2017 Payments Landscape Report

sage Pay

Introduction

Welcome to the sixth of our annual reports into the payments landscape. We have put together an **insightful portrait** of the industry, from **business and consumer** attitudes to **emerging payment methods** and new players entering the payments space, to how businesses are managing their cashflow in the current climate.

The 2017 Sage Payments Landscape Report is the **only survey of its kind** to take independent poll data from more than **1,000 consumers** and **1,000 business people**, to produce consistent and actionable insights over the past six years. We have made a number of changes to this year's report, broadening its scope to look at **how cashflow ultimately impacts on commerce**, especially for small businesses, as well as exploring **security and fraud** in more depth.

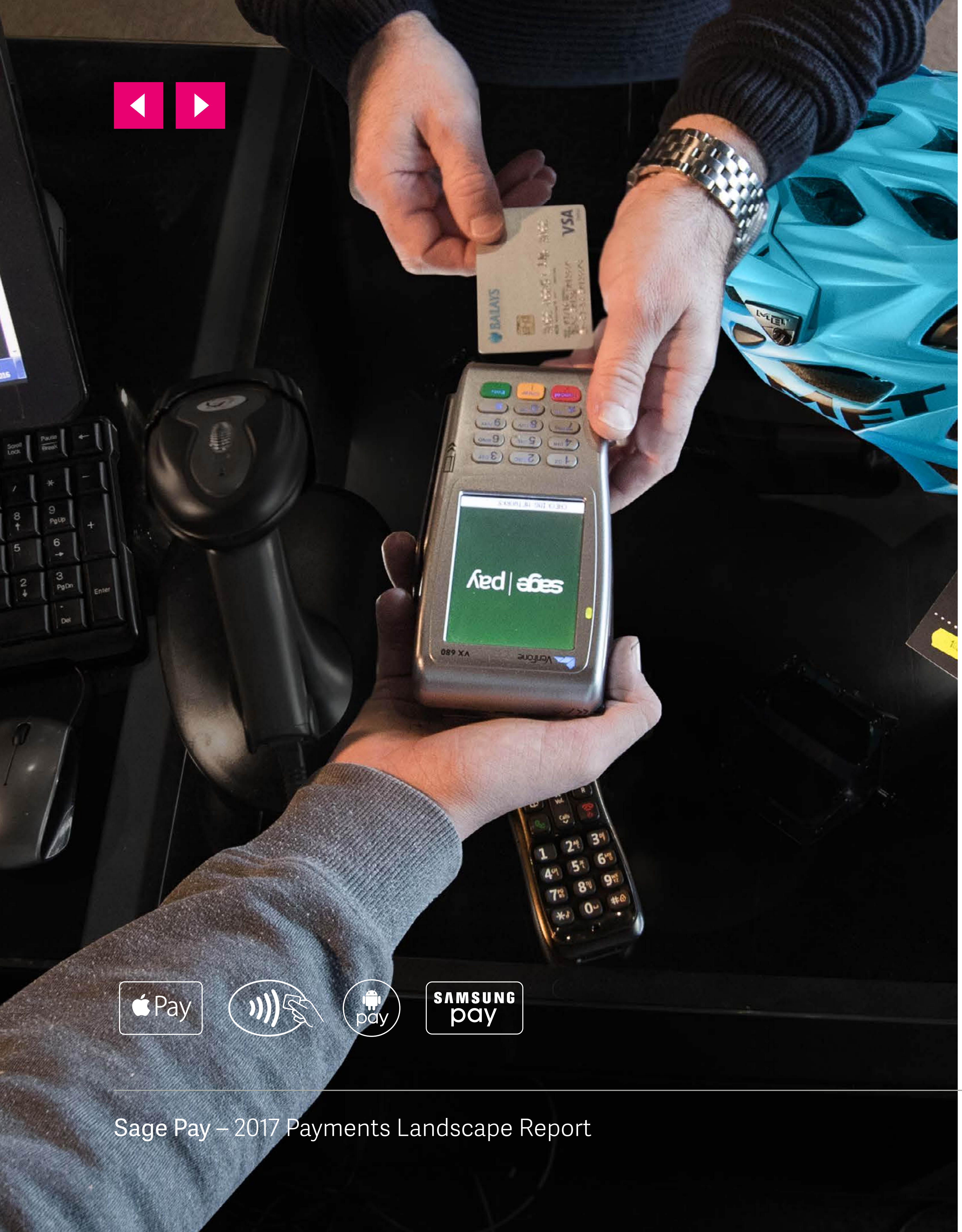
*A quarter **(24%)** of organisations say they have been the target of **cash theft** by a member of staff, **34%** admit to losing cash due to **human error**, while more than half **(56%)** say they spend up to an hour or more counting and transporting **cash to the bank** each week*[1]

[1] Based on an online survey with 304 small and medium sized business leaders from across the UK, conducted by Viga in October 2016

Payments are part of a much bigger cycle, which is the enablement of commerce – payments coming into a business and payments going out – in what it's hoped is a virtuous circle. At Sage, we know that **cashflow is hugely important** for the successful operation of small and medium businesses (SMBs). That's why we created Sage Pay, to provide a seamless, integrated and trusted way of enabling businesses to make payments from within their accounting solution.

Companies are still spending far too long chasing late payments: 1 in 3 businesses are owed more than **£30K in outstanding invoices** and 1 in 5 are spending at least four hours a week struggling to get paid. Progress is being made. Waitrose, for example, recently introduced a 7-day payment policy for small business invoices, but we need to see more of this responsible behaviour across the board. Together with smart payment solutions, this will really help businesses to thrive.

When it comes to preferred payment methods, online payments are more and more popular, which is good news for businesses. **Cash is an increasing headache** for merchants because dealing with it carries so many **hidden costs**, including storing it securely, having to transport and then bank it – businesses could be doing far more productive things with their time.



Technology continues to make payments more frictionless, which is reflected in the growth of both **contactless** and **mobile payments**. We are going to see significant penetration of Apple, Android and Samsung Pay in the months ahead. Businesses have also told us that offering a **range of payment methods** allows them increased access to a wider customer base – which, put simply, means more business. What right-minded company wouldn't want to take advantage of that?

The proposed purchase of VocaLink, which processes billions of payments each year in the UK, by MasterCard, has been a significant recent development in the payments space. What we will see, as a result, **is the acceleration of non-card payment mechanisms** coming to market very quickly in the UK. We think these payment applications could have a significant impact on the speed of settlement of funds, which for SMBs means an improvement in cashflow. They will produce another wave of trusted, secure, convenient payment mechanisms.

Our message to businesses: this is an exciting time of fast-paced innovation in payments. **If you are prepared for the changes ahead** and optimise your systems to make the payment process smoother, you'll attract more customers, increase loyalty and, ultimately, raise your bottom line.

