Payment Acceptance Will Never Be the Same After the COVID-19 Pandemic

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Initiatives: Retail Digital Transformation and Innovation

COVID-19 has changed the way consumers look at commerce and payment options. Businesses are adapting to make payment transactions fast and safe for both customers and associates. Application leaders need to protect business continuity and align to evolving customer payment expectations.

Overview

Impacts

- Lockdowns that limit physical interactions, coupled with changing consumer attitudes toward cash and other contact-based payment methods, have changed the way that businesses manage and accept payments.

- Shifts in buying behaviors impact metrics and key performance indicators (KPIs) related to payments and disputes.

- Digital commerce payment vendors are largely compensated based on a share of volumes processed, and related revenues have been impacted accordingly. This may result in financial distress, performance challenges or unexpected adaptations.

- Many digital commerce payment vendors have adapted their offerings to help merchants weather the pandemic

Recommendations

Application leaders responsible for digital commerce payment technologies should:

- Protect or enhance their sales volumes by optimizing their digital commerce channel and unified commerce initiatives. Provide consumers with contactless ways to shop and pay within the physical store.

- Recalibrate business monitoring efficacy to the new normal by continuously assessing and amending metrics and KPIs.
Measures the capacity of their organization's payment capabilities to withstand the effects of the pandemic by evaluating the resiliency of their commerce payment vendor(s).

Increase their organization's resiliency by taking advantage of payment vendor initiatives designed to help them adapt to the current and emerging environment.

Strategic Planning Assumption(s)

By 2023, five countries will have launched digitization initiatives aimed at eliminating cash from circulation.

By 2024, global cash in circulation will be reduced for the first time after decades of continuous increases.

By 2024, mobile proximity payment users globally will double to nearly 2 billion, compared to less than 1 billion in 2019.

Analysis

The global pandemic has forever changed how people think about paying for things. Prior to COVID-19 one might have argued that few thought about it at all. How we pay for goods and services is often a matter of habit, conditioning and familiarity. As a result, material change to payment behaviors often involves a long and reluctant journey, as consumer inertia, apathy or apprehension toward incremental improvements slow the overall adoption trajectory. If the current process to pay meets the customer’s needs, and it feels safe, efficient and familiar, there is little incentive to change.

Such has been the case in many mature payments markets, like the U.S. and western Europe, that have been long served by plastic cards and have been slow to adopt more modern modalities such as mobile payments and digital wallets for both in-store and online purchases. Contrast this with the experience in China, which was largely cash-based as recently as 2010.¹,² This resulted in many unmet consumer safety and convenience needs, creating a fertile environment for digital wallets to very rapidly become the dominant method of payment both online and face to face.

COVID-19 has provided the impetus to overcome consumer inertia, and has created an unprecedented global appetite for changes to how we pay. According to Visa’s Back to Business study, 78% of global consumers have adjusted the way they pay for items in the wake of intensified safety concerns.³ Application leaders responsible for digital commerce payments should use this Gartner research to adapt their customer-facing and operational payments processes to the current environment, optimize the customer payment experience and build organizational resiliency (see Figure 1).
Impacts and Recommendations

Lockdowns Require Contactless Commerce

Despite assurance from the World Health Organization (WHO) that “there is currently no evidence to confirm ... that COVID-19 virus can be transmitted through contact with coins or banknotes,” many countries have quarantined, disinfected or destroyed cash as a measure of caution. Regardless of whether or not the COVID-19 virus actually spreads in this manner, cash and PIN pads do carry germs, and being customer-centric while you reopen to the public means being sensitive to what your customers and your staff believe about handling currency. A Gartner social media analysis revealed that conversations about contactless payments have increased nearly 40% in the second quarter of 2020, showing a clear impact of COVID-19 on the surge in popularity of contactless payments on social media. Conversations highlighted contactless payments being implemented as a part of organizations’ digital transformation initiatives in both B2B and B2C scenarios for faster, easier payment transactions while assuring customer safety (see Figure 2).
In areas where it is allowed, many businesses have stopped accepting cash altogether (see Figure 3).
Refusing cash may not be seen as customer-centric by those customers who only have cash available for any given transaction. In the U.S., one of the richest countries in the world, the Federal Deposit Insurance Corporation (FDIC) estimates that 25.2% of households are unbanked or underbanked. Some simply encourage use of noncash forms of payment. Others, such as Dick's Drive-In restaurant in Seattle, Washington, U.S., which only accepted cash until just four years ago, took a more nuanced approach. During the outbreak, they instead requested that consumers pay with debit or credit card as “employees have extra sanitation requirements for all orders involving cash and that may impact speed of service” (see Figure 4).
Switching from cash to plastic cards is a good first step. However, many consumers are still using cards in a full-contact manner, either because the cards are not contactless-enabled or because consumer behaviors are resistant to change. The pandemic has motivated many to finally take it one step farther with contactless payment methods. In a May Gartner survey, 46% of U.S. consumers surveyed said that over the past two months, they had either decreased the frequency with which they pay with cash or they did not pay with cash at all, and 40% agreed with the statement, “I’m more willing to do business with stores or other commercial premises that offer contactless payment options” (see Figure 5).
**Figure 5: Pandemic Effects — Contactless Payment**

Percentage of Consumers Whose Frequency of Shopping in the Following Ways Has Changed in the Past 2 Months

<table>
<thead>
<tr>
<th>Service</th>
<th>Increased</th>
<th>About the Same</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online via Computer</td>
<td>46%</td>
<td>39%</td>
<td>10%</td>
</tr>
<tr>
<td>Order Online and Pick Up Outside the Store</td>
<td>32%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Order Online and Pick Up Inside the Store</td>
<td>29%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Order via Third-Party Delivery Services</td>
<td>25%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Online via Mobile Phone</td>
<td>24%</td>
<td>37%</td>
<td>9%</td>
</tr>
<tr>
<td>In-Store</td>
<td>12%</td>
<td>23%</td>
<td>63%</td>
</tr>
</tbody>
</table>

\( n = 1,505 \) representatives of the national population in the U.S.

Source: Gartner Consumer Pandemic Attitudes and Behaviors Survey (8-18 May 2020)

Other merchants are devising creative ways to protect their customers from shared surface contact. At The Holy Donut in Scarborough, Maine, U.S., a supply of clean styluses are provided for each customer and sanitized before being offered for reuse by another customer (see Figure 6).
There are many simple practices that merchants can put into effect immediately to limit shared contact. Both Visa and Mastercard have reminded merchants that signatures have not been required for any EMV card transactions since 2018, and that verifying the amount of a transaction is neither required, nor does it provide any additional protection in the event of a dispute. If your organization is needlessly requiring this or “any other practice that encourages the merchant’s staff to touch the customer’s card(s),” these practices should be eliminated as quickly as possible. 7, 8

Prepare your budgets for a shift away from cash by factoring in card processing fees for a higher percentage of transactions in 2020 and beyond. If your card volumes have significantly increased, negotiate for better fees from your payment vendor(s), and include volume tiers to reward future growth. Adjust operational budgets, staffing and cash management expectations to reflect a reduced amount of physical currency.

Using digital wallets such as Apple Pay or Google Pay for in-store purchases can enable the same contactless payment experience that a contactless card provides. In places like the U.S., where many cards have not yet been reissued with contactless capabilities, loading cards into mobile wallets allows consumers to proactively convert their own buying experience. However, payment is only one point of contact in the customer journey. There are many forms of contactless commerce that minimize or eliminate shared contact at every step along the way. Traditional shopping online combined with home delivery is virtually contactless and was already growing before the pandemic. Delivery has seen a meteoric rise in share of commerce due to necessity in the case of lockdowns, but also out of consumer preference and caution. Buy Online Pickup In Store (BOPIS), also known as Click and Collect, allows the
customer the convenience to shop and pay digitally, but receive goods in as little as a few hours to a day, since orders are fulfilled by the local store. Furthermore, customer preference for curbside pickup has extended the convenience of BOPIS, as customers don’t even have to go into the store to receive their orders. While curbside pickup at retail stores has surged 208% during the COVID-19 pandemic, the trends will remain long after health concerns are resolved, given the convenience.  

There are also more nascent innovations in smart check-out. Gartner defines “smart check-out” as the convergence of various digital technologies to deploy to eliminate the need for consumers to go through the traditional check-out lane manned by a human or machine (see Smart Check-Out: Choosing the Right In-Store Approach for Your Customers). Smart check-out can be achieved through many methods — such as mobile “Scan and Go” apps, RFID, or “Go-style” check-out which leverages computer vision, artificial intelligence (AI), machine learning (ML) and often sensor fusion. These apps allow a consumer to walk through a store, select and scan their own goods from their phone, and then complete payment from their phone and simply walk out of the store, potentially with no human or shared contact (see Figure 7).

