



The business of platforms

Payments – a critical enabler for a platform business

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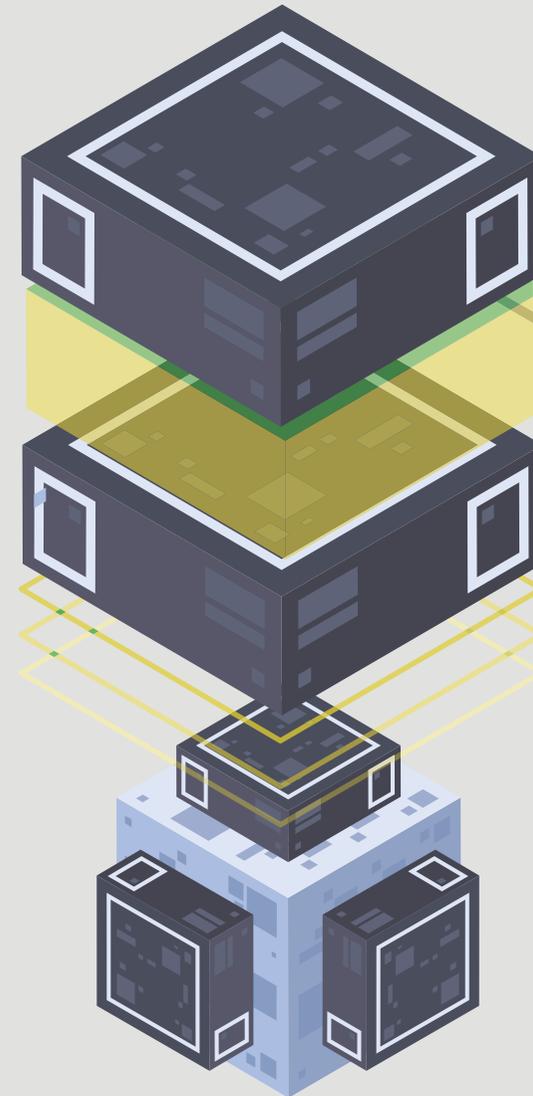
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Foreword

In the first article of the [Business of Platforms series](#), we defined a platform business as a business model that focuses on helping to facilitate interactions across many participants.

In this article we highlight the importance of payments in a platform business to assist in facilitating these interactions and, more specifically, as an enabler to facilitate transactions between platform participants.



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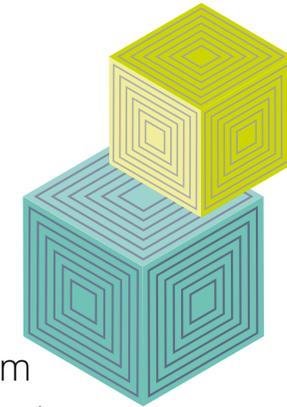
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Definitions, terminologies and terms of reference



The preceding articles in the “Business of Platforms” series have comprehensively discussed platforms and the key elements of platform business models, across the Omni-channel, Ecosystem Driver and Modular Producer models. This article focuses on the role and importance of payments in platform business models. Below is a list of definitions and terminologies that are used in the article.

Acquiring – A process whereby a participant, such as a bank, acquires or accepts a payment instrument issued by a paying or issuing participant.*

e-Commerce – “Electronic” commerce wherein shopping is done over the internet. Usually, e-commerce activities are conducted through the help of desktop computers, laptops and mobile phones.

Ecosystem Driver Model – Companies establish an ecosystem by creating relationships with other providers that offer complementary services. Ecosystem drivers provide a platform for the participants to conduct business. The payments capabilities utilised in this model facilitates transactions between all participants and partners.

e-Money – Is defined as monetary value represented by a claim on the issuer. This money is stored electronically and issued on receipt of funds, is generally accepted as a means of payment by persons other than the issuer and is redeemable for physical cash or a deposit into a bank account on demand.^[1]

Issuer – A clearing system participant and a member of a card scheme (e.g. Mastercard or Visa) that has entered into a contractual relationship with a cardholder, in terms of which a card is issued to effect a payment, withdraw cash or transfer funds.*

Modular Producer Model – Modular producers provide plug-and-play products or services that can adapt to a variety of ecosystems. Modular producers offer a variety of services, however for the purposes of this article we will focus on modular producers offering payment services or “Payments-as-a-service”.

Omni-Channel Model – Businesses that provide customers access to their products across multiple channels, including physical and digital channels. Therefore the payment options considered for this model, must also be offered across multiple channels for a seamless customer experience.

Payment Instrument – A token of some kind which enables the initiation and authorisation of a payment instruction (to transfer funds or make a payment), such as mobile scan-to-pay, credit card or debit card.