Seamus Smith
CEO, Sage Pay

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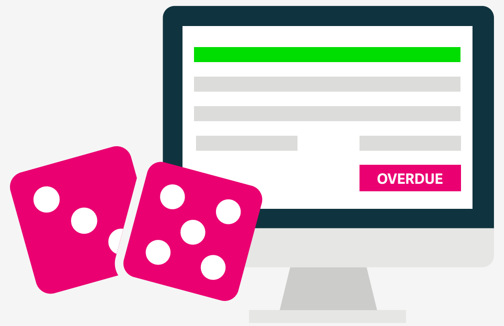

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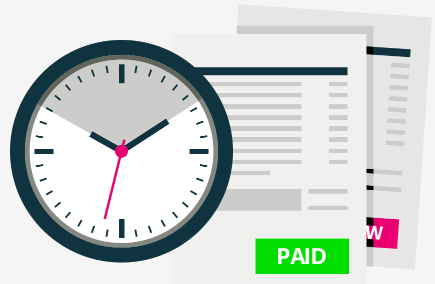
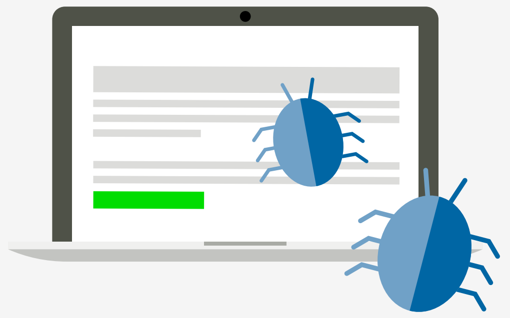


Accelerating payments

is seen as a key priority by SMBs



Security

remains the number one issue for consumers

Methodology

To ensure a broad view of the payments industry, we surveyed **1,033** UK business decision-makers and **1,138** UK consumers. This provided an understanding of where consumers and businesses agree, and where there are diverging views.

The interviews were conducted online by Morar in June 2016 using an email invitation and an online survey. Quotas were set to ensure reliable and accurate representation of the total populations aged 18 and older.

Results of any sample are subject to sampling variation.

Chapter 1

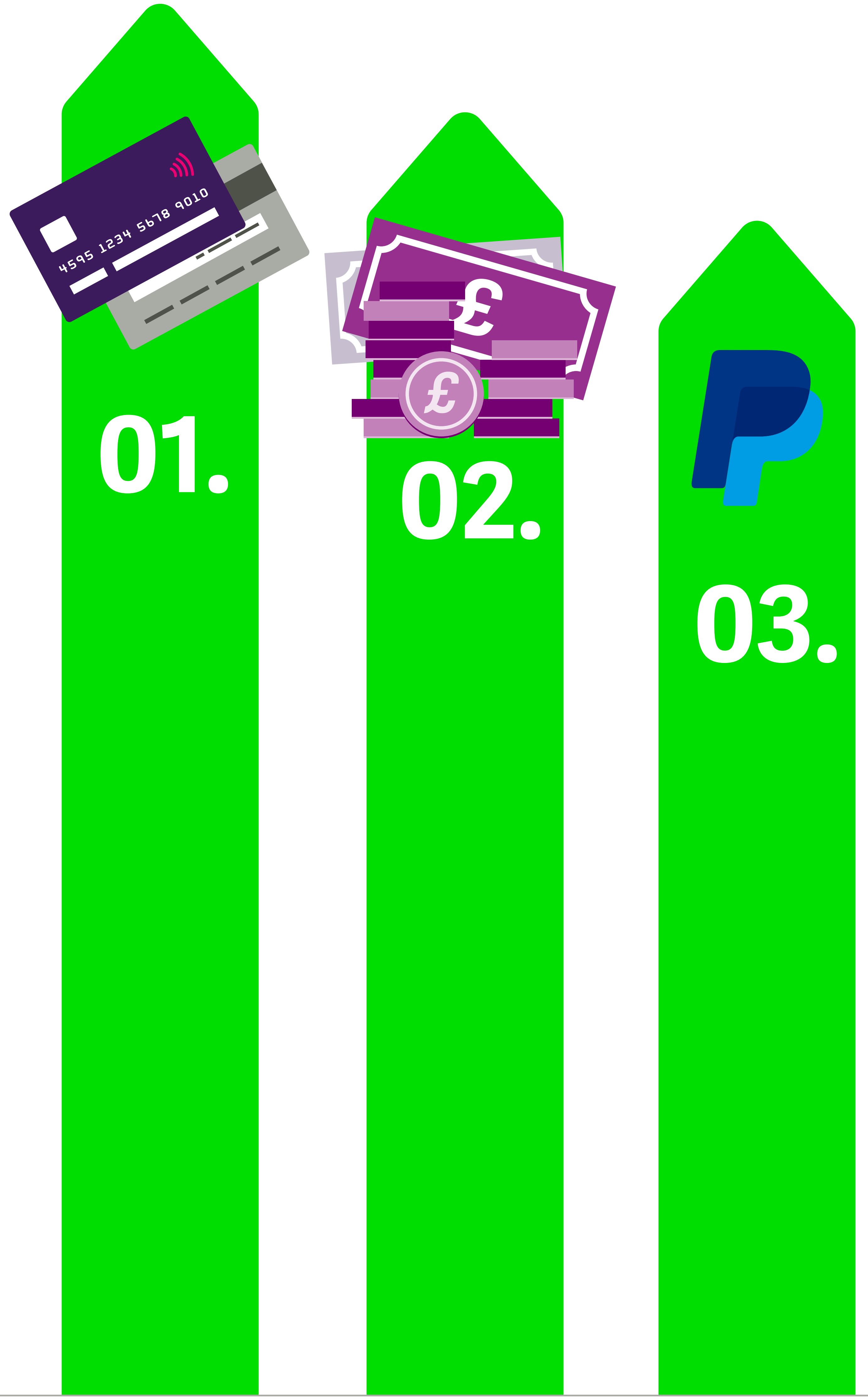
Move with the times – the customer is king

UK consumers are taking full advantage of the seemingly **ever-expanding choice of payment options** available to them. Be it the more traditional cash, debit and credit cards, or the shiny new mobile or peer-to-peer payment apps now routinely appearing on the market, they want the opportunity to pick and choose the most convenient payment methods for them.

Cash, debit and credit cards remain the main payment methods carried by consumers in 2016, according to our research, with **35% of those surveyed saying they regularly carry debit or credit cards** with them. Meanwhile, PayPal ranks especially highly with UK consumers, sitting just behind cash and debit/credit cards, as the most preferred payment option; a third of those surveyed regard it highly as a payment option, while another 27% say they 'quite like it'.

For larger sums, people still feel more comfortable using **familiar payment methods, such as debit and credit cards,** and cheques, however, this may begin to change as spending limits increase and people feel more secure using alternative methods of payment.

Interestingly, older age groups demonstrate a greater willingness to move away from cash, with 59% of over 50s saying they either don't deal in or have little dealings with cash.[2]

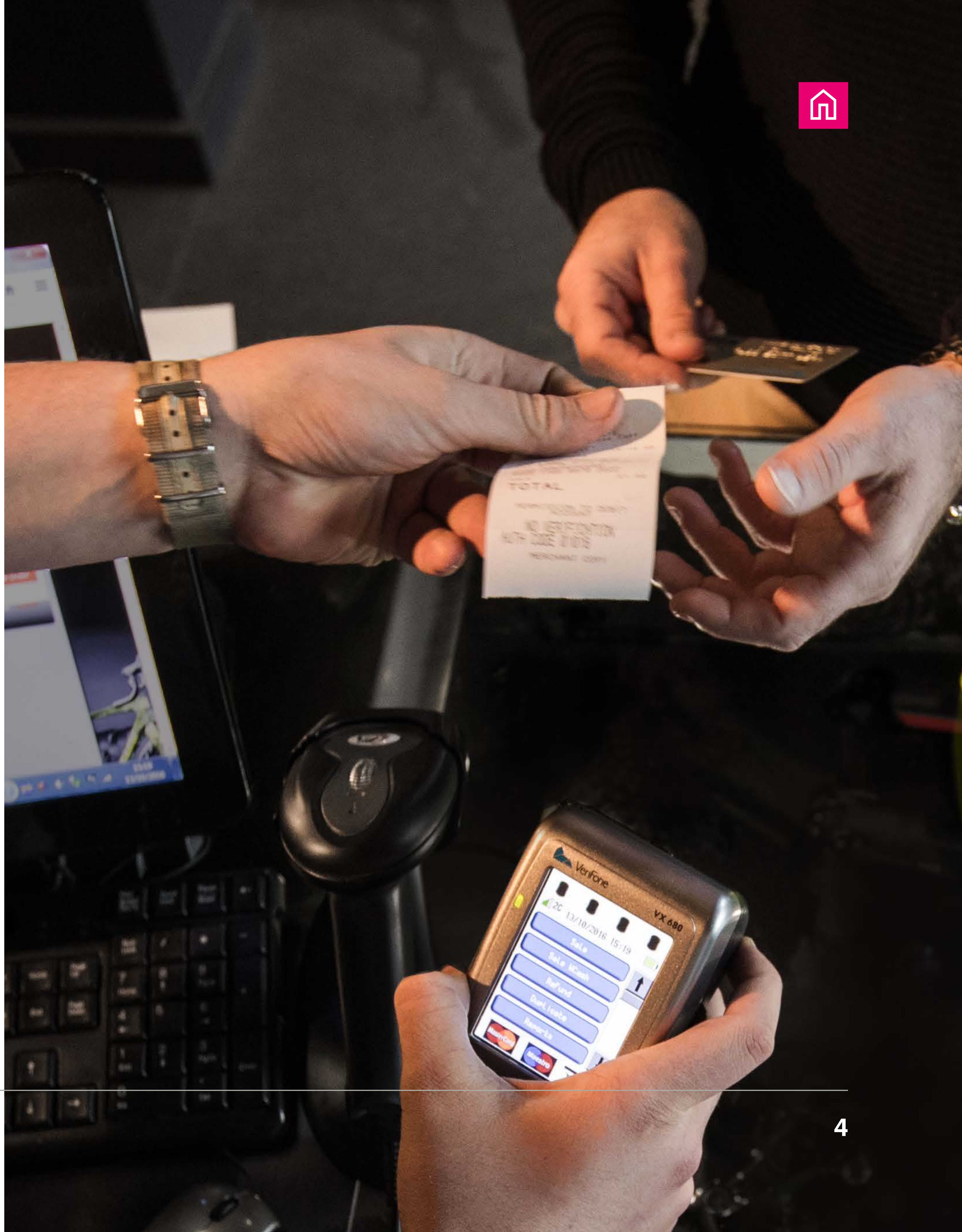


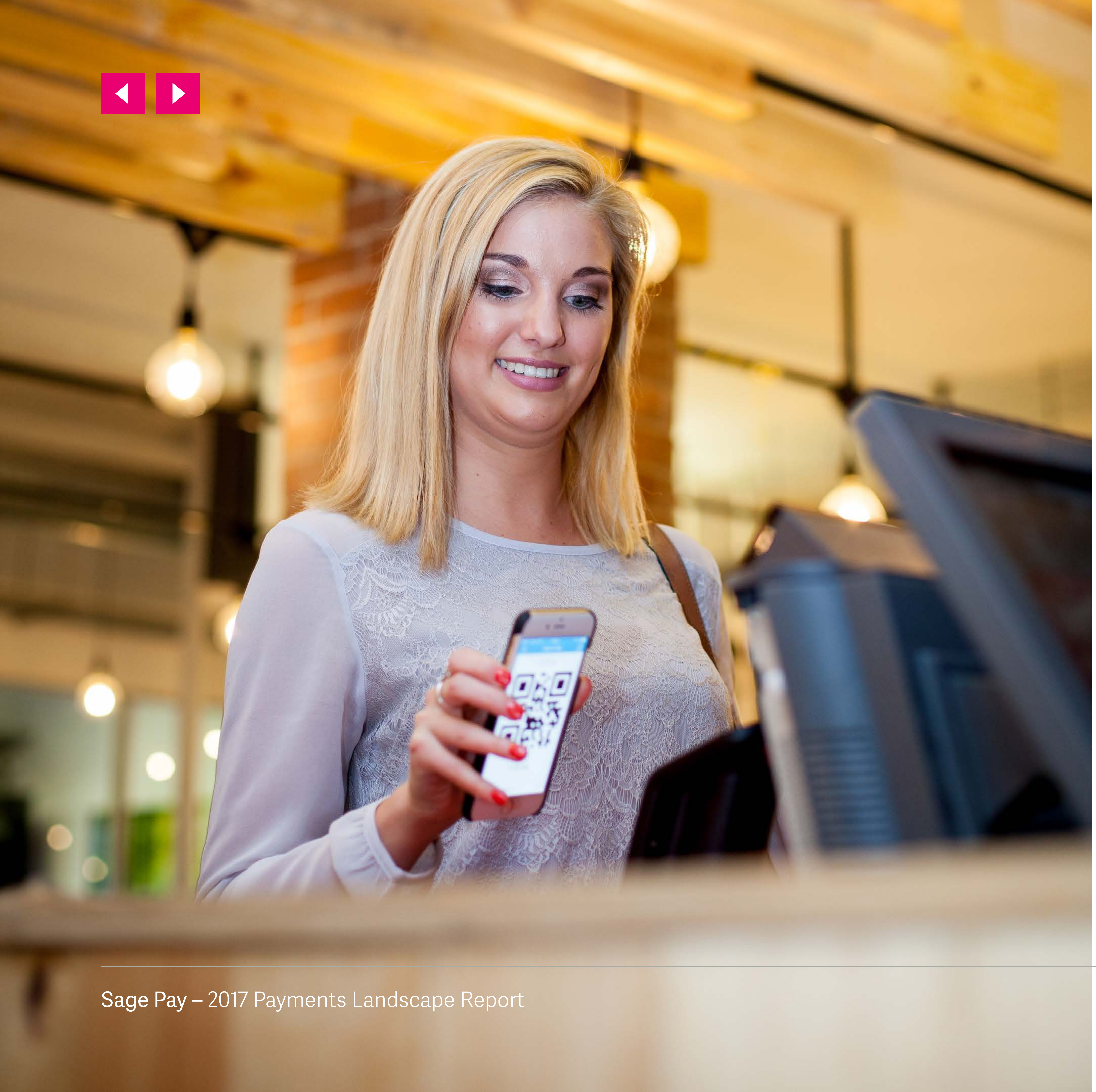
[2] *Based on an online survey with 304 small and medium sized business leaders from across the UK, conducted by Viga in October 2016*

UK consumers want their choice of ways to pay

Consumer expectation is driving innovation in the payments space, both online and offline, and businesses need to move with the times or risk losing customer loyalty. The majority (90%) of consumers we surveyed say it's important for businesses to offer customers **a diverse range of payment methods**. What's more, 58% claim they would be more likely to shop somewhere that offered them multiple ways to pay.

Likewise, businesses say the key benefits of offering a range of payment methods is access to a **wider customer base**. Customer demand is still the driving factor for businesses when it comes to introducing new payment methods, though legislation has become a more important consideration than beating the competition this year. Increased administration is thought to be the main disadvantage to offering different payment options. Only a quarter of businesses see no disadvantages, which suggests there is more to be done to make this process hassle-free for businesses.





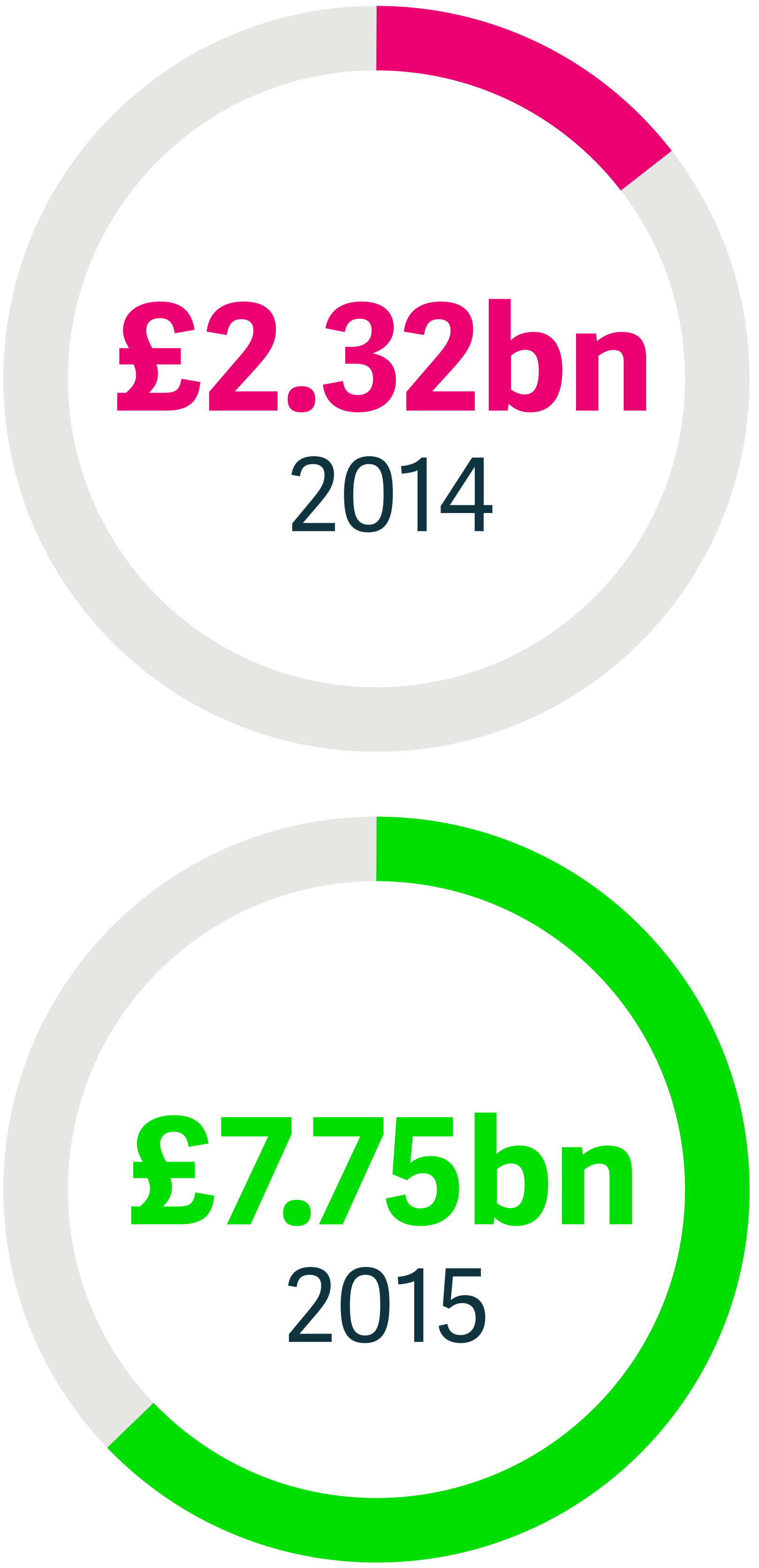
Meeting customer expectations when it comes to payment options could affect the bottom line in more ways than one – **boosting sales, and also branding reputation**. 85% of consumers claim that a diverse range of payment methods makes a company appear modern and progressive, with contactless payments, online wallets and mobile payment technology like Apple Pay most likely to make the right impression.

85%

of consumers claim that a diverse range of payment methods makes a company appear modern and progressive

Contactless goes mainstream

As we reported in last year's Sage Payments Landscape Report, **contactless is going from strength to strength** in the UK, with contactless payments the preferred payment method among an increasing number of customers. In 2015, 9% of consumers rated it highly, while in 2016 this number **grew to 14%**. Thirty-eight percent of consumers now say they regularly carry this payment option with them.



Contactless card spend

In 2015, **£7.75 billion** was spent using contactless cards, compared to £2.32 billion in 2014, according to The UK Cards Association, which represents banks and card issuers. The growth in spend has increased more than the growth in the number of contactless cards, with monthly spend on contactless cards reaching a record £1.5 billion for the first time in March.

Although the spending limit for contactless is currently capped at £30 – which is perhaps why consumers still spend less money this way than they do via more traditional payment methods – **its popularity is clearly soaring**. Contributing factors include a pay limit increase of £10 towards the end of last year and the growth of contactless transport ticketing.

What's more, with MasterCard and Visa both mandating that **all new point of sale** (POS) terminals should be capable of accepting contactless transactions by the beginning of this year, and all existing terminals converted by the beginning of 2020, these numbers are only set to rise as contactless goes mainstream.

The rise and rise of mobile

76% of UK adults now own a smartphone, according to Deloitte's Mobile Consumer Survey 2015. UK consumers, collectively, look at their smartphones over a billion times a day and the proportion of 4G users has jumped from 8% to 25% in the last year.

68%

increase in mobile payments in the last six months

With consumers now using mobile phones to do everything from scanning airline tickets at security, to controlling their heating, it comes as no surprise that they want to be able to buy their shopping and pay their bills using their device as well.

Given the popularity of contactless and the high penetration of smartphones, it comes as little surprise that almost **69% of consumers surveyed have used mobile payments** to pay or receive money in the last six months. This is a huge increase from 2015 when only 1% of those surveyed said they had used a mobile wallet and 4% a mobile app.

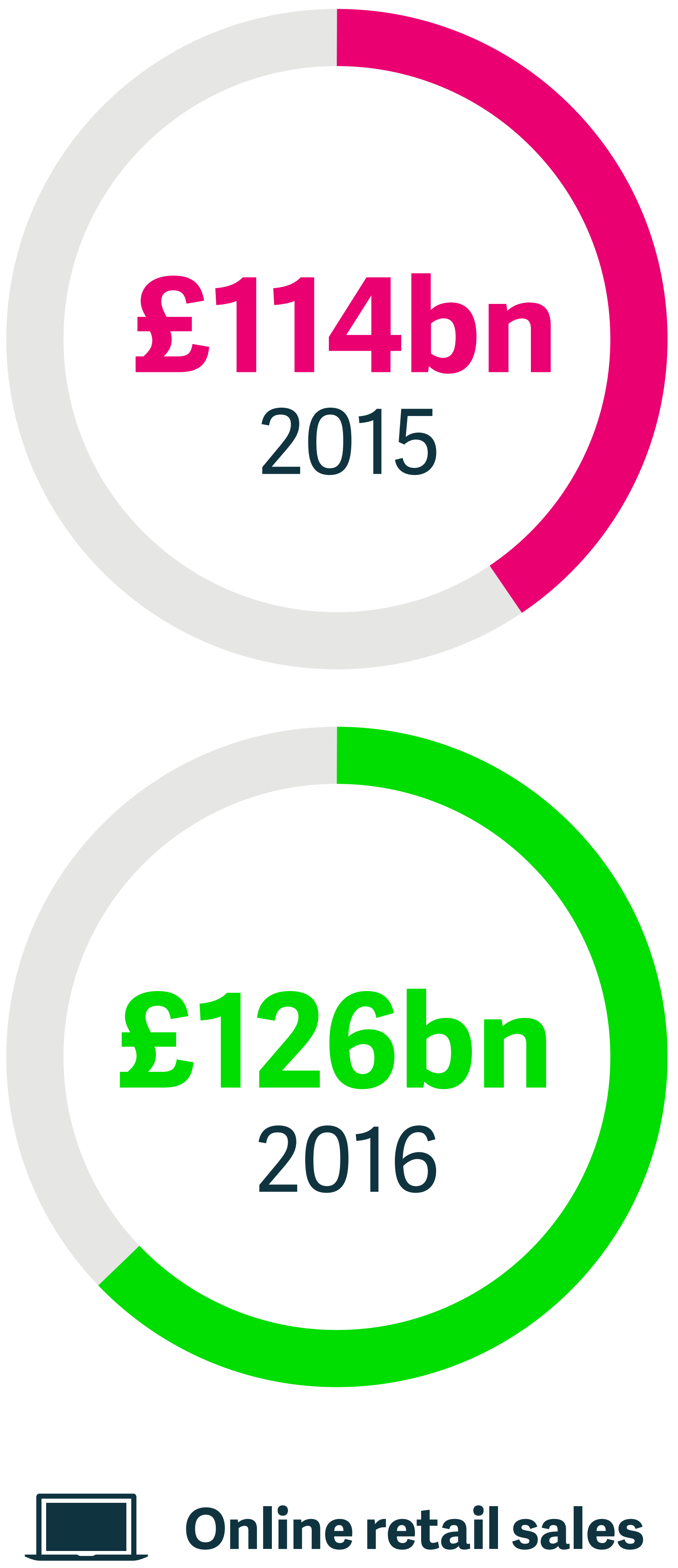
Meanwhile, MasterCard is rolling out its Identity Check Mobile, or 'selfie pay', across Europe, including Germany, Spain and the UK. Engadget reports that the technology will allow MasterCard owners to verify their identity with a fingerprint or selfie, so users can take a photo of themselves on the app and the service creates a digitised map of their face. This is then used as a reference point whenever someone wants to complete a new purchase online.

Alibaba Group has even introduced VR Pay, a virtual reality payment system that allows virtual reality shoppers to pay for items just by nodding, according to Reuters. This payment system will be incorporated into virtual online marketplaces, which will simulate, at home, the experience of shopping in a physical store by using a VR device, such as helmets or glasses.

These new technologies are eager to gain traction and partnerships with established payments brands are elevating fintech to new heights. Apple Pay, for example, has partnered with American Express and is now expanding internationally into Australia, Canada, Spain, Singapore, and Hong Kong.

Consumers are breaking all the purchasing rules

There is **no longer a standard path to purchase**. A third of consumers we surveyed say they prefer browsing online and buying in-store – known as webrooming – while another quarter do the opposite – known as showrooming. What's more, UK consumers increasingly prefer online-only to in-store shopping. However, this is the opposite of consumers in the US, who prefer in-store only to online only shopping.



Although online sales are far from eclipsing in-store purchasing altogether, they are certainly gaining ground. Figures from the IMRG Capgemini e-Retail Sales Index revealed that **online retail sales recorded a solid 11% year-on-year increase in 2015**, equating to approximately **£114 billion spent online**. For 2016, their respective prediction is the Index will record a **further 11% growth**, with total e-retail sales estimated to be **worth £126 billion** by year end.

Businesses need to step up

UK businesses could be doing better. **Only 18% of consumers** strongly agree that businesses are offering payment methods that consumers would expect and **only 12%** strongly agree that they are leading the way when it comes to innovation. The consumer is in the cockpit now; the power lies with them. Businesses need to make sure they keep up.

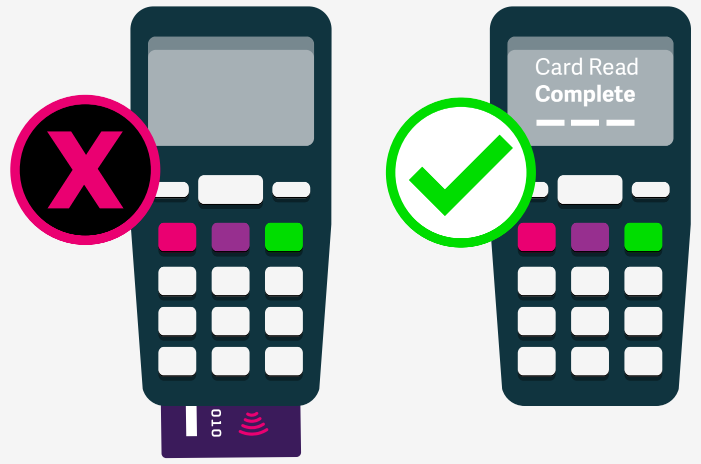
SAGE SAYS

Offering **a range of payment options** will give businesses access to a wider customer base.

SMBs should focus on driving the cash penetration in their businesses down. Storing, transporting and banking cash can be expensive and risky to manage.

Make sure your staff knows **what the preferred payment methods** are for the business. Contactless, for example, is a much less expensive payment mechanism than putting a card into a payment terminal.

Contactless removes friction from the payment process and consumers have an underlying trust in the technology. It's good for businesses too, so **retailers should remind consumers to use the contactless** application in their cards and phones where applicable.



The expert's view

Do your bit to keep commerce booming

Kate Bevan, payments expert

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Getting paid on time

Ask any small business owner what their biggest headaches are and you can bet that very near the top of the list will be **late payments**. Despite the law clearly stating that unless otherwise agreed, a commercial **payment is late after 30 days**, as well as providing for interest charges, more than half of UK small businesses were chasing overdue payments totalling more than **£225bn** at the beginning of this year, according to the Zurich SME Risk Index[3].

Late payments are more than just an inconvenience for small businesses. Not getting money on time can mean a business going under: 67% of those replying to Zurich's survey said that **overdue payments had forced the closure of a business**, while 41% said they had had cashflow problems as a result of not being paid on time.

[3] *Zurich Insider, January 2016 http://insider.zurich.co.uk/market-expertise/smes-owed-225bn-from-late-payments/*

Clearly this has a knock-on effect through the economy: failing businesses means lower confidence, people losing their jobs and a lower GDP. Yet this problem exists in a landscape that's full of exciting and innovative new payments technologies, so why aren't problems with being paid on time a thing of the past?

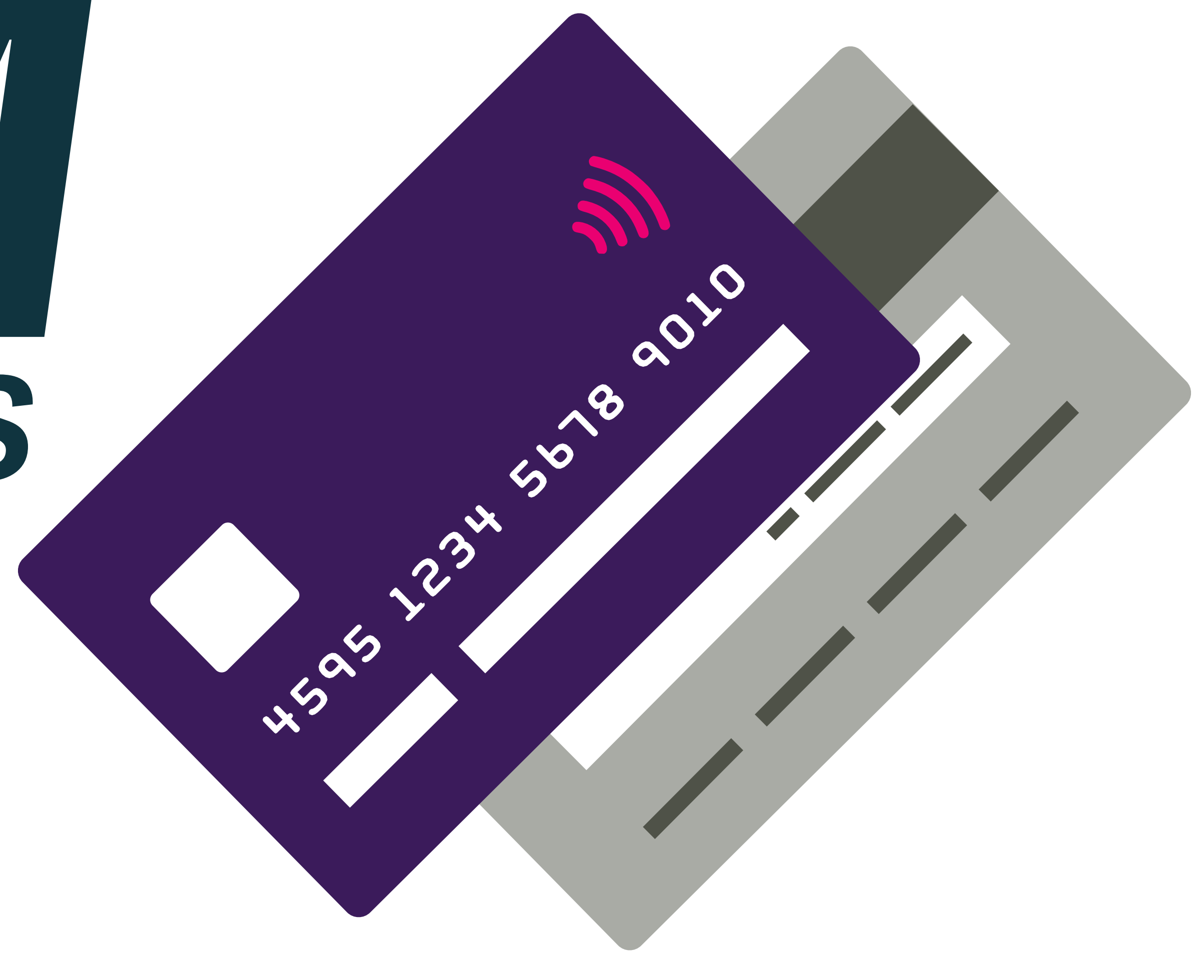
When it comes to taking money from consumers, businesses have made some strides towards identifying and implementing new ways of paying. Contactless payments are increasingly popular in the UK: as of April this year, there were just over 88m contactless cards being used, according to The UK Cards Association,[4] **a rise of 34.5%** from April 2015, and consumers had spent £1.58bn in 187.7m transactions in April.

[4] http://www.theukcardsassociation.org.uk/contactless_contactless_statistics/

Meanwhile, Apple Pay launched in the UK in 2015, and Android Pay followed earlier this year, meaning that many of the UK's smartphone owners can use their devices to make payments, both as substitutes for contactless cards and, via apps, direct to businesses. Indeed, **in May 2015, cashless payments overtook the use of notes and coins for the first time ever**, according to the Payments Council.

88M

CONTACTLESS BANK CARDS



▲ **34.5%**

FROM APRIL 2015

81%

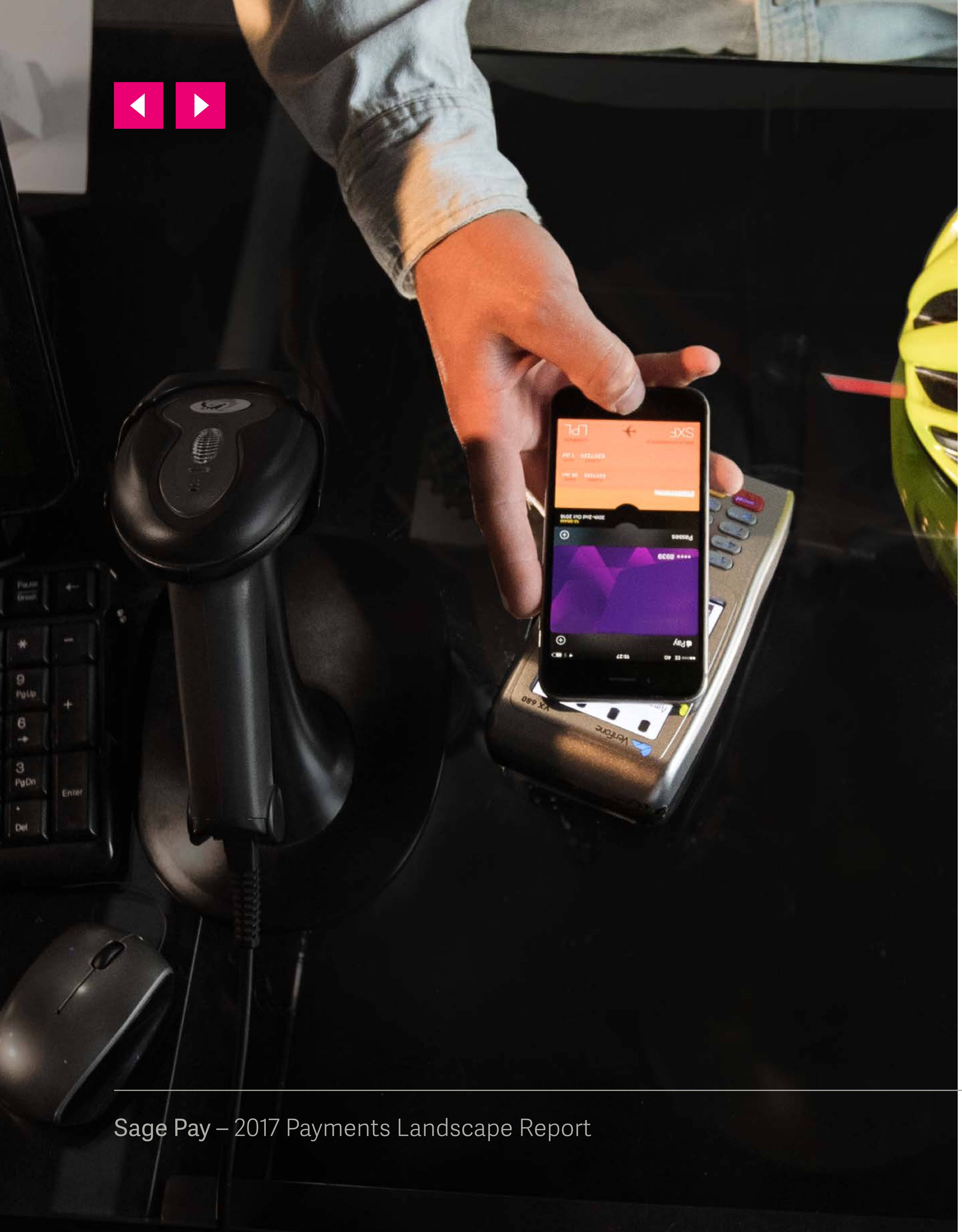
ARE WORRIED ABOUT MOBILE PAYMENTS SECURITY

However, the take-up of Apple Pay has been disappointing in the UK, partly because the technology is limited to the latest iOS devices, but security concerns are another reason that could be causing people to hold back on adopting new ways of making payments.

A study last year carried out by YouGov for a business process management company found that **81% of the people** asked were **worried about the security of making a payment using a mobile**, and that figure hasn't fallen significantly in the past 12 months. Sage's own research confirms that, finding that **70% still have security concerns about new payment technologies**.

It's clear that speeding up payments would help boost the economy – and with the right technology in place, more frictionless payments could be much more easily implemented and widespread.

And this understandably cautious approach from businesses feeds back into the whole payments cycle, with businesses and individuals keen in principle on the idea of speeding up payments and using new technologies to do so, but in practice being hesitant to take up new payments methods.



The **slow take-up of Apple Pay** is perhaps indicative of this trend more generally: for customers, it means upgrading to the latest iPhone. And that is echoed across the payments landscape: new technologies, from e-wallets to contactless and apps, to payments via social media and cryptocurrencies such as Bitcoin, seem to appear at a dizzying pace – so dizzying that it's hard to make sense of and understand exotic new ways of moving money around, never mind make a decision about which new technologies are worth your time and attention.

So what does the future hold for payments technologies? **Biometric technology** seems to many to address security concerns, yet this technology isn't the panacea some might hope: fingerprint locking can be hacked by lifting prints from wine glasses, for example, and of course many of us still rely on using a PIN rather than a fingerprint or iris scan to unlock our devices.

There has also been a lot of excited chatter in the past few years, first about Bitcoin, the cryptocurrency, and more recently, about the blockchain, the distributed ledger technology Bitcoin is built on.

However, anyone who's paid attention to Bitcoin itself over the past few years will have seen its volatility as a currency and its unfortunate, and somewhat unfair, association with the more unsavoury corners of the internet. Its complexity for users and hence its low take-up means it is a long way from being a widely used and viable payment method.

This is a shame, as the underlying technology offers a fascinating glimpse into not only of how money might be moved around in the future, but also of how accountability could be revolutionised, thanks to the transparent yet private nature of the blockchain.

Again, however, anyone who keeps even half an eye on this fascinating, futuristic fintech is aware of the many problems with the culture surrounding it, from arcane disputes about the size of the 'blocks' and fears about the security of the leading exchanges, to the bizarre saga surrounding Craig Wright, who earlier this year claimed to be 'Satoshi Nakamoto', the inventor of Bitcoin.

Meanwhile, banks and financial institutions are attempting to **kickstart clever new fintech** via innovation centres and incubators, with the focus on creating customer-centric products and services. There are some successes from these efforts – Barclays, for example, has backed a platform that allows would-be borrowers to tap into their personal networks to raise property finance via Rise, its incubator network – but there is still a way to go before truly innovative fintech becomes mainstream.

So for now there is still work to do, both at the grassroots business level of speeding up payments and thus helping boost the economy, and at the broader, macro level of nurturing innovation to bring good ideas to fruition – and widespread adoption.

Chapter 2

Cashflow confidence is crucial for businesses – and alternative funding is on the rise

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Consumer confidence in payments may be growing as technology gets slicker and safer. However, there remains a **legacy attitude when it comes to businesses managing payments in and payments out**.

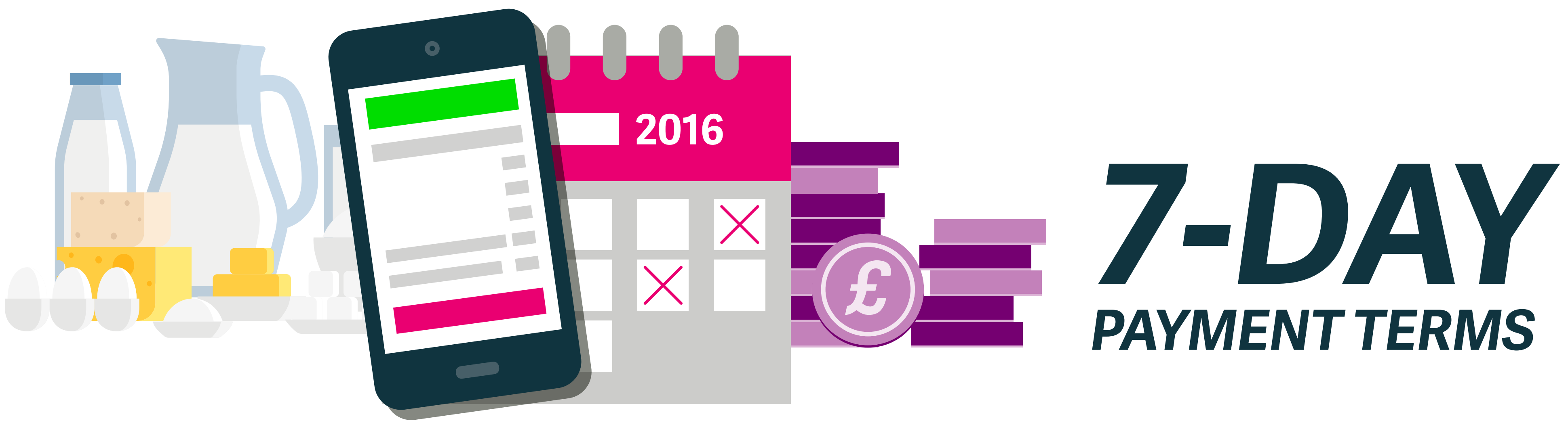
Often, businesses do not have clear sight of this flow of money and because of that, they inadvertently **build delays into the process**, slowing down payments to suppliers, in anticipation of receiving late payments themselves. A quarter of businesses admit to making late supplier payments to improve cashflow.

Doing business like this is not only bad for the economy, but could **affect brand reputation** as well. Thirty-six percent of consumers we surveyed said they would stop using a company if they knew it was deliberately withholding timely payments from its suppliers on a regular basis. Meanwhile, almost three-quarters of consumers say they'd be more likely to shop with a business if they knew that it paid suppliers on time.

Late payments are more than just an inconvenience for SMBs. Not receiving money owed in good time can have grave repercussions, ranging from redundancies to bankruptcy, which is why 62% of businesses say they define accelerating payments as a priority.

Big business is taking steps. In July, Waitrose announced plans to slash its payment terms **to seven days for small food producers**. By the end of September, all suppliers whose business with Waitrose is worth less than £100,000 annually will be paid within seven days of receipt of a valid electronic invoice. Meanwhile, Tesco cut its payment terms for small suppliers to 14 days last year.

While this is welcome news, it will take many more businesses making similar moves to impact the payments ecosystem as a whole.



Mark Williamson, Waitrose's commercial director, said to The Times:

"The internal review of how we pay our smallest suppliers was initiated because we wanted to make our good relationships with small suppliers even better by simplifying the payment process. We are passionate about supporting and nurturing British products – and this step will help give smaller-scale businesses, including new start-ups, more financial stability by helping with cashflow."

Waitrose

Movements in the market

MasterCard has drawn up plans for a takeover of VocaLink, the bank-owned company which handles £6tn-worth of payments in Britain each year. **More than 90% of all salary payments**, and virtually all state benefits, are processed using VocaLink, which delivers the Faster Payments Service and the Bacs service which collectively underpins billions of payments.

This is a significant development in the payments space. As a result, we are likely to see **the acceleration of non-card payment mechanisms** – mainly person-to-person and bank-to-bank transfers – coming to market in the UK, which will be relevant to consumers and businesses.

Meanwhile, PSD2 legislation, which aims to make cross-border payments easy, efficient and secure, and **improve competition by opening up payment markets to new entrants**, is set to come into effect in January 2018. At Sage, we believe that this will be the case regardless of Brexit. Awareness of PSD2 among businesses is currently low at just 28%, according to our research. However, those businesses that *are* aware believe the directive will **stimulate innovation** and open up ways for new payment methods to be integrated into the business.

Making payments more frictionless

Everyone within the cycle of payments has a responsibility to enable faster, frictionless payments, both in and out of their business. The main barriers to accelerating payments in and out of a business are, in their view, **internal procedures, with processes for paying** suppliers and employees laborious, and slow customer payment. Forty-five percent of businesses claim technology like management dashboards would help improve their view of payments in and out.

No business is an island; each is part of the global economy, the success of which is dependent on each company's ability to make and receive payments quickly and simply. If just one business slows down that process, then it has an impact. For the economy to thrive, every business must be responsible for paying suppliers, partners and employees in a timely and accurate fashion.

45%

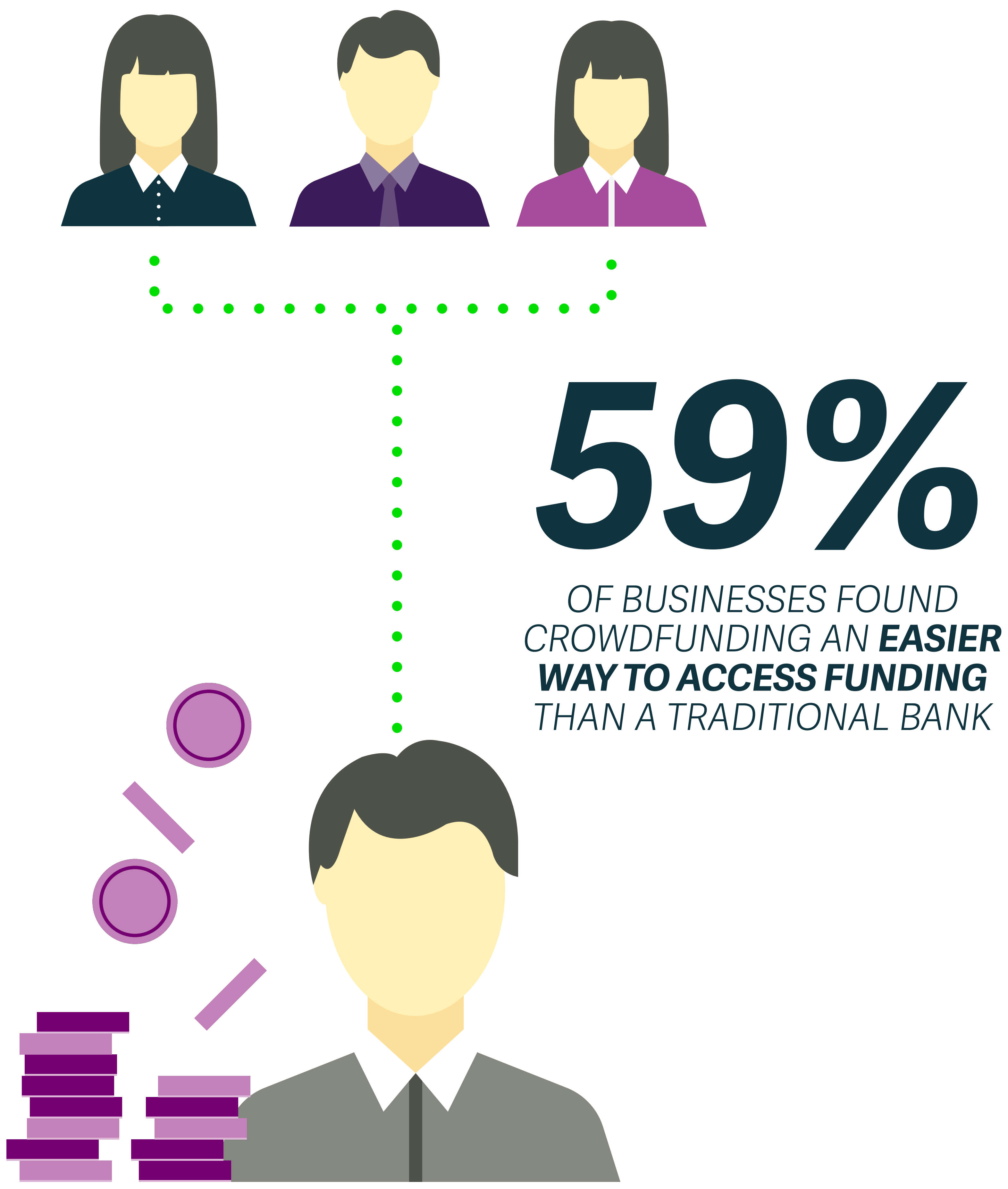
OF BUSINESSES CLAIM TECHNOLOGY LIKE ***MANAGEMENT DASHBOARDS*** *WOULD HELP IMPROVE THEIR VIEW OF PAYMENTS IN AND OUT