Figure 7: Scan and Go at Sam’s Club

![Scan and Go at Sam’s Club](Source: Sam’s Club)

The result of these concerns and sanitation workarounds is that the pandemic has accelerated virtually every trend toward digitization. One of the most salient ways in which consumers have migrated to contactless commerce during the pandemic has been the tectonic shift to digital commerce. As
lockdowns went into place all around the world, customers turned to digital commerce sites, which has resulted in a marked increase in the e-commerce penetration rate. In the U.S. for example, in the 10 years from 2009 to 2019, e-commerce as a share of total retail sales increased about 10 points; in the first eight weeks of the pandemic, it increased 11 points (see Figure 8).  

**Figure 8: U.S. E-Commerce Share Growth During COVID-19**

In the U.K., in the 10 years from February 2010 to February 2020, the e-commerce share increased from 6.7% to 20% — an increase of 13.3%. In the 12 weeks between March and May, that share increased by the same 13.3% to a share of 33.3%.  

Within digital commerce, approaches continue to evolve even further. In China, where live commerce was already popular, the pandemic drove merchants to livestreaming platforms, and this approach saw new heights of adoption. Taobao Live reported 88% year-on-year growth in daily active merchants in 1Q20 as more merchants went online. Tech giants like Facebook, Google and Amazon are following suit (see 10 Things COVID-19 Will Change in Digital Commerce).

Voice commerce, enabled by voice assistants like Amazon’s Alexa, Apple’s Siri, and Google’s Assistant, is also getting a tailwind from the pandemic. Voice assistants were used in devices by about 3.25 billion people in 2019 — a number that is more than 40% of the global population — yet few people are using
them for commerce. In the U.S., only 9.6% of consumers used these devices to make purchases in 2019, but COVID has accelerated innovations that will increase adoption. For example, ExxonMobil recently launched an “Alexa, pay for gas” experience that allows users to pay for gas and unlock the pump completely contactlessly from an Alexa-enabled device or vehicle. Other fuel vendors, such as Shell, have enabled mobile pay at the pump applications that require the driver to input a code at the pump, rendering them less than entirely contactless. U.S. fuel vendors during COVID received an additional extension to April 2021 from the original 2015 deadline to upgrade their credit card readers to EMV. This additional window may present an opportunity to accelerate more digitized and contactless methods of mobile and voice-enabled payment in lieu of replacement card readers, thereby mitigating for sunk costs while facilitating improved customer experiences.

Prior to the pandemic, governments in places such as New York, San Francisco, Philadelphia, and the U.K. have enacted or considered enacting legislation to ban cashless stores in an effort to protect the unbanked or underbanked. Rather than protecting cash, India has enacted legislation that is moving all members of its society toward digitization. The Bill and Melinda Gates Foundation’s Level One Project promotes this digitization approach to financial inclusion for developing nations (see The Future of Commerce Payments in a Digital Society for more on financial inclusion initiatives). With public attitudes toward cash rapidly shifting, policy decisions may soon follow, resulting in a rapid deceleration of cash usage and cash in circulation.

These trends also contribute to an acceleration of channel unification, further blurring the lines between offline and online commerce. Even before the pandemic, consumers desired not only access to a common commerce experience across all available channels, but a fluid transition from one to the other. Unified commerce experiences allow customers to meander from one channel to another and back in a single journey, effortlessly and elegantly. Current conditions make providing this ability not only critical to optimal customer experiences, but critical to business survival. For the retailers who survive the economic impact of the pandemic, many will need to remediate the disconnects between their digital and physical touchpoints to ensure fluidity, agility and scale for unified commerce. For many retailers, a significant portion of their digital sales require the store to play a greater role in delivering those orders, whether through BOPIS, curbside pick-up, delivery, or ship from store. This will require investments in the stores to support digital sales, especially as online sales continue to grow.

Practice empathy for your customers. Previously technology-averse and older populations may find themselves forced to shop online where they otherwise would not. This could bring back some of the issues of the early adoption days of e-commerce — such as lack of familiarity and trust. This could potentially lead to additional new user adoption of digital wallets for online shopping security reasons. Welcome older and technology-averse populations to your website by designing customer experiences especially for them, including simplified customer journeys and helpful messaging to reassure them about secure data handling. Build your sites and apps with accessibility, both cognitive and motor, at the forefront.

Because these trends represent an acceleration of an existing trajectory, rather than a diversion, commerce will not return to its pre-pandemic state. Organizations that have invested in contactless
commerce experiences would be unwise to roll them back, and some subset of customers will choose to continue with new shopping habits that have been learned out of necessity. Businesses should anticipate that their digital share of commerce will remain elevated relative to the past trends, even as physical spaces reopen and face-to-face commerce begins to rebound. As such, organizations should add the same kind of personal touches to their online experience that contribute to loyalty in the face-to-face environment.

Payment Performance Metrics Have Shifted

Best-in-class digital commerce businesses continuously monitor many metrics related to payment performance. KPIs that have performed consistently over many years may have been thrown into a tailspin by COVID-19. With continuing uncertainty about economic health and consumer sentiment on a day-to-day basis, and the lingering possibility of a second wave, recalibrating these metrics is likely to be a recurring task. Common payment KPIs and related impacts include:

- **Latency** — Response time in executing a payment. If your digital channel is suddenly handling many more multiples of transaction volume than was anticipated, latency could increase, potentially resulting in timeouts and lost sales. Address any gateway or processor issues quickly, in accordance with contractual SLAs, and remedy internal system performance issues as urgently as possible.

- **Authorization and decline rates** — How many submitted transactions are approved for payment by the issuer. Transactions conducted at the physical point of sale (POS) typically achieve much higher approval rates than do digital commerce transactions. If your sales mix has suddenly shifted toward digital and you are looking at authorization rates in aggregate, this KPI will look concerning. Be sure to look at POS and digital separately, but also note that the sudden shift to digital is likely to prompt the need for recalibration on the issuer side as well. This means that even looking at digital-only decline rates is likely to turn up some anomalies.

- **Fraud detection rates** — How many submitted transactions successfully make it through your fraud screening tools and are processed for payment. Fraud is much more common in digital commerce than at the POS. If your mix has shifted, fraud declines as a percentage of total sales is likely to be higher than anticipated or budgeted for. Additionally, you are likely to have more first-time customers using your digital channels, resulting in higher fraud detection rates online as well. Measure your online and offline fraud rates separately and expect some exceptions to the online tolerance until customer habits settle in. If your good transaction volumes have changed materially up or down due to the pandemic, but your number of fraudulent transaction attempts has remained consistent, this will also skew your expected ratios.

- **Payment processing costs** — Any in-store volumes that move online are no longer eligible to be paid by cash, so credit and debit card processing fees will apply to a greater portion of your overall sales. Additionally, rates are materially less expensive at the physical POS than they are online, so your credit card processing fees per transaction are likely to increase. These costs include interchange fees that are paid to the issuing bank, gateway fees, processor fees, fraud detection costs and more. Prepare
your budgets for a shift away from cash, by factoring in card processing fees for a higher percentage of transactions in 2020 and beyond.

- **Chargeback rates** — How many successfully processed transactions are later disputed by the cardholder. Many merchants are seeing an increase in chargebacks. This may be due to customers who were unable to receive what they paid for, such as events or travel, or it could be due to canceled subscriptions, delayed returns and refunds, or other customer service issues, many of which have been exacerbated by the sudden turn of events.

- **Refund rates** — What percent of processed sales volume is refunded to customers due to returns or other concerns. Ideally, customers will contact you directly rather than disputing a transaction through their bank. Many merchants have adopted generous return policies in an effort to avoid higher chargeback rates and to preserve customer loyalty. It is a common risk management practice to monitor refund rates as a measure of payment health, so these policy changes need to be factored into projections.

### Payment Vendors’ Volumes Have Shifted

When talking to your existing or any prospective digital commerce payment vendor, it is important to gain understanding of how the pandemic may have impacted their business. Most digital commerce payment vendors’ revenue models are tied directly to payment volumes processed. While many payment vendors have diversification in their portfolio, it is important to understand whether your vendor has experienced a dramatic change in volume that would either threaten their viability or challenge their processing capacity and performance capabilities. Vendors with a substantial footprint in travel, event ticketing, entertainment or non-essential POS businesses are likely to have been negatively impacted, processing fewer transactions in direct proportion to their client base. Cross-border volumes and revenue are likely to be negatively impacted across all payment vendors who process these transactions. Conversely, payment vendors that largely process online retail, grocery, digital streaming and gaming are likely to have been positively impacted, processing a higher volume of transactions.

Determine from your payment vendor how they are adapting to the rapid shift in trends that is impacting their data models and could affect accuracy. For example, ask your vendor the following questions:

- How have your fraud models been impacted by the shift to digital and other behavior changes due to COVID-19? Describe any processes and modifications that you have made to improve the relevance of these data models in light of the current situation, or any accommodations you have made for your merchants to better use them with more uncertainty.

- Describe how your authorization optimization ML and/or AI models have been impacted by the shift digital during the pandemic. What modifications have you made to the models to maintain or increase their efficacy in light of the current situation?

- What new or revised reports or analytics are you providing to help merchants better understand the impact to their business and their payment processing as a result of COVID-19?
A potential payments winner from the pandemic is Buy Now Pay Later (BNPL) payment methods. The impacts of COVID-19 also include global economic fallout. As consumers become more income challenged and cash-strapped, alternative financing options become more appealing. BNPL offers installment and deferred payment options that are typically offered at 0% interest to the consumer. This, combined with the digital shift, is resulting in quick adoption of BNPL payment methods even in lagging geographies such as the U.S. For example, Klarna, a leading European BNPL wallet, reports 4x the active monthly U.S. users in June 2020 that it had in June 2019. Afterpay announced that its U.S. payment volumes processed grew by 330% for fiscal year 2020, compared to 2019. However, it also reported an increase in its net transaction loss (NTL) rate, and it should be anticipated that the same economic conditions that increase the appeal of these payment methods also increase the risk of customer defaults. Merchants should consider enabling one or more of these methods in order to increase sales, but keeping in mind that merchants pay higher fees for these payment methods since the BNPL vendor accepts the risk of nonpayment. Merchants must weigh the increased transaction costs against the increases achieved in both average order value (AOV) and conversion rate.

Payment Vendors Offer Resiliency

Many digital commerce payment vendors have adapted or expanded their offerings to help merchants weather the pandemic. Boston-based Toast provided POS software and payments processing for restaurants and launched a collection of services in April to help restaurants quickly pivot to online ordering, takeout and delivery services.

Many payment vendors have adjacent product offerings such as capital lending or bill payment that have also provided opportunities to help businesses overcome the COVID-19 challenges. ACI Worldwide announced a service in April designed to reduce the customer service burden of biller companies that were inundated with requests for bill payment relief. The solution automates the consumer request process and makes it easier for billers to quickly respond with modified payment plans.

Square and PayPal were both approved to offer loans directly to small businesses through the U.S. Payroll Protection Program (PPP). Visa, Mastercard, American Express and Discover all announced increases in payment limits for contactless transactions in many locations around the world in order to enable more usage of this no-touch payment option.

The U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) accelerated its online pilot and worked with states, retailers, and benefit processors to make Supplemental Nutrition Assistance Program (SNAP) benefits usable for online purchasing. PayPal updated its QR code service to make it easier for small businesses to offer contactless payments to their customers with zero development effort. In July, it made it scalable for larger enterprise business to also offer QR codes as an alternative to NFC (tap to pay) contactless transactions, that are not yet available to many U.S. cardholders (see Figure 9).
Figure 9: U.K. E-Commerce Share Growth During COVID-19

UK e-Commerce Share Growth During COVID-19
Percentage of Retail Sales

Source: Gartner
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Evidence
Gartner Social Media Analytics, August 2020

Approved Methodology: Gartner conducts social listening analysis leveraging third party data tools to complement or supplement the other fact bases presented in this document. Due to its qualitative and organic nature, the results should not be used separately from the rest of this research. No conclusions should be drawn from this data alone as it may not be entirely market representative. Social media data in reference is from 1 January 2018 to 27 August 2020 in all geographies (except China) and recognized languages.

Sources Covered: By default social media sources considered for analysis include Twitter, Facebook (publicly available information only), aggregator websites, blogs, news, mainstream media, forums and videos (comments only); unless and until specified.

The SMA Team: Vidita Menon and Ayush Saxena from the Social Media Team contributed to this research.
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PayPal and Venmo to Introduce QR Code Touch-Free Payment Technology in CVS Pharmacy Stores, PayPal

Recommended by the Authors


Navigating the Digital Commerce Payment Market

12 Key Questions to Ask When Selecting a Digital Commerce Payment Vendor