VISA

The New Acceptance Landscape

Understanding the impact of the digital acceptance transition and how you can ensure your acceptance maturity keeps up.

April 2023

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The Digital Acceptance Transition

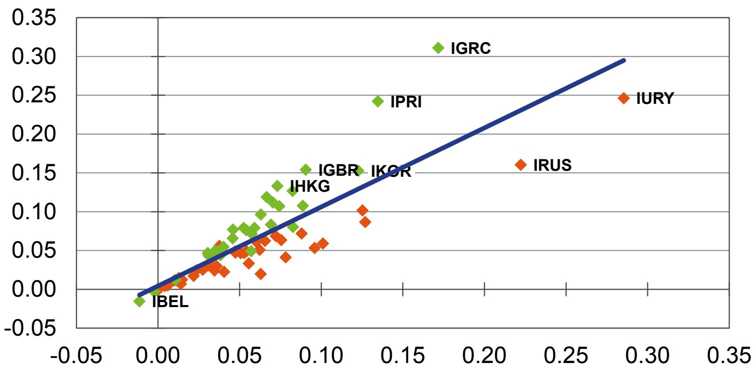
Payment cards have come a long way since the first iteration of store cards in the 1930s to 50s, when charge plates (dog-tag style metal plates) popularized by the Charga-plate bookkeeping system were only accepted in the department stores they were issued by[1].

The idea of having a payment card that was accepted at more than one location first gained popularity in the 1950s when Frank McNamara and Ralph Schneider launched the Diners Club card. For the first time cardholders could charge their restaurant meal to a card, the restaurant would then send the bill to Diners Club and Diners Club would send payment directly to the restaurant's bank, taking a small commission for the transaction and requiring cardholders to pay their statement in full each month. In its first year of operation, Diners Club grew to more than 10,000 members and included 28 restaurants and two hotels. In 1958 American Express developed its first charge card, and later that year Bank of America launched its BankAmericard which in 1976 became "Visa", chosen because it was a word that sounded the same in nearly every language and is now known worldwide[2].

Since the first charge cards of the 1950s electronic payments, and the acceptance landscape have changed dramatically. Nowadays, it is very rare to find a card which is only accepted at a single merchant, in fact, we at Visa pride ourselves on "connecting everyone to just about everyone else"[3]. The digital age has seen cardholders being able to leave home without their cards as they can now rely on token technology to make payments via mobile devices.

Since their inception payment cards have allowed consumers and businesses to buy and sell with greater convenience. In many countries this has fostered economic growth and increased the quality of life by reducing the informal economy,strengthening transparency in the economy, reducing the cost of cash and boosting jobs.

Change in card penetration (X-axis) vs. card contribution to GDP

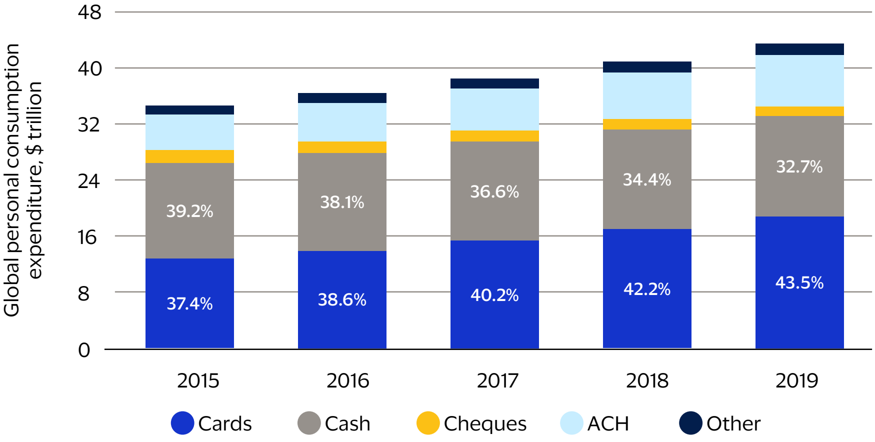


Source: Moody's Analytics 2021 , The Impact of Payment Cards on Economic Growth

Emerging markets can have a larger impact on GDP through increasing their card penetration rates. The new acceptance landscape is enabling development of retail payment infrastructure in emerging economies as well as developed countries, electronic payments are becoming more prevalent and available and as a consequence merchants have more ways to accept electronic payments than ever before.

1. https://www.forbes.com/advisor/credit-cards/history-of-credit-cards/
2. https://www.forbes.com/advisor/credit-cards/history-of-credit-cards/
3. https://www.visa.co.uk

The Rise of Payment Cards



Sources: Euromonitor, Moody's Analytics:
https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf

The global COVID-19 pandemic and the ability of cards to make payments contact-free acted to reinforce customers growing preference for using card payments over cash. In fact, **2020 saw 48.5% of all global consumer spending taking place on a payment card, an increase of 12% from 2019**, building on the period of 2015 to 2019 when consumer spending using payment cards grew at an average annual pace of 16%, more than three times the rate of personal consumption growth and cash usage as a percentage of total consumer spending fell at an average of 17% each year[4]. Payment card usage growth is expected to continue, and **by 2025 85% of POS and eCommerce payments are estimated to be made via a card or digital/mobile wallet**[5].

Global POS Payment Methods

	2021	2025
Digital / Mobile Wallet	29%	39%
Credit Card / Charge Card	24%	22%
Debit Card	23%	22%
Cash	18%	10%
Retailer / Bank Financing	4%	3%
Prepaid Card	2%	2%
Buy Now, Pay Later	1%	2%