Payment Service Provider (PSP) – A person who accepts money or the proceeds of payment instructions, as a regular feature of that persons business, from a payer to make payment on behalf of that payer to multiple beneficiaries.^[2]

Payment System – A system that enables payments to be effected or facilitates the circulation of money and includes any instruments and procedures that relate to the system.^[3]

*Directive for conduct within the national payment system in respect of domestic and card transactions

^[1] Position Paper on Electronic Money, National Payment System Department of the South African Reserve Bank

^[2] SARB Directive 1 of 2007

^[3] Essential guide to Payments



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Introduction

Embedding payment capabilities in platform businesses is not a new concept, in fact it is an essential component of enabling transactions between platform participants: A buyer on a digital marketplace like Amazon can transact when purchasing goods by paying with a credit card. A user may transfer money to a friend from a WeChat wallet. Viewers might agree to a monthly subscription fee being charged to their credit card when registering on Netflix. Our analysis of global platforms reveals that all of them offer some form of payment option to their customers. In most instances, payment functionality is a necessary factor to monetising the platform's business model.

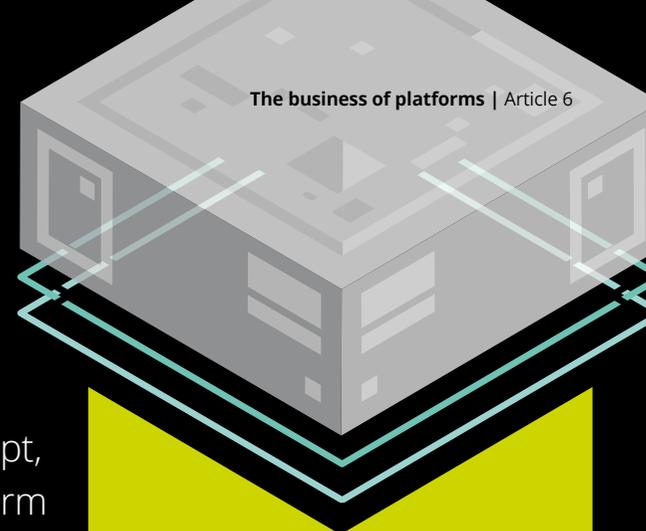
*In essence, a payment is a transfer of value from one entity or person to another.** The manner in which value is transferred has evolved over time, in response to changing use cases, industries and environments. As such, processes, systems, institutions, agreements, procedures, regulations and laws have been developed to support and ensure stability of national and global payment ecosystems.

There are several factors that businesses must take into account when determining which payment capabilities to include as part of their platform offering. This article discusses several payments-related factors that we believe the platform owner should consider in designing their platform business. An obvious factor is which payment methods that platform might include, for example, credit card acceptance, instant electronic funds transfer (EFT), mobile peer-to-peer or scan-to-pay (see side bar for more information). This article identifies payment pillars, i.e. the fundamental competencies and capabilities that must be present in a platform business model from a payments perspective. These competencies and capabilities have been curated from some of the most successful platform businesses globally. Although the pillars may not represent every possible aspect which a platform owner may need, we believe that the majority of important considerations are discussed in the pages that follow.

*Essential Guide to Payments, Volker

^[1] Federal Reserve Bank of St. Louis

^[2] <https://www.kaspersky.co.za/resource-center/definitions/what-is-a-qr-code-how-to-scan>



A peer-to-peer (P2P) payment is a direct transfer of money from one account or digital wallet to another account or wallet, usually performed on a mobile application. P2P payments were first introduced by PayPal in 1998^[1] and this payment method has quickly risen in popularity around the world. It is offered in mobile apps from WeChat in China, M-Pesa in Africa, Pay™ in India and Revolut in the United Kingdom.

A Quick Response (QR) code, also known as scan-to-pay, is a square barcode containing data from phone numbers, which can store up to four thousand characters and payment information. QR codes were first used in the automobile industry in 1994 to track vehicle parts during the assembly process. QR readers were added as a feature on smart phones in 2002.^[2] It wasn't long before payment apps such as Venmo and Snapscan were using QR codes for contactless payments.



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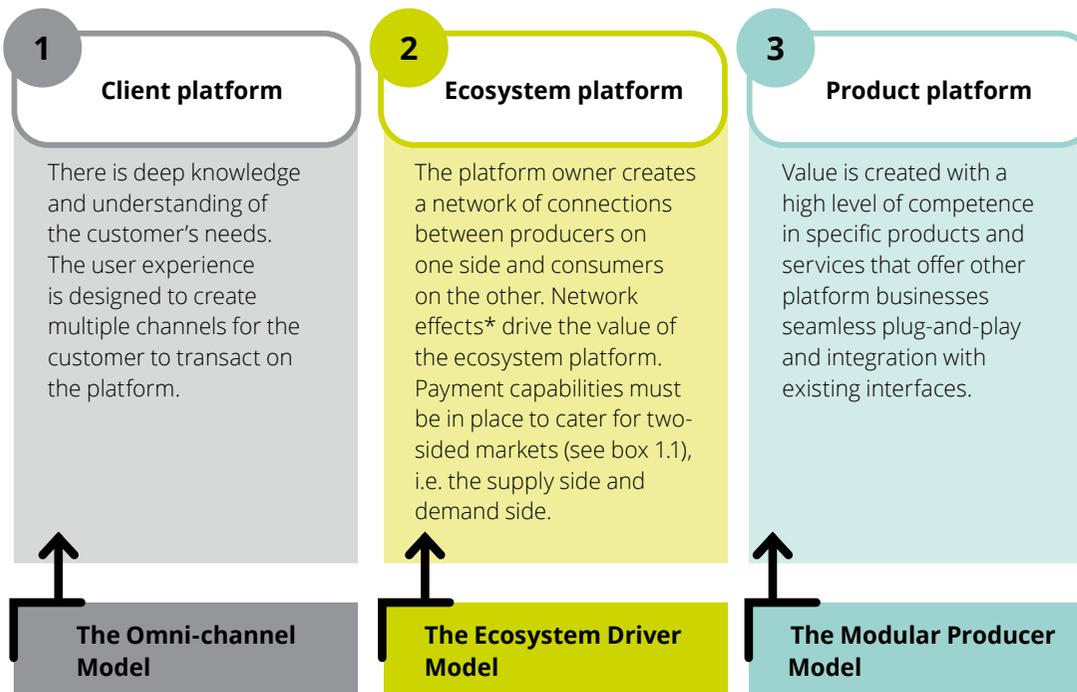
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The payments link to platforms

The first article of the series identified three platform business models and defined the relationship between the organisation (platform owner) and the customer. Other articles in the series discussed the importance of the customer, the regulatory landscape, data considerations and organisational design factors in platforms. This article discusses the payments considerations that must be taken into account for each of the platform business models, with an understanding of the customer needs and key stakeholder relationships in mind.



1 Omni-channel platform businesses have created multiple channels for their customers to transact. Therefore payment options must be offered across all channels, to cater for customers who prefer transacting via physical interfaces or digital interfaces.

2 Ecosystem platforms, such as e-commerce platforms, have created large networks by connecting suppliers with customers. They must ensure that the capabilities to facilitate transactions, such as payments, are safe, reliable and enable seamless ease of use.

3 Payment services providers operate in a highly competitive sector. Therefore, solutions that are secure, quick, and have an uncomplicated user interface, are easily integrated into existing ecosystems and continual innovation will improve their position among other service providers.

Box 1.1. Network effects in two-sided markets

When successful, platforms catalyse a virtuous cycle. More demand from one user group spurs more demand from the other. For example, the more video game developers create for the Microsoft X-Box platform, the more players snap up the latest X-Box. Meanwhile the more players who use X-Box, the more developers are willing to pay Microsoft a licensing fee to produce new games. And as the user base grows, so does revenue.^[3]

*Network effects happen when a platform becomes more valuable to new users as new and more users join it. A direct network effect occurs when more users beget more users. An indirect network effect occurs when more users of one side of the digital platform attracts more users on the other side of the platform. This could be on the supplier or consumer side. (IFWG, Fintech Digital Platforms)

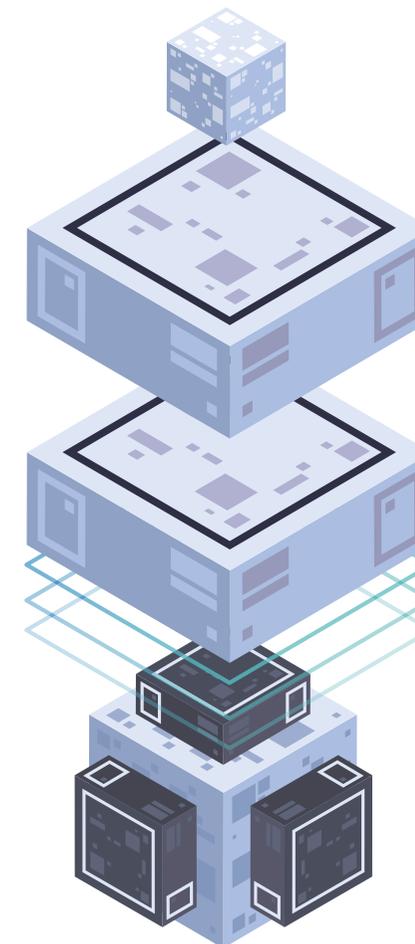
^[1]Harvard Business Review, Eisanmann, parker, Van Alstyne

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Mapping the platform business landscape

A review of several global platform businesses was conducted to identify their most relevant payments features. These are listed below, categorised by platform model at the time of writing. These businesses are undergoing change, which may see them evolving into other platform model types over time.



The Omni-channel Model

The Omni-channel business model provides customers access to an organisation's products across multiple channels, including physical and digital channels.



The Ecosystem Driver Model

Ecosystem drivers provide a platform for the participants to conduct business, connecting producers with consumers.



The Modular Producer Model

Modular producers provide plug and play products and services that can adapt to a variety of ecosystems.



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Overview of the platform payments pillars

Platform owners have to consider ten key elements as they develop their payment strategies and these need to be appropriate for the platform business model (Omni, Ecosystem and Modular).

 Technology	<p>Several technology choices are relevant, in both physical and digital channels: Technology underpinning payment types (e-money, credit card, scanning a QR code or depositing cash into a wallet), application programming interface (API) integration technology and cloud technologies.</p>	 Partnerships	<p>Partnering gives the platform owner the opportunity to scale rapidly in order to widen the geographical reach, extend reach into new customers and markets, or drive increased volumes of transactions, without excessive capital expenses.</p>
 Value Drivers	<p>Value is driven by understanding of the customer's behaviour and choices, as well as in the number of transactions that can be processed on the platform. The choice of payment method selected by the customer on the platform provides the platform owner key insights in the form of information gathered, how information is analysed and revenue generated.</p>	 Payment User Experience	<p>The best possible payment experience must be easy enough for the user to use (one time password (OTP), from onboarding, payment instruction, to confirmation, biometric authentication). Keeping the customer on the platform through the whole payment journey is key to avoiding customer loss.</p>
 Data Monetisation	<p>Data monetisation can take many forms: Service fees, subscriptions and advertising are all ways that platforms can be monetised. Payments data offers monetisable insights around customer buying behaviour, customer preferences and purchase history.</p>	 Security	<p>The platform owner must ensure that security measures are adhered to and strong security controls are in place and all participants must comply. Several payment security measures will need to be in place based on the type of payment, e.g. personal identification number (PIN), 3D secure and Payment Card Industry-Data Security Standard (PCI DSS) for card transactions. Financial crime is a big threat to digital business. Infringement of customer financial information can result in a loss of trust in the brand and a resultant reduction in transaction volumes.</p>
 Payment Types	<p>Platform providers should offer customers/users alternative payment options in order to make transacting as easy as possible. User preferences, demographics, regulatory frameworks, local payment infrastructure and technology determine the types of payment solutions offered. The cost-benefit ratio must also be considered as each payment type has its own cost implications such as tech integrations and maintenance.</p>	 Regulations and Governance	<p>Financial regulations are highly specialised and differ based on region. Platforms must comply with regulation categories that include privacy regulations, financial regulations, and security regulations, to name a few. With the potential for significant revenues from payment related activities, there are also severe penalties for non-compliance with regulations, for example Anti-Money Laundering violations can result in hefty fines.</p>
 Delivery Model	<p>Payment choices need to align to the delivery model selected (joint ventures, partnerships) as well as distribution channels (digital or physical, including branch networks, mobile applications and e-commerce).</p>	 Payment Data	<p>The platform owner is in a good position to gather data from both sides of the platform, e.g. demand and supply side. The benefit of monitoring the payment data, for example forecasting customer transacting behaviours, will not only increase revenues but can be used to create tailored customer and merchant experience.</p>

*Yahoo Finance (<https://finance.yahoo.com/news/global-digital-payments-market-size-101900494.html>)

GSMA, "Embracing Payments as a Platform for the future of Mobile Money"

IFWG, Fintech Digital Platforms – An Investigation into Fintech Digital Platform activity in South Africa



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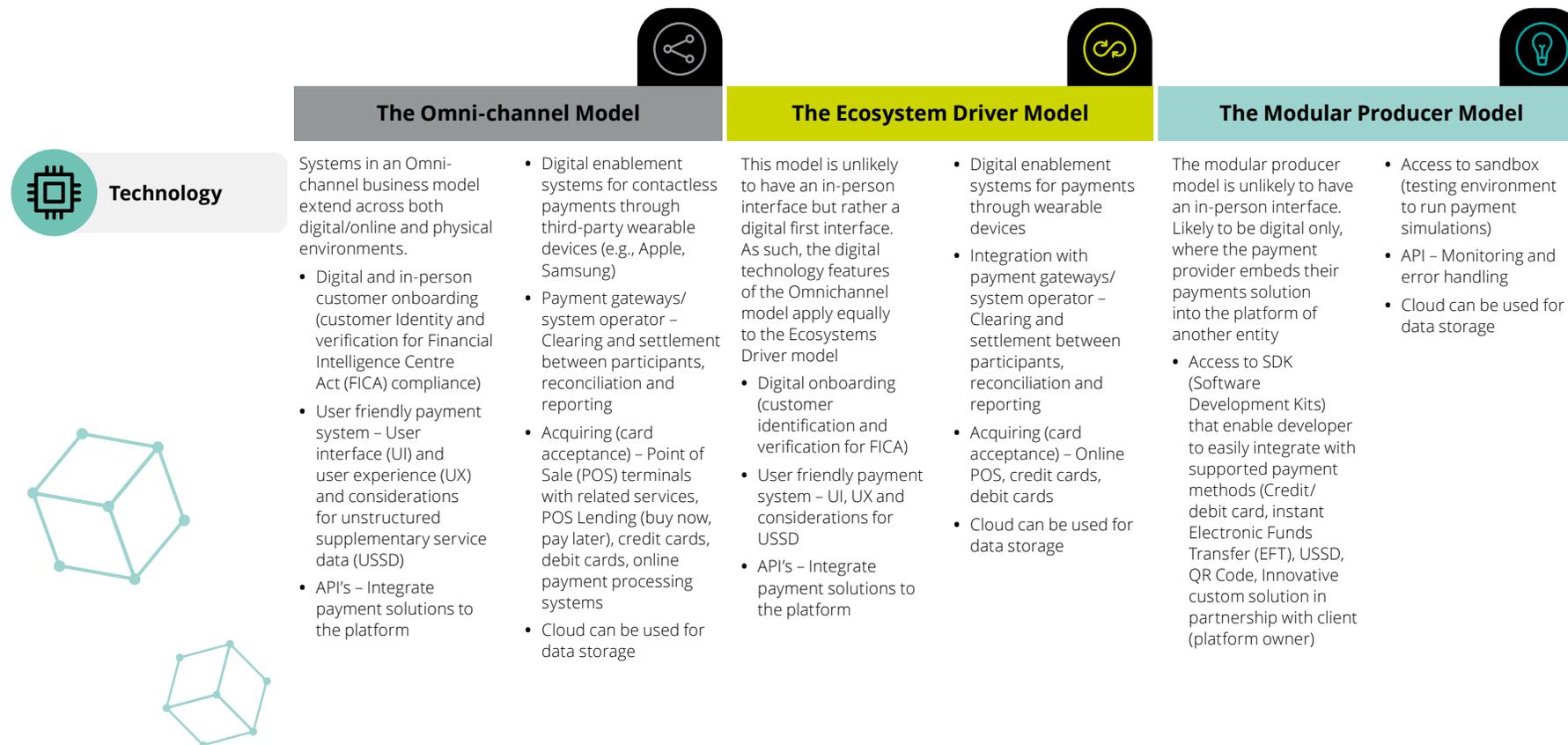
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Platform payments pillars

The model below lists the key pillars of a payments enabled platform business model. Our approach for the model was to first identify successful platform models (Omni-channel, Ecosystem Driver and Modular Producer), then analyse the key payment offerings within each business and apply them to each pillar and platform business model as detailed below.

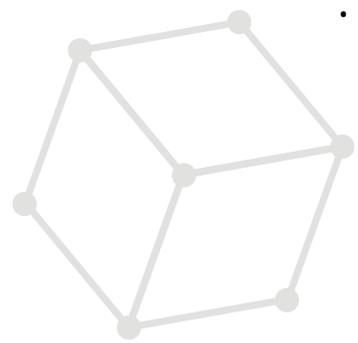


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	The Omni-channel Model	The Ecosystem Driver Model	The Modular Producer Model
 Value Drivers	<p>The value derived by the organisation (platform owner) is largely a factor of the degree of customer insight in the omni-channel model.</p> <ul style="list-style-type: none"> An omni-channel model has the benefit of direct access to customer and insight into customer behaviour and payment choices 	<p>Like the omni-channel model the ecosystem driver has direct knowledge of the customer specific to the product and services provided. However, without a physical interface, a more focused digital experience is critical.</p> <ul style="list-style-type: none"> Value is driven by having visibility of both sides of the two sided market: producer and consumer 	<p>Modular producers do not have direct end-customer access and this is essentially a business to business model.</p> <ul style="list-style-type: none"> Value is derived by the organisation offering it's services through a third party's platform, and driving high volumes of transactions Seamless integration with existing digital ecosystem/platform. Value-adding services include: Accept/make payments, manage risk (monitoring, alert handling), streamline operations Comprehensive solutions (availability of all popular end-user preferences, i.e. debit/credit cards, QR codes EFT, etc.) Convenience – Plug and play turn-key solutions Trusted Service Level Agreements (SLA's) – Track record of reliability
 Data Monetisation	<p>Payments services in omni-channel businesses generate revenues and expenses (third-parties and vendors) in the form of fees and commissions.</p> <ul style="list-style-type: none"> P2P charges, credit/debit card transaction fees (POS and online), interchange fees, QR (scan-to-pay), EFT, cross-border charges, cash-in/out charges 	<p>Depending on the strength of a platform's network effects, revenues can be earned from both the supply and demand side.</p> <ul style="list-style-type: none"> Advertising revenue (in-app advertising, promotional push messages to users) generated for the platform owner Transaction fees on transfers and payments 	<p>Modular producers charge for payment services in one of two ways.</p> <ul style="list-style-type: none"> Charge per transaction (percentage or flat rate or both)
 Payment Types	<p>Payment types commonly offered by omni-channel businesses:</p> <ul style="list-style-type: none"> Online/offline POS services, QR codes, in-app/online website Bulk-payments (pay multiple recipients simultaneously) Real-time payments P2P payments (apps enabling users to request and receive payments instantly) Retail payments – Pay for goods and services with registered merchants Physical deposits/withdrawals – Cash-In/out 	<p>Payment types commonly offered by ecosystem driver businesses:</p> <ul style="list-style-type: none"> Online/offline POS services, QR codes, in-app/online website In-app payments – Product promotion links are messaged to customers/followers, they are redirected 	<p>Traditional modular producer offerings:</p> <ul style="list-style-type: none"> Credit/Debit card Instant EFT USSD QR codes <p>Proprietary offerings:</p> <ul style="list-style-type: none"> MoreTyme Masterpass MomoPay

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	The Omni-channel Model	The Ecosystem Driver Model	The Modular Producer Model
 Delivery Model	<p>The omni-channel business model requires the use of both physical and digital customer experiences and enabling transactions through the use of appropriate payment mechanisms and systems.</p>	<p>This business model requires the use of a digital-only customer interface. Enabling transactions through the use of appropriate payment mechanisms and systems ensuring a seamless virtual experience is critical for the success of the platform.</p>	<p>The modular producer business model is required to be flexible. Essentially, payment service providers need to cater for the various types of channels in order to access the end customer of their client (omni-channel or ecosystem driver business), whether it's physical, digital or a hybrid.</p>
 Partnerships	<ul style="list-style-type: none"> 3rd party service providers – Platform provider, Fintech (payment services, customer Know-Your-Client (KYC)), agents, merchants (compulsory screening on MATCH database during merchant onboarding), retailers, South African Fraud Prevention 	<p>Services (SAFPS), South African Banking Risk Information Centre (SABRIC)</p> <ul style="list-style-type: none"> Compulsory partners – Accountable institution (sponsor bank), acquiring bank, card network processor (e.g. Mastercard or Visa) 	<p>screening on MATCH database during merchant onboarding)</p> <ul style="list-style-type: none"> Retailers <p>Optional partners</p> <ul style="list-style-type: none"> SAFPS SABRIC
 Payment User Experience	<p>Creating a consistent user experience across different channels is a challenge for the omni-channel model but is likely to increase customer satisfaction and usage when implemented successfully.</p> <ul style="list-style-type: none"> UX: Digital customer interfaces – Seamless payment methods, simple design 	<p>An ecosystem driver business must understand the end user and their payment preferences. For each payment option offered this model ensures that any customer pain points such as a long and complicated process, must be removed.</p>	<p>Modular producers, particularly in payment services have ambitions to offer flawless payment solutions that is driven primarily by the competitiveness in the industry, providing:</p> <ul style="list-style-type: none"> Seamless integration with existing digital ecosystem/platform. Value-add services include: Accept/make payments, manage risk (monitoring, alert handling), streamline operations



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Security

As multiple payment options are offered across physical and digital channels, transacting in an omni-channel model requires a range of customer authentication controls.

- Dual authentication/ Biometric authentication on smart devices and wearables (tap-to-pay, scan to pay)
- 3D Secure for online credit and debit card transactions
- PIN authentication on POS terminals



The Omni-channel Model

- Use of third-party vendors for services (e.g. Amazon Web Services)
- Real-time transaction monitoring tools
- Onboarding and customer screening system and controls
- Omni-channel platform providers may have additional security login requirements thereby limiting unauthorised access to customers funds



The Ecosystem Driver Model

The ecosystem driver model has little to no physical touchpoints. Therefore it is critical to build trust by assuring participants that security controls are in place for the protection of their information and financial interests

- Internet-based smart risk-control and fraud prevention measures
- Multi-factor authentication performed during registration, login or if password forgotten
- Face recognition authentication
- Documents are safely secured online through Optical Character Recognition (OCR)



The Modular Producer Model

This is a potential strength of the business model as most of the heavy lifting in terms of security would have already been considered. Thus, offering turn-key payment solutions to businesses.

- User's data (including transaction data) is safely secure with end-to-end encryption

- Transaction monitoring to prevent against fraud, email phishing and identity theft
- Tokenisation of credit card details
- Compliance with PCI DSS compliance
- 3D Secure and 3D Secure2



Regulations and Governance

The omni-channel provider will have to comply with regulations pertaining to both the physical and online channels that they promote.

- **Legislations, compliance** – Country-specific payment regulations, anti-money laundering acts, regulations impacting system operator's and payment providers, PCI DSS, privacy laws, payments systems acts and exchange control. Data storage regulations are key, and cloud-based data

storage is governed differently per country

- **Legal agreements** – Acquiring/Issuing/Aggregator, merchant agreements, terms and agreements
- **Acquiring note** – As part of payment network provider (e.g. Mastercard, Visa) rules, site visit to merchants are required when a POS terminal is purchased, in order to verify legitimacy of business. In addition to FICA (verification and validation)

Platform owners must consider adherence to a wide list of regulations and governance requirements, as there are a number of platform participants within an ecosystem driver model. For the purpose of this article, only payments specific regulations are discussed.

- **Legislations, compliance** – Country-specific

payment regulations (including cloud data storage), anti-money laundering acts, regulations impacting System Operators and payment providers.

- **Legal agreements** – Acquiring/Issuing/Aggregator, merchant agreements, terms and agreements
- PCI DSS Level 1 Compliant

As a participant on someone else's platform, the modular producer will need to comply to the regulations set out by the relevant platform and will contract or sign SLA's to govern these

- **Legislations, compliance** – Country-specific payment regulations (including cloud-based data storage), anti-

money laundering acts, regulations impacting System Operators and payment providers, PCI DSS

- **Legal agreements** – Acquiring/Issuing/Aggregator, merchant agreements, terms and agreements

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Payment Data

As this business model is about owning and managing the client experience, the data becomes available to the creator of the platform. E.g. Only Ing Bank can have access to data, understand and tailor clients needs.



The Omni-channel Model

This model is similar to the omni-channel model in that an abundance of data is collected from the customer. However, data is also collected from suppliers which offers opportunities to create value at both ends of the model.

- Various stakeholders have access to different kinds of data. Google maps may need to access end user location (delivery, app permission, etc.). For the interest of this article, payments



The Ecosystem Driver Model

data is needed depending on your payment method, for example using a Buy Now Pay Later option will require either credit card details or bank details for a debit order in addition to scheduling the frequency of the payments

- The platform owner has the advantage of having access to data on both sides of the transaction – i.e. seller and buyer

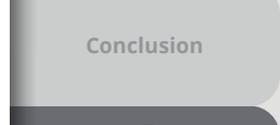
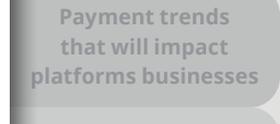
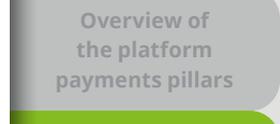
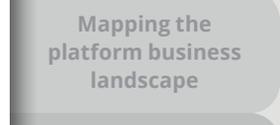
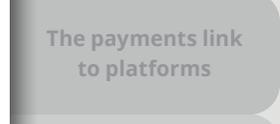
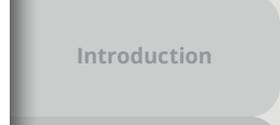
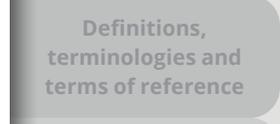
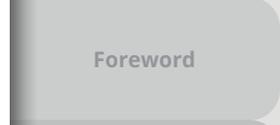
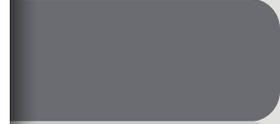
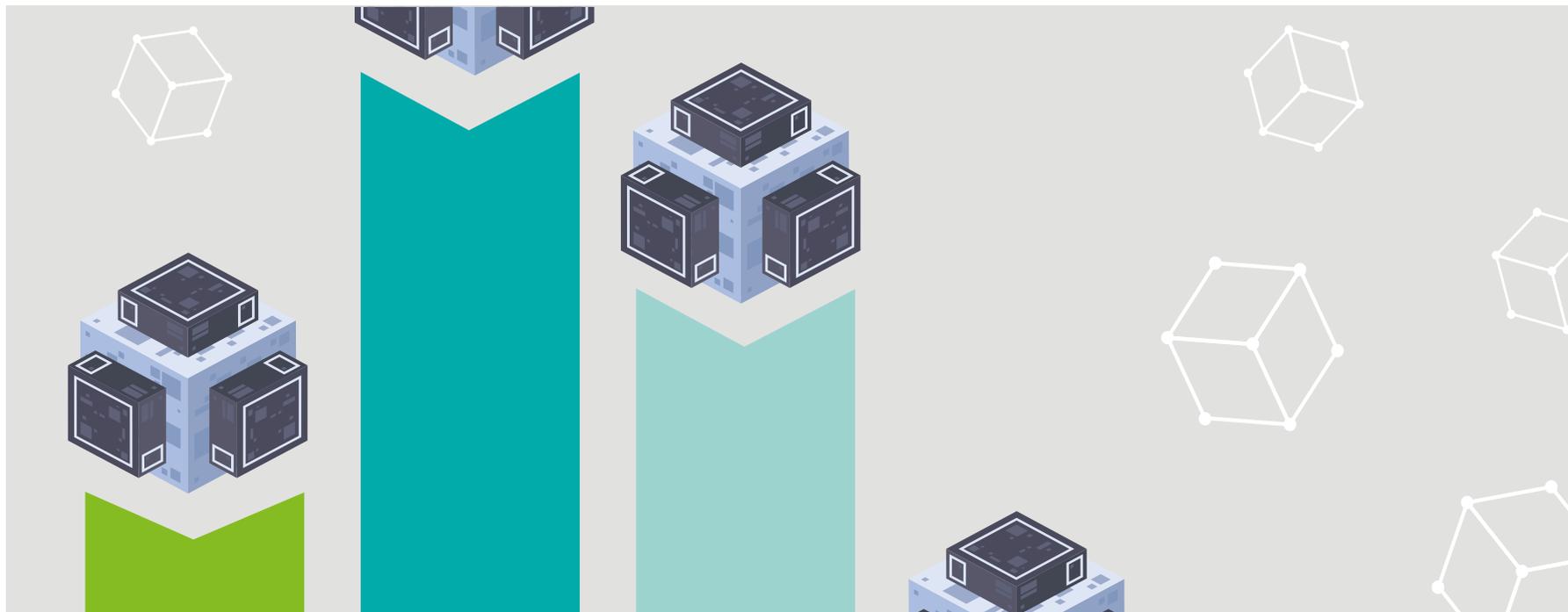


The Modular Producer Model

Businesses may not want to share customer data. Customer data protection laws may also prohibit sharing data. Therefore modular producers should ensure controls that enforce privacy.

- Data may be shared or may be tokenised depending on the solution

- Should payment/ customer data be shared the Modular must be PCI DSS compliant



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Platform business models have revolutionised traditional industries that offered products and services based on their core competencies. Organisations embracing the platform business model now see themselves competing in multiple industries. For example, a global financial services institution with services in traditional banking products now offers customers data contracts and mobile phone sales on their mobile app.

Telecommunication companies have also identified opportunities beyond their core services and have started offering financial services. Payments have had a big role to play in these service offerings and continue to evolve in relation to customer trends. Two such payment trends, Instant Payments and Buy Now, Pay Later will influence the way platform businesses transact with customers.

Real-time Payment Systems

Real-time payments, also known as instant payments, will significantly increase the speed at which payments are made and received, thus acting as a service enhancement in all payment situations. Today it normally takes one business day between the time when the payer dispatches the payment instruction and the time the recipient will be able to re-use the transferred amount of money. With instant payments this will happen in real time, 24 hours a day, 365 days a year, with the funds being available immediately for use by the recipient.

It should be possible for an instant payment transaction to be completed in less than five seconds*. Instant payments are expected to be a key enabler of lower friction cross-border payments, offering several key benefits for customers, businesses and governments:^[2] Several overlay services are also available with real time payments systems. For example, request to pay can be used by small businesses like plumbers, to request and receive immediate payment for their services.

- 24/7 availability
- Real-time funds available to payee
- Creates financial system innovation and stability
- Real-time information for payers on transaction status
- Improves financial inclusion



Buy Now, Pay Later (BNPL)

Buy now, pay later is a payment option that allows shoppers to buy goods and pay the purchase amount in instalments over an extended period. It's important to note that the customer is not charged any interest or fees when purchasing on the BNPL option. BNPL is a flexible payment method for even small ticket items and is becoming one of the fastest growing payment trends globally. Platform businesses should consider including a BNPL payment option for a number of reasons including:

- BNPL payments are expected to account for roughly 24% of all global commerce transactions by 2026^[1]
- 65% of merchants plan to add BNPL as a payment method by 2022^[2]

Merchants are seeing an increase in basket size by approximately 30%, and the purchase of higher ticket items when customers use BNPL.



*The evolution of the payments industry: Instant payments (Deloitte Article)

^[1] Juniper Research

^[2] The 2022 Commerce and Payment Trends Survey from Global Partners

^[3] Instant Payments: Driving Economic Progress and Digital Payment Access



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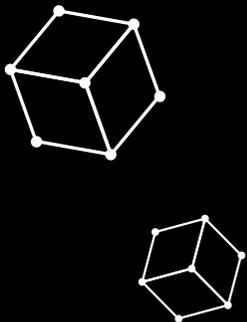
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Conclusion

We are seeing shifts in social norms that have been driven by the pandemic as well as political and environmental factors. As a result, customer preferences have changed, which requires organisations to rethink traditional business practices to stay relevant – in some instances to survive and in other instances to thrive. Platforms undoubtedly feature as a new age business model for supporting and driving organisations to identify new ways of adding value to their customers.

The payments component is a necessary feature in any e-commerce or financial services platform, in order to enable the transfer of value underpinning the transaction. Whether directly or indirectly, payments have an impact on every person, therefore the continued enhancement of payment solutions is essential for our digital future. Platform owners have several choices to make to build a payment experience for their customers and participants that is seamless, easy and enables a smooth customer experience.



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