also be provided with multiple payment options including cards (credit and debit) and mobile payment services.

To provide a broad range of vendors and products, merchants need to be encouraged to initiate and / or expand online services.

Merchants need to be provided provide simple and effective methods to initiate e-commerce. This should include the following:

- Online Portal¹ hosted by the service provider.
- All registered merchants will be able to upload and sell products on this website. The portal will use logistic partners for delivery.
- List of authorized developers with special packages for e-commerce website development.
- Provide template based website options to vendors as part of services.
- Hosting and web support services should also be offered for these websites. This can be achieved in partnership with recognized technology providers.
- Merchants should be able to download e-commerce applications for their websites from the service provider. This will not only ensure standard use of approved technology but also ensure proper security measures are in place.
- Shipping partners should provide hassle free clearance and delivery for out of country orders to promote the export sector.
- Existing Credit / Debit card merchants should be provided Online Merchant Services at preferably no extra cost.

¹ An Online Shopping Mall

Customer Experience – The Essential Factor

The most important aspect of the retail process involves the end consumer experience. From initial touch point to final transaction and delivery of purchased product(s) or service(s), the consumer should be able to avail all services on a unified portal that comes with security and privacy assurance provided by the Merchant Account Provider. Our proposed solution offers a chance to implement a solution that offers a vast range of products, competitive prices, and hassle free delivery all at the click of a button.

A unified portal that carries a vast range of available product at competitive prices creates a virtual mall that offers convenient purchasing options. Vendors with their own websites are also listed and consumers can choose to place direct orders with them or by using the unified shopping cart in the vendor portal.

The vendor portal will resemble a virtual mall, which will allow consumers access to vast range of products. Using company credit cards and being high volume customers enables them to earn further discounts and / or loyalty points. This in turn encourages online commerce activity which increases revenue as well as attracting more vendors.

Customers are also able to use their mobile phones to complete transactions, online as well as to retailers and / or vendors. This is based on a simple Java based application² that uses SMS to allow transactions. These services allow a push payment methodology as opposed to the pull methodology used by credit and debit cards. In an environment of increasing concern about privacy and security, Mobile SMS based payments allow consumers to retain personal information while allowing vendors to directly accept payments into their accounts. These services employ networks of some of the biggest credit card companies in the world³ and allow transactions at any vendor supporting their services.

By providing all these services at a unified portal, the Online Merchant Provider is encouraging online activity while ensuring that consumers are provided with a satisfactory level of services while ensuring security and privacy of transactions.

² Most mobile phones in the country support JAVA applications.

³ MasterCard and Visa

The Big Picture

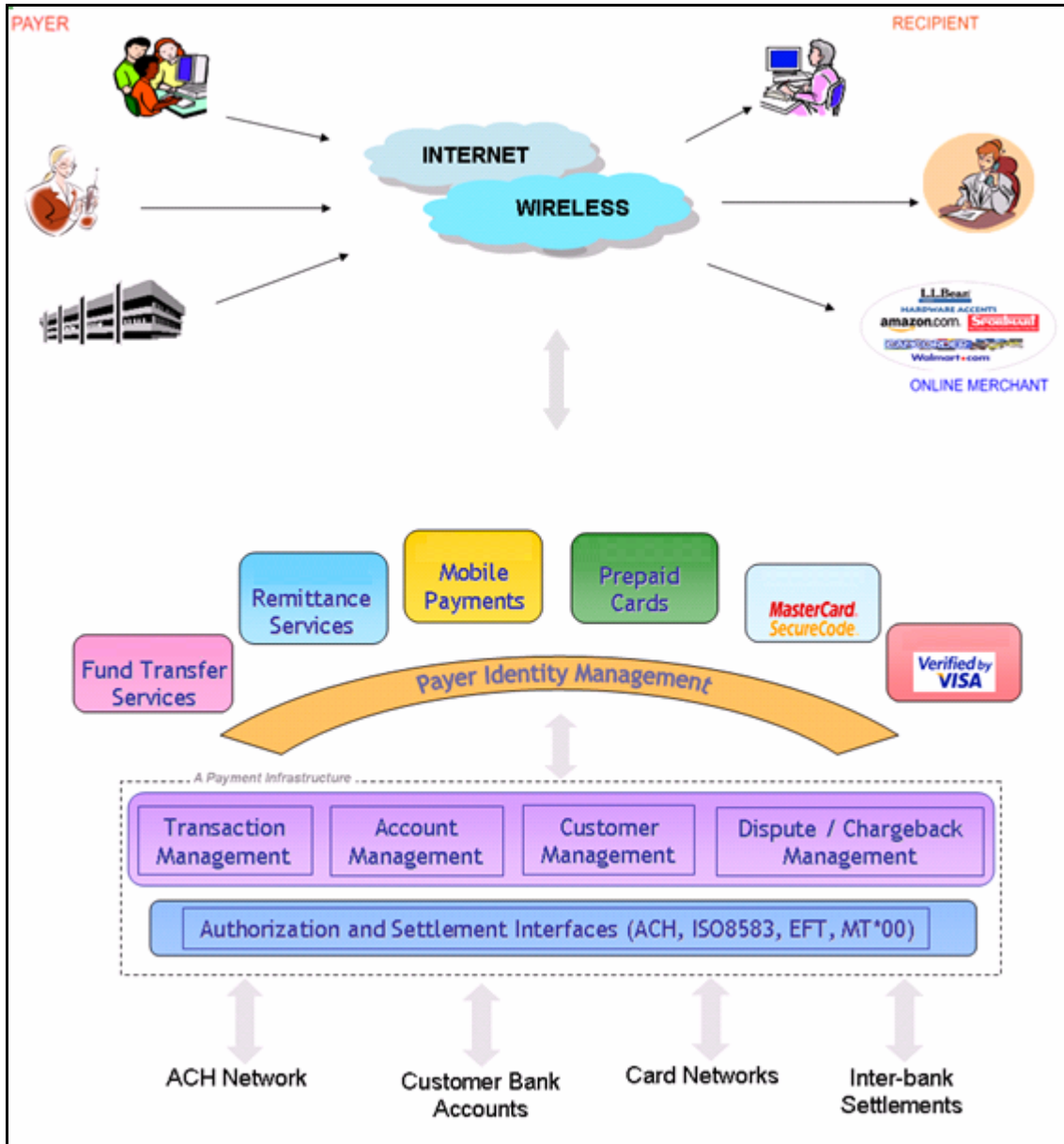


Figure 1 - Visual Representation of a Unified Payments Solution

The Creative Chaos' Solution

Creative Chaos provides professional consulting for financial institutions with regards to integrating technology and providing options for future expansions. Prospective Online Merchant Account providers should contact Creative Chaos for a detailed assessment of their project. The assessment will focus on:

- Analysis of existing IT architecture and business practices.
- Scoping of required expansion for enabling Online Merchant Account Services.
- Detailing of required business practices for ensuring smooth initiation of Online Merchant Account Services.
- Definition of required tools and technology.
- Analysis of existing architecture and recommendations for upgrades and / or additions.
- Assessment of Mobile payment services and integration with existing business practices.
- Risk assessment for integration of Mobile Payments and Online Commerce.
- Risk Assessment for setting up Online Merchant Account Services.
- Cost analysis for setting up Online Merchant Account Services.

For a detailed list of services, please contact Creative Chaos (Pvt.) Limited.