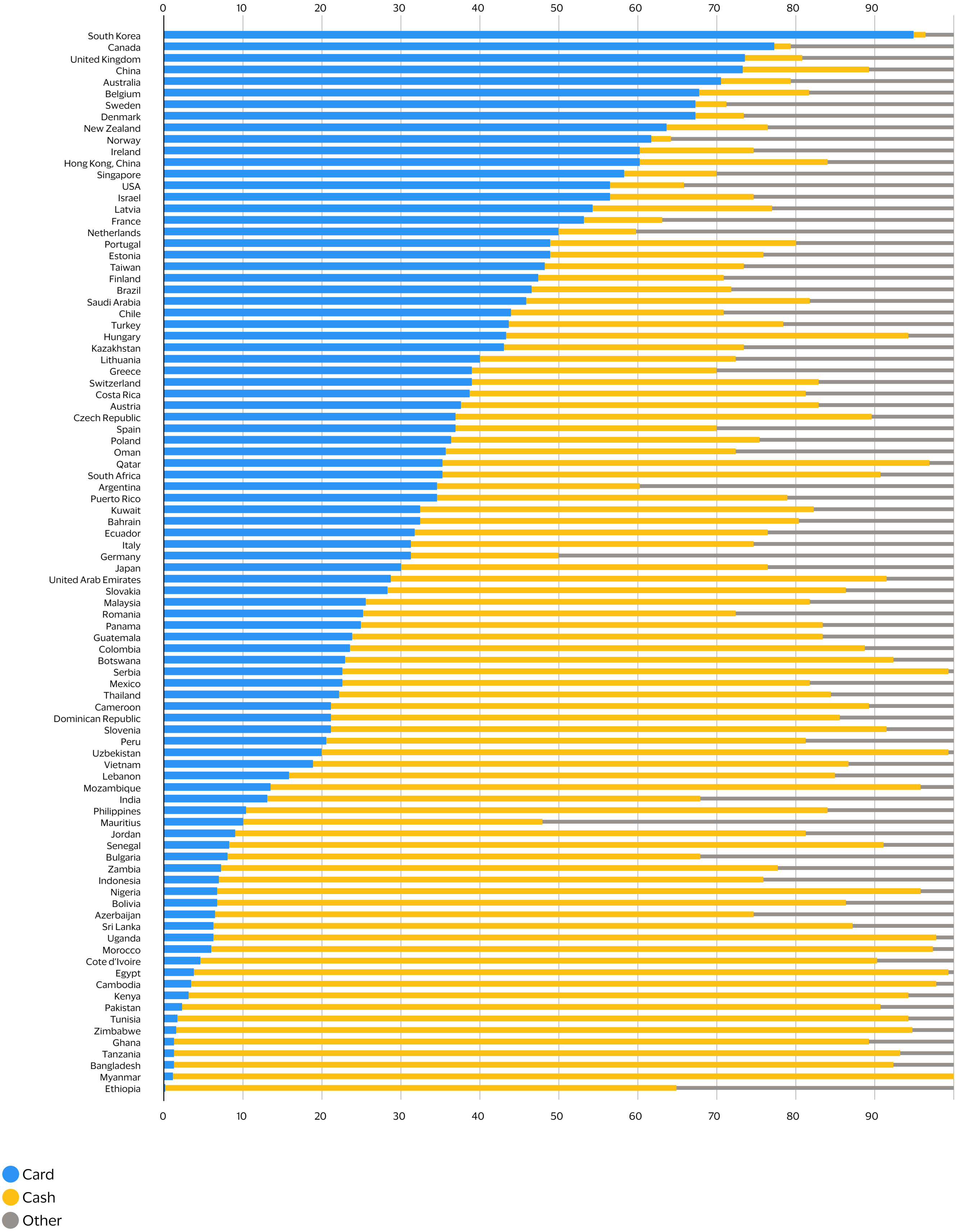
Global eCom Payment Methods

	2021	2025
Digital / Mobile Wallet	49%	53%
Credit Card / Charge Card	21%	19%
Debit Card	13%	13%
Bank Transfer	7%	6%
Buy Now, Pay Later	3%	5%
Cash on Delivery	3%	1%
Direct Debit	1%	1%
PrePay	1%	1%
Other	1%	1%
Prepaid Card	1%	0%
PostPay	1%	0%

Source: WorldPay, The Global Payments Report 2022, Available at: https://worldpay.globalpaymentsreport.com/en

4. https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf
5. https://worldpay.globalpaymentsreport.com/en

Global Consumer Expenditure by Payment Type



However, the growth of payment cards and electronic payments has occurred unevenly across the globe.

This paper will introduce you to the new acceptance landscape and how acceptance maturity can be measured. Then moves on to explain how all parties in the payment ecosystem can benefit from further developing acceptance maturity and the ways in which this acceleration can be achieved.

The Uneven Growth of Electronic Payments

Country	Payment (debit, credit and charge) cards per inhabitant in 2021	Bank Population as a % aged over 15 in 2021
Nigeria	0.46	47.10%
South Africa	0.80	82.10%
UAE	1.7	90.30%
Saudi Arabia	0.7	74%
Kazakhstan	3.1	62.20%

Source: GlobalData Research

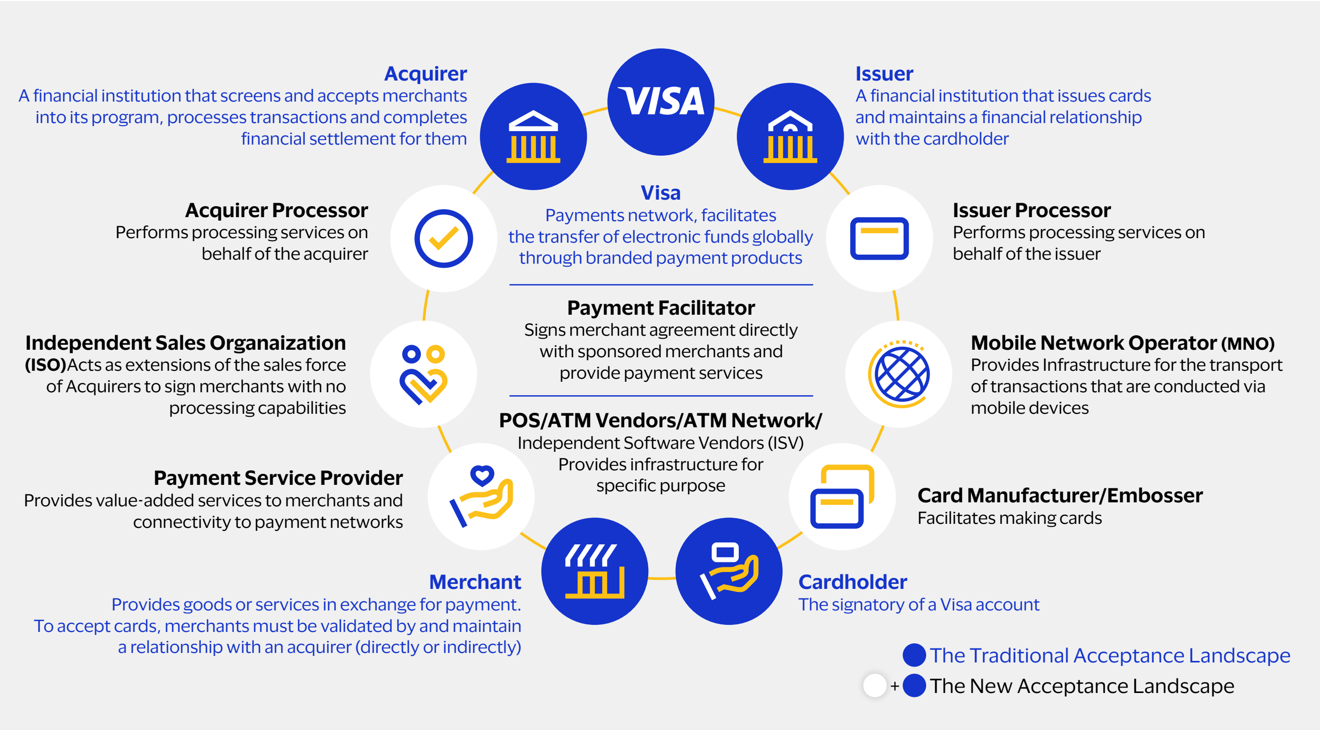
Understanding the Changing Acceptance Landscape

The Acceptance Ecosystem

The acceptance ecosystem covers all commerce types; face-to-face, unattended, mobile and eCommerce. Without merchants accepting payment cards, the acceptance and payments ecosystem would have never emerged. As more merchants began to accept payment cards their needs have evolved and become increasingly diverse, demanding tailored go-to-market approaches:

- **Enterprise merchants,** require custom integrated solutions supporting complex business needs.
- **Mid-level merchants,** need integrated solutions for multiple business needs.
- **Small-medium enterprises (SMEs) merchants,** want simplified, affordable easy to use business solutions

Traditionally merchants could only connect to Payment Networks, such as Visa directly, through an acquirer, but these days, to meet the diverse range of merchant needs there are other entities who play important roles between – or on behalf of – the acquirer and merchant, that have become increasingly integral to the acceptance ecosystem.



So, who are these new players in the acceptance ecosystem?[6]

Payment Service Providers (PSP) (also called Merchant Service Providers) are third parties that help merchants accept payments by providing value added services and connectivity to payment networks.

Independent Sales Organizations (ISOs), work with acquirers to conduct multiple activities, including seller account or transaction processing solicitation, sales, customer service, seller training activities or solicitation and sales of POS terminals, mPOS devices or other acquirer acceptance solutions.

Payment facilitators (or Payfacs) act as a "master merchant" who can both sign a merchant acceptance agreement with a seller on behalf of an acquirer, and receive settlement funds proceeds from an acquirer, on behalf of the underlying merchant (known as a "sub-merchant").

Marketplaces are online entities that bring together customers and merchants on a single marketplace-branded platform, such as Etsy, and process transactions and receive settlement proceeds on behalf of those merchants.

Third party bill payment providers, not all merchants accept electronic payments (for instance public utilities or commercial billers), however, customers still want to pay with their payment card and third parties who have a pre-existing relationship between the customer and merchant can step in.

Digital wallet operators are software-based systems that store a customer's payment card details to fund a wallet account and are used to make payments.

Acquirer processors, are appointed by a merchant to handle transactions from various channels for the acquiring bank.

Issuer processors, connect with card schemes, such as Visa, and issuing banks to manage card issuance, authorize transactions, provide the system of record and communicate with all the different clearing and settlement parties.

Mobile Network Operators (MNOs), provide the infrastructure that allows for the transport of transactions that are conducted via mobile devices.

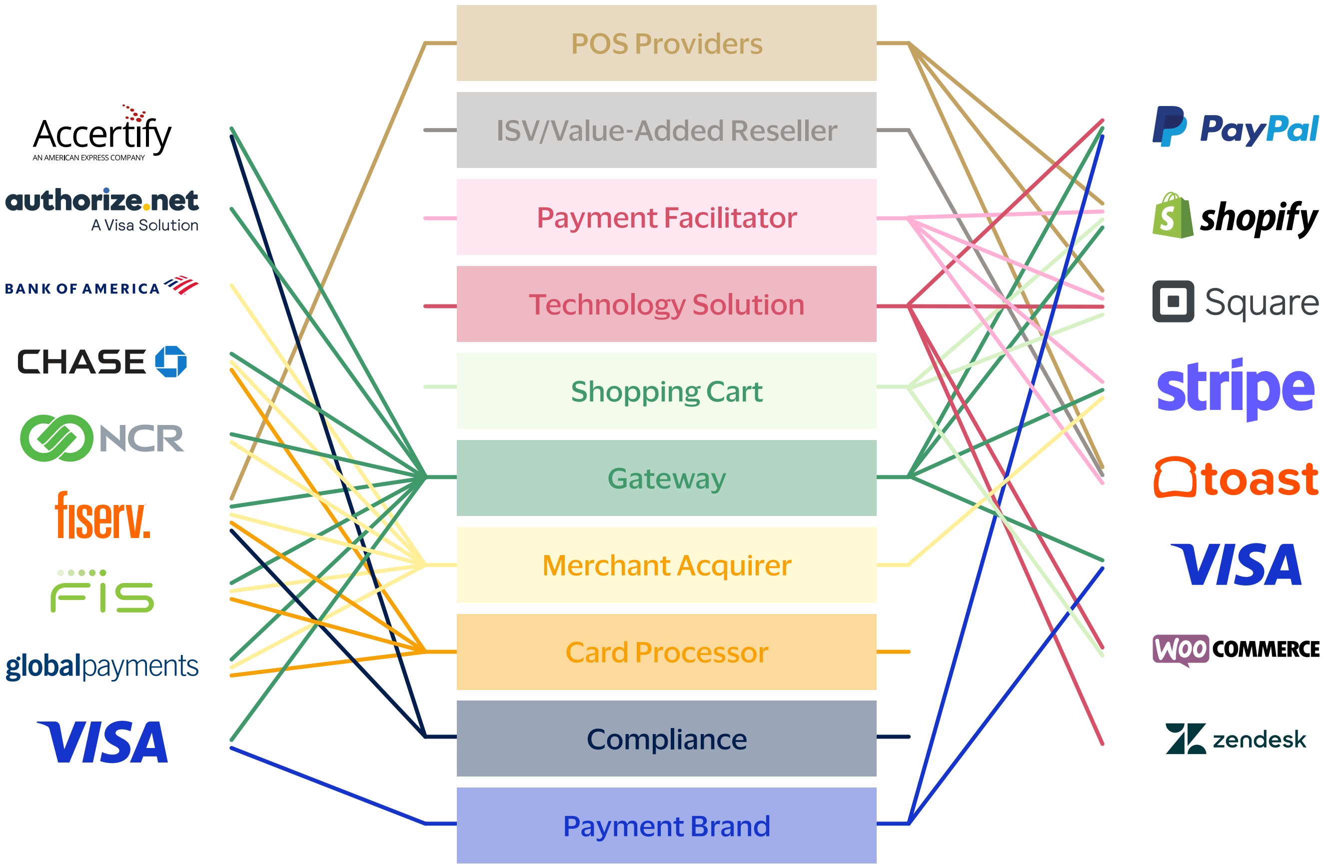
Card manufacturers/embossers, facilitate the making of cards for issuers.

Third party agents, are a part of the payments ecosystem but do not get involved in the movement of funds between cardholders, merchants and acquirers, they generally provide infrastructure or support for a specific purpose. Common third parties include POS vendors, ATM vendors, ATM network, Independent Software Vendors (ISVs). Third party agents can usually be categorised as either;

- **Third party servicers**, are contracted directly by acquirers for many payment related services, including payment or gateway processing host/data centre management, back-office operations and reconciliation, fraud management monitoring, software or platform as a service (SaaS/PaaS), token services and other value-added services.
- **Or, merchant servicers**, can be contracted directly by a merchant and not through an acquirer to provide payment gateway processing, POS/mPOS terminal and host management, e-commerce website or mobile application checkout functionality, host/data center management, back-office operations and reconciliation, fraud management monitoring, software or platform as a service (SaaS/PaaS) and other value-added services.

6. Beyond the Acquirer: Additional Visa Acceptance Entities, Visa, 2020

These new parties have turned the acceptance ecosystem into a complex web, with different providers falling into separate player categories but providing overlapping services.



Source: TSG: Market Primer: Payment Facilitation in the US, UK and EU, 2021

Despite making the acceptance ecosystem look more complicated, these new parties provide benefits for everyone involved:

- **For acquirers**, they can reduce the cost of onboarding small/longtail merchants or those with unique needs. They can also broaden the number and type of merchants eligible for electronic payment acceptance, helping to move merchants away from cash or checks.
- **For merchants**, they can offer cost-effective electronic payment acceptance for small retailers or provide niche capabilities for merchants with special needs.
- **For customers**, they can enable more opportunities and convenient options for paying with payment credentials.
- **For other technology players** in the ecosystem, they can enable diversification of products and services by integrating electronic payment acceptance capabilities alongside other solutions they may already provide to merchants.

Visa has established a clear set of eligibility requirements, obligations, and responsibilities for all its program participants, but it is important to remember that the acquirer remains responsible for the actions and obligations of not only the merchant, but any other entities operating between or on behalf of the acquirer and merchant.

Looking at Payfacs

Out of all the new players, Payfacs are having the biggest impact on developing acceptance, particularly for the underserved. Prior to Payfacs, micro, small and medium sized enterprises weren't processing enough transactions to sign up to an acquirer and access the electronic acceptance ecosystem. But Payfacs changed all this. A Payfac will sign up for a master merchant account with an acquirer and sign-up individual merchants as sub-merchants who fall under the Payfac's master merchant relationship with the acquirer for transaction clearing and settlement with the Payfac underwriting their sub-merchants' sales on behalf of the acquirer.

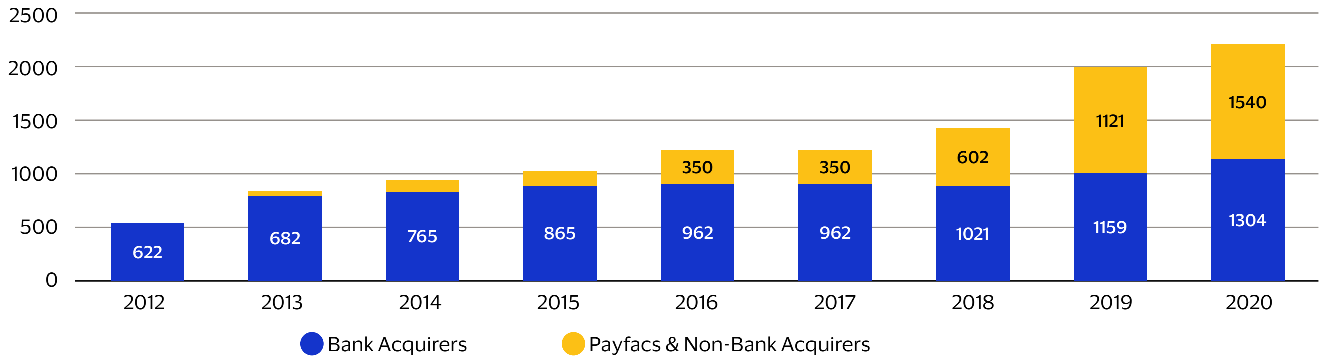
In 2019 there were only 1,075 Payfacs in existence across the globe, by the end of 2025 that number will have more than doubled, climbing at a conservatively estimated Compound Annual Growth Rate (CAGR) of 13.8%. The global gross payment volume processed by Payfacs is expected to grow at a 28.4% CAGR and exceed USD $4 trillion over the same time frame, while their transaction values worldwide, excluding those of mega players PayPal, Square, Stripe and Shopify, will grow in tandem, reaching a conservative estimate of USD $13 billion with a 28.5% CAGR[7].

The rise of Payfacs has demonstrated the demand and need within the micro, small and medium sized business community for access to electronic payment acceptance:

- Compared to the average top five acquirers in the US, Square serves approximately 2.7 times more merchants, while processing about 10% of the volume. Around 40% of Square's Gross Payments Volume (GPV) is generated from merchants processing under $125K annually and roughly 90% of Square's GPV is generated from merchants processing under $500k[8].
- While Stripe had an estimated US$101 billion in US processing volumes for 1.9 million US merchants in 2020[9].
- If we look at the global perspective, SumUp had an estimated revenue of US$393 million in 2020, with over 3 million merchants signed up across 32 countries[10].

And when we look at the number of POS terminals in circulation, we can see from a study carried out by the Mexican Central Bank that Payfacs are having a material impact on developing card payment acceptance.

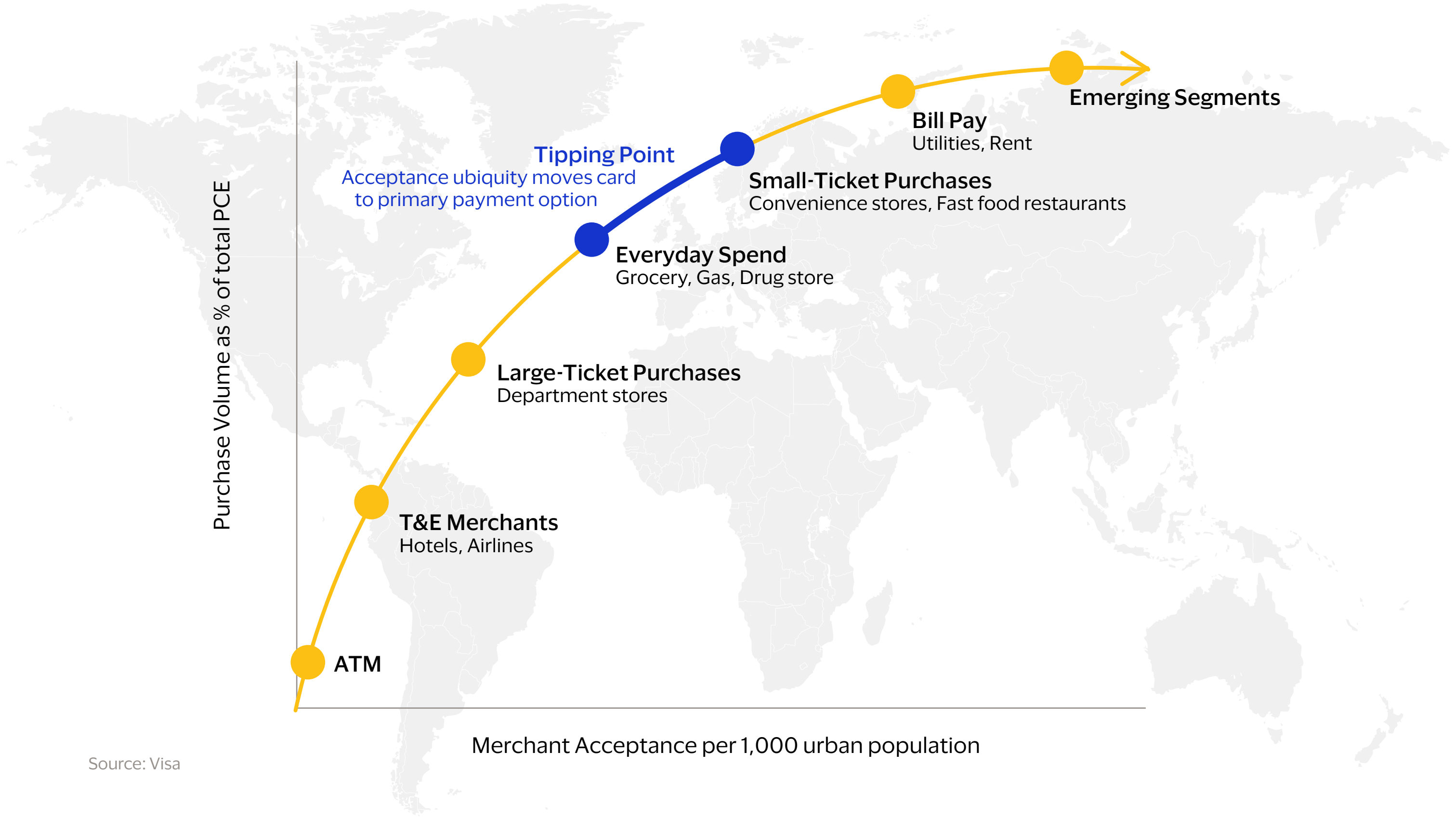
Number of POS Terminals in Mexico



Source: Mexican Central Bank, Annual Report on Financial Serves Transparency Law

7. Per the Infinicept and AZ Payments Group report as referenced in Insider Intelligence: Payment Facilitators - How These Providers Are Eating the Payments Value Chain, June 2021
8. TSG: Market Primer: Payment Facilitation in the US, UK and EU, 2021
9. TSG: Market Primer: Payment Facilitation in the US, UK and EU, 2021
10. TSG: Market Primer: Payment Facilitation in the US, UK and EU, 2021

The Acceptance Development Lifecycle



Source: Visa

Most markets follow the acceptance development lifecycle, with consumers being introduced to the idea of card payments when they first use a card to access cash at an ATM. From this starting point acceptance gradually develops over time with the number of acceptance points steadily increasing across a market and multiple merchant segments from travel and entertainment purchases to everyday spend. This expansion usually sparks a corresponding rise in the volume of electronic payments in those merchant segments. And as acceptance matures, card payments gradually become the nearly ubiquitous first-choice payment option and cash becomes relatively less popular.

There are of course exceptions to this lifecycle, in some cases government sponsored salary cards or benefits cards can act as the catalyst for acceptance in the everyday spend segment to grow before large-ticket purchases, or acceptance may start through bill payments or emerging segments such as healthcare before expanding into everyday spend. Nevertheless, the lifecycle provides a general framework to understand how card payments and card acceptance generally grow.

Acceptance Maturity

Measuring Acceptance Maturity

When assessing how far along the acceptance development lifecycle a market, country or region is we talk about how mature their acceptance ecosystem is and assess if the key infrastructure and behavioral indicators which allow for payments acceptance to develop are in place to enable electronic payments to become an everyday staple.

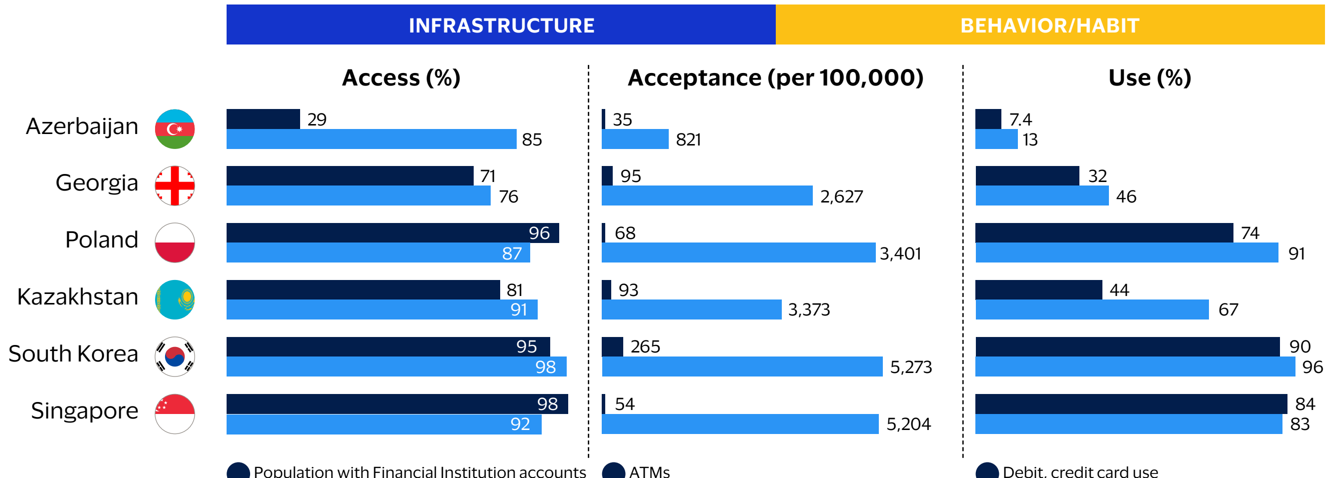
Key Acceptance Maturity Indicators

INFRASTRUCTURE				BEHAVIOR/HABIT	
Access		Acceptance		Use	
Access to internet	**Financial Institution account**	**ATMs**	**POS Terminals**	**Debit, Credit card use**	**E-commerce**
% of population with internet access	% of population with possibility of activating digital payments	Number of ATMs per 100,000 adults	Number of POS terminal per 100,000 adults	% of population using a debit or credit card to make a purchase	% of population paying online

These key infrastructure and behavior indicators allow us to determine what is holding back acceptance maturity. Kazakhstan and Azerbaijan, for instance, are both undergoing a digital transition, currently only 29% of the population in Azerbaijan and 59% of the population in Kazakhstan have a Financial Institution account. When you look at what this means for payment card usage only 7.4% of the population in Azerbaijan and 25.5% of the population in Kazakhstan use a debit or credit card to make purchases. However, 81% of the population in Azerbaijan and 86% of the population in Kazakhstan have access to the internet, while in Azerbaijan there are 821 POS terminals per 100,000 adults and in Kazakhstan there are 3,373 per 100,000, demonstrating that while population buy-in to payment cards is currently limited and restricting acceptance maturity both countries are putting the right infrastructure in place to grow. This was further demonstrated by Kazakhstan's 2020 Strategy for the Development of the Payments Sector and beyond, and the Digital Payments Strategy of the Central Bank of the Republic of Azerbaijan for 2021-2023 and beyond which set out key government public policies to build on their infrastructure scores and increase their behavioral acceptance maturity indicator scores to match.


Azerbaijan

Assessing Acceptance Maturity

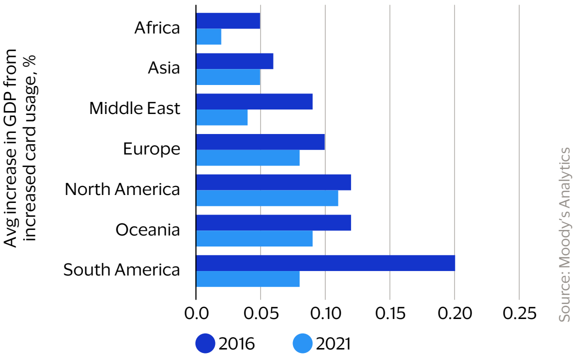


Source:
https://data.worldbank.org/

Reasons to Increase Acceptance

Increasing acceptance maturity and therefore the use of payment cards doesn't just allow consumers and businesses to buy and sell with greater convenience, but also plays a crucial role in stimulating economic growth in countries around the world. The availability of card based electronic payment systems leads to a virtuous economic cycle whereby increased consumption leads to increased production, more jobs and greater income and, ultimately, stronger economic growth.

Contribution to GDP by Region



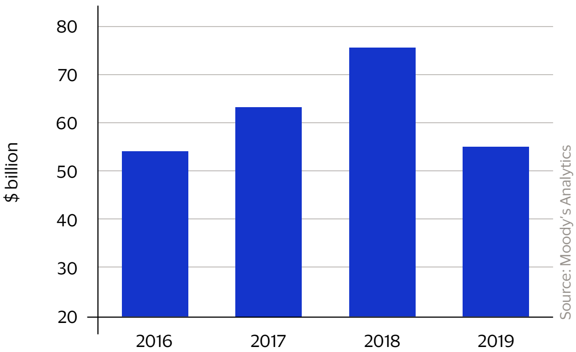
In fact, a study conducted by Moody's Analytics and sponsored by Visa analyzed the impact of electronic payments on gross domestic product (GDP) in 70 countries/regions in the five years between 2015 and 2019 and found that greater usage of electronic payment products added $245 billion to real GDP in the 70 countries studied between 2015 and 2019[11]. Each 1% increase in usage of payment cards produces, on average, an annual increase of approximately $67 billion in the consumption of goods and services, or a 0.01% increase in GDP, assuming all other factors remain the same[12]:

In Saudi Arabia electronic payments had an average contribution of 0.06% to GDP from 2015 to 2019, the largest contribution to GDP in this period was $0.74 bn in 2019.

In Kenya there was an average contribution of 0.01% to GDP from 2015 to 2019, the largest contribution to GDP in this period was $0.02 bn in 2019 and 2018.

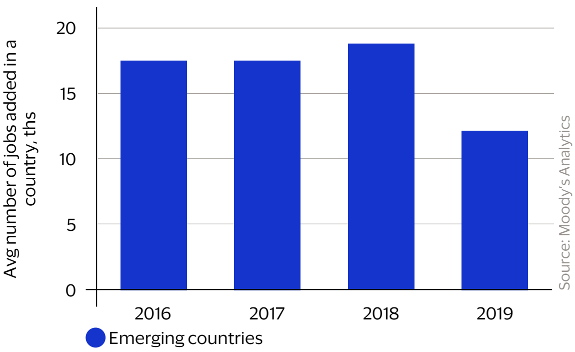
In Serbia there was an average contribution of 0.03% to GDP from 2015 to 2019, the largest contribution to GDP in this period was $0.02 bn in 2019 and 2018.

Contribution to Consumption



The increase of GDP wasn't the only result. It was also found that card usage raised consumption by an average of 0.14% across the 70 countries which contributed to an average additional growth in GDP of 0.08% for this group of countries[13].

Contribution to Employment



As consumers consume more, firms increase hiring to accommodate the additional demand for goods and services. If it wasn't for greater card usage, global GDP would have grown by an average of only 2.9% a year, instead of the actual growth of 3%. This extra growth supported the creation of almost 2.1 million jobs on average per year across the countries sampled between 2015 and 2019, which is about 0.3% of total employment in the 70 countries[14].

11. https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf
12. https://usa.visa.com/visa-everywhere/global-impact/moodys-graphic.html
13. https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf
14. https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf

But, how does increased acceptance maturity have this impact on GDP?[15]

Removing friction:

- Being able to use payment cards makes it easier for customers to spend, as they no longer need to rely on having the right amount of cash available to make a purchase. This works out for merchants too as they don't need to take risks by holding large amounts of cash or accepting the risk of a large payment via check and if a consumer uses their own payment card at a self-service supermarket terminal or petrol station it also lowers labor costs for merchants. Every millisecond of friction that payment cards help to eliminate contributes to higher consumption and GDP.

Standardizing spending:

- Global acceptance standards simplify global expansion by allowing merchants to accept "across borders" with their POS terminal or online.

Encourages innovation:

- By having global standards payment companies and fintechs compete on equal terms so merchants get a market-based deal. Vendors are also encouraged to be more innovative creating the provision of more beneficial solutions for both consumers and merchants.

Provides security:

- Trust in the payment system eases friction and drives consumption. Accepting payment cards allows merchants to have peace of mind that their payment is guaranteed while consumers feel more comfortable making purchases allowing payment card usage to grow.

Increasing transparency:

- Increased use of payment cards generally leads to reduced use of cash therefore reducing the central bank costs of providing currency related to; handling, printing, transporting and safeguarding notes and coins to treasury and finance departments for processing paper money, thereby improving overall efficiency in commerce and the economy.
- Increasing acceptance and supporting payment cards reduces the informal economy which helps to combat financial crime and increase financial inclusion.
- Retailers who do not report some or all of their transactions to avoid paying certain taxes usually prefer cash transactions. As acceptance increases and more card based payments take place it creates a digital audit trail, reducing unreported transactions which supports increased tax revenues.

Enabling business growth:

- Approximately 50% of small and medium business that went online during the COVID-19 pandemic were businesses that had no or minimal online business pre-pandemic. Those who took the step online increased sales by 20-30% more than those that didn't make the digital shift.

15. https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf

How to Improve Acceptance Maturity

Several recent developments have helped drive the expansion of electronic payments acceptance:

a. Smart POS devices such as Clover and Poynt allow merchants to see enhanced analytics or have 'business in a box' capabilities. These value-added services have encouraged small merchants to accept payment cards.
b. Contactless POS terminals have allowed for small ticket payments to be made quickly and efficiently, encouraging the transfer of small value everyday spend from cash to card.
c. Mobile technology has opened up new merchant segments and entrants as mPOS devices such as Square which can be plugged into a phone or tablet have made card acceptance more accessible to small merchants.
d. Payfacs have extended the reach of the traditional acquiring model to merchant segments where specific expertise or capability is required.
e. Real-time risk management and compliance solutions have made merchants more comfortable accepting payment cards.

However, the biggest impact comes when government step in and create public policies to encourage acceptance acceleration. When creating these policies governments need to ensure that these public policy goals are supporting the private sector so that they work in tandem to ensure an even level of growth.

INFRASTRUCTURE

Access

Infrastructure Investment

Invest in an **enabling environment** to allow businesses and citizens equitable access to the digital world and payments.

Conducive regulation for new entrants to payments infrastructure, such as Payment Facilitators.

Example:
in South Korea there is a strong digital and payments infrastructure which allows players, such as digital banks, to thrive.

Education and Inclusion

Financial education campaigns across geographies adopting simple technologies and products, such as rechargeable prepaid cards, which can function as bank accounts.

Secure digital identity for verification of individuals and data privacy.

Example:
in Poland Financial education is a compulsory subject at school which supports access to and creates trust in the online and financial worlds.

Acceptance

Government as Role Model

Governments should serve as an acceptance role model by **mandating acceptance of digital payment flows** for wages, taxes, benefits and public services such as urban mobility using **open-loop contactless technology.**

Example:
in the US federal, state and local government offices use prepaid cards to disburse funds.

BEHAVIOR/HABIT

Incentives

Incentives or subsidies for merchants to buy or rent POS terminals, tax reductions for digital payments.

- **Tax incentives** could include VAT rebates.
- **Income tax reductions** based on use of digital payments.

Example:
South Korea provide direct tax breaks for merchants based upon total volume of electronic payments which has motivated individuals to use cards.

Use

Limits on Cash

A **cash payment cap** and/or **tax** to limit the size of transactions made using cash or equivalent instruments.

Example:
Singapore introduced Singapore Quick Response Code (SGQR) standard introduced in 2018 so that merchants need just one QR code to accept mobile payments from different service providers making it easier for consumers to get into the habit of electronic payments.

Lotteries and Rewards

Rewarding purchases made online by being entered into a lottery or tax rebates during special campaigns, or cashback programs.

Example:
Numerous banks across the globe are encouraging card use through reward programs, discounts and cashback offers.

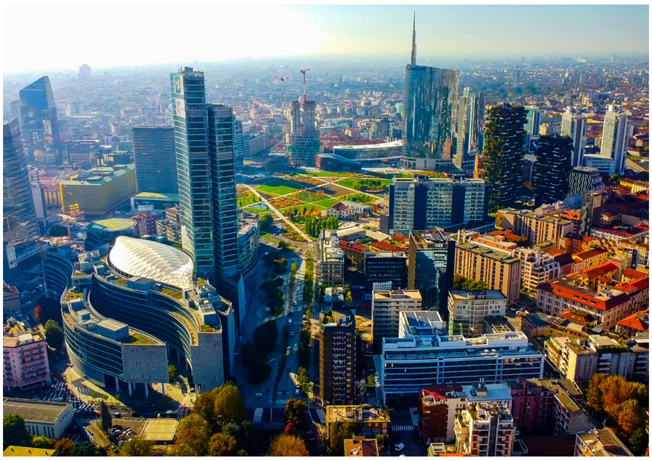
To take a deep dive into the regulatory and policy environment that can increase acceptance maturity, refer to page 19 of this paper.

Supporting your Acceptance Development

Many countries and regions across the globe are seeking to grow their acceptance of card and digital payments. Visa are uniquely placed to support government stakeholders, international organizations/developing finance institutions, private industry, third parties and relevant business teams to improve their acceptance maturity.

Visa has supported acceptance maturity development in many markets across the globe, helping with initiatives to increase greater financial inclusion and economic growth, for example:

Bolivia. Visa partnered with local issuers to launch a Market Development Fund (MDF) to expand acceptance in the country geographically (i.e. beyond the capital city and major urban areas), penetrate new spend segments, and introduce new infrastructure and technology to enable acceptance. The goal was to increase merchant acceptance fivefold, increase terminals from 8,000 to 40,000 and generate $1.2 billion new payment volume (PV) within five years. The program is still ongoing, but in the first three years PV nearly doubled, from roughly $110 million before the MDF was initiated, to approximately $220 million in early 2020, before the onset of the COVID-19 pandemic. POS merchant terminals increased fourfold, from about 8,000 to more than 33,000 and the PV through POS increased by 40%, a significant achievement given that 95% of debit transactions (~95% of total issuing) were at ATMs to withdraw cash. Additionally, Personal Consumption Expenditure (PCE) card penetration increase from 4.6% to 5.4% and the number of transactions increased from roughly 2.5 million to just over 5 million.



Italy. Visa has supported the Italian Government with its measures to incentivize digital payments as part of a battle against tax evasion by providing global best practices, several of which were included in the Government's Cashless Plan. According to estimations, the plan will accelerate digital payments usage by 2025 by 50% above expected baseline growth and increased card usage, should result in €12.5 billion in recovered VAT annually.

Case Study: Government Mandates in Saudi Arabia[16]

Saudi Arabia is a great example of how the right government public policies can rapidly accelerate acceptance maturity. Saudi Arabia's Vision 2030 is a strategic framework to reduce the Kingdom's dependence on oil, diversify its economy, and develop public service sectors such as health, education, infrastructure, and tourism.

Saudi Arabia's successful adoption of contactless payments serves as a model for other markets. From just 4% of face-to-face transactions in 2017, contactless transactions accounted for 94% of all face-to-face transactions in the Kingdom in December 2020; this reached 95% in August 2021[17].It has been achieved through a concerted and collaborative effort between Saudi Payments and Visa under the supervision of the Saudi Central Bank (SAMA) and has contributed significantly towards the Kingdom's Vision 2030 national strategy goal to increase the share of cashless rate by 2030.

In December 2020, Saudi Arabia's contactless penetration was at 94%, leading in the Middle East and North Africa region, followed by Kuwait (81%) and the United Arab Emirates (81%).

Key initiatives by Saudi Payments that drove contactless payments:

- Making electronic payments acceptance via POS devices mandatory for all commercial activities in collaboration with government authorities
- Increasing the number of electronic payment terminals
- Increasing the contactless transaction limit from SAR 100 to SAR 300
- Enabling payment through smart devices

Visa's role in supporting these initiatives:

- Running marketing campaigns to encourage consumers to use contactless payments
- Partnering with Saudi Payments to enable rollout of mobile wallets via smartphones and wearables
- Partnering with Saudi Payments to ensure all new terminals and new cards in the Kingdom are enabled to accept contactless payments

Saudi Arabia's success clearly indicates how governments can take the lead to kickstart the evolution of their acceptance landscape. Government-led acceptance development funds (which subsidize early stage acceptance points) and tax incentives go a long way to encouraging merchants that converting to the formal financial system is worthwhile. Embracing the formal system provides merchants with access to an array of banking services, including access to credit – starting capital can be critical for start ups to survive and thrive. These incentives can be coupled with softer approaches using digital and financial education to encourage those that have long remained outside of the formal system to change their perspective. Inclusive economies uplift everyone, everywhere.

Visa is ready to support governments that are looking for a private sector partner to drive these campaigns and initiatives. We know your markets and can help you determine the most appropriate approach and payment solutions to facilitate acceptance evolution.

16. Visa study, Contactless Adoption in Saudi Arabia, September 2021 available at https://sa.visamiddleeast.com/dam/VCOM/regional/cemea/saudiarabia/pay-with-visa/contactless-payments/ksa-visa-contactless-paper.pdf
17. Saudi Central Bank, National Payments Study Usage, 2021, available at https://www.sama.gov.sa/en-US/Documents/National_Payments_Usage_Study_en.pdf

A Deep Dive into the Regulatory & Policy Environment

To ensure that public policies have the greatest possible impact on increasing acceptance maturity, governments should consider the issues we set out in the payments policy matrix below.

Payments Policy Matrix[18]

Increasing acceptance maturity requires a regulatory and policy environment that is ready to embrace new payment technologies and players. Our policy matrix demonstrates how governments can create a policy environment that supports traditional and new players in the ever evolving acceptance landscape.

PAYMENTS ISSUE	CONSTRAINTS	POLICY LEVERS
Limiting cash usage	• Vulnerability to theft • Limited budgeting practices to track spending (e.g., if a receipt is lost) • Potential of insufficient funds during emergencies • Retail supply chains are cash based • Lack of access to credit	• The payments industry and public authorities should develop a vision with targets and an execution plan to reduce cash usage and grow electronic payments acceptance using traditional and emerging technologies • A national council or forum that includes members from the payment / financial industry and relevant government institutions and merchant / consumer interest groups would be key to electronic payments growth • Such fora / councils should be driven by clear objectives and transparent governance structures that are assessed regularly and revised as and when electronic payments develop, including ensuring representation of relevant stakeholders

18. The content for this matrix has been adapted using guidance provided in various World Bank reports available at https://www.worldbank.org/en/topic/paymentsystemsremittances#2

PAYMENTS ISSUE	CONSTRAINTS	POLICY LEVERS
Government as a role model	• Low awareness of benefits of electronic payments • Lack of trust in banking and financial system • Limited familiarity with digital technologies • Cash can have greater familiarity and trust than electronic payments with perception of immediacy • Consumers carry cash knowing that the merchants they shop at prefer cash and merchants believe that cash is something that consumers usually have readily available	• Governments should be role models in taking the lead on digitizing government flows in disbursements (salaries, social welfare etc.) and collections (fees, taxes etc.) to instill public trust in electronic payments acceptance • Acceptance mandates are non-market measures enforced by the public authorities to increase electronic payments acceptance. These could include mandated government and merchant acceptance of electronic payments, mandated electronic disbursement of wages and salaries, or limits on cash payments • Mandating digital acceptance among certain merchant segments or for transaction types is meant to directly reduce cash cultures • Tax incentives and lotteries geared towards expanding electronic payments reduce cash and increase digital usage
Education	• Low levels of financial and digital literacy can hinder the use of electronic payments, and impact scale of operations and required industry investment for acceptance growth • Under-served consumers and merchant segments are the most affected, as they are unaware of safer and more efficient available alternatives to cash	• Educational and outreach efforts to improve digital and financial literacy regarding technologies, product types, and access modes, using traditional and digital communication • Digital financial literacy programs should keep with pace of innovation in payment technology to remain relevant • Such programs should target schools and universities to create a financially literate culture from a young age
Inclusion	• Banks have conflicting internal priorities that justify investment in activities with highest rates of return (e.g., large volume merchants in cities) • Making upfront investments to grow acceptance in remote rural locations where many micro and small merchants operate is a low priority for acquiring banks • Either due to lack of scale or regulation, there are low participation levels in specialized acquiring services by non-banks and fintechs	• Ensuring a level playing field that treats different payment service providers equally and allowing them to operate in a similar and non-discriminatory manner are prerequisites to effectively growing electronic payments • Legal and regulatory framework for electronic payments should be predictable, risk based and fair

PAYMENTS ISSUE	CONSTRAINTS	POLICY LEVERS
Incentives	• Small merchants can be resistant to formalize and pay full taxes; merchants potentially lower the tax bill by accepting cash, while electronic payments could open merchants to higher taxes • Even registered merchants under-report sales to decrease their tax liability; accepting electronic payments implies a digital trail that tax authorities could audit • Facilitate merchant digital on-boarding and low cost accounts to scale access to POS • It may be unclear to merchants how they will attract new customers or sell more goods to existing customers by accepting electronic payments for the low-value items that they predominantly deal with • Settlement periods for many merchants in need of daily working capital cannot afford delays	• Government-led early-stage acceptance cost subsidization (such as Acceptance Development Funds), merchant fiscal incentives, and tax simplification improve digital payment acceptance benefits and reduce costs • Incentives and guidelines for acquirers and Payfacs address merchant segments with high degree of informality
Infrastructure	• Poor infrastructure and availability of critical public infrastructures, such as transport networks, electrical grids, telecommunications and broadband access, and internet connectivity can affect access to traditional POS and soft POS terminals • Little or no financial incentives for service providers to invest in remote rural areas, where transaction volumes are low and affinity for cash is high; this creates obstacles for growing acceptance outside urban centers • Lack of interoperability and prevalence of closed-loop systems limit availability of digital acceptance points beyond areas covered by dominant operators and impede new technologies • Lack of access to payments and ICT infrastructure for non-bank intermediaries, including fintech, can reduce availability of services, increase operational costs, and cost of compliance	• To facilitate new technologies, payments and ICT infrastructures should be built, upgraded, or leveraged as needed to improve accessibility and usability for merchants and consumers • The role of new technologies for digital acceptance (mobile POS, smart POS, QR Code, and others) in combination with new models and types of non-bank intermediaries can improve use of electronic payments and increase acceptance in underserved merchant segments and geographical areas • New technologies and business models also help address merchant concerns regarding costs, immediacy of payments, and safety and security • Promote open-loop systems to strengthen interoperability and better leverage new technologies for consumers and merchants • Leverage non-bank intermediaries and fintech to promote development of payment and market infrastructures and deploy latest payment technologies

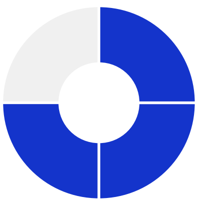
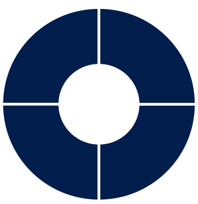
The Role of Visa

Visa, as trusted advisor, and partner, can support you to:

- Understand the new acceptance landscape and emerging trends.
- Assess the maturity of your acceptance ecosystem and establish areas for improvement.
- Help you to select and implement the proactive solutions, tools, and strategies, to expand digital payments acceptance.

We can do this by utilizing several Visa-led, industry-led and government-led levers to expand acceptance.

1. Mapping Acceptance Maturity to Response Levers

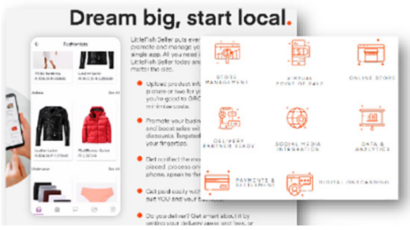
Category	Definition: INFRASTRUCTURE	Definition: BEHAVIOR/HABIT	Illustrative Levers
Nascent 	**Low infrastructure** Large unbanked population, lagging infrastructure, prohibitive policies and regulation	**Low behavior/habit** Cash-centric economy, low adoption of other forms of digital payments (e.g. mobile)	• Social impact programs • Marketing and awareness • Learning resources • MOU • Subsidised POS/QR readers • Tiered and risk-based KYC
Emerging 	**Low infrastructure** Foundational infrastructure exists, high unbanked population	**High behavior/habit** Moderate use of digital payments, moderate adoption of card payments	**Nascent+** • Government Dashboards • Distribution Partners and Enablers • Market Development Funds • Large Government programs • Tax incentives • Government mandates
Transitioning 	**High infrastructure** Moderate levels of banked population, foundational infrastructure exists, some enabling policies/ frameworks in place	**Low behavior/habit** High readiness but low usage or low readiness but high usage	**Emerging+** • Government dashboards • New Services and Products **Segmentation and Incentives** • Distribution Partners and Enablers • Market Development Funds • Large Government Programs • Tax Incentives • Government Mandates • Increase CVM limits
Advanced 	**High infrastructure** Highly banked population, enabling infrastructure is widespread enabling policies/ frameworks in place	**High behavior/habit** High adoption rate of card usage & other digital payment form factors, digital payments used in everyday spend	**Transitioning+** • Government dashboards • New Services and Products **Segmentation and Incentives** • Large Government Programs • Distribution Partners and Enablers • Subsidized POS/ QR readers (industry) • Increase CVM limits • Government Mandates

2. Supporting the expansion of Payment Ecosystems

Visa is actively working with multiple entities to realize the benefits digital acceptance brings by enabling market relevant economics and commercials, developing product offerings and tech stacks that meet local needs, while establishing new distribution channels to reach a wider range of merchants. Let us help you to select and implement the most relevant solutions, tools, and strategies.

Tap to Phone & Visa Acceptance Cloud

Unlocking new payment opportunities for millions of microsellers around the world and enabling new use cases for larger sellers.



Merchant in a Box

Enabling SMEs to easily start, manage and grow their eCom busineness:

- Onboarding & Store setup
- Payment acceptance
- Digital store operations
- Delivery fulfilment

Cybersource

Cybersource, delivers flexible, creative commerce solutions for everyday life with all the stability, scalability, and support that you need today and tomorrow.

3. The right capabilities and expertise to help you every step of the way

The availability of card based electronic payment systems leads to the virtuous economic cycle where increased consumption leads to increased production, more jobs and greater income and, ultimately, stronger economic growth.

The combination of the deep payments expertise, economic intelligence and breadth of data at Visa, enables us to help you make better decisions.

So let our experts help you to navigate and grow the New Acceptance Landscape.

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com or visit us at Visa.com/VCA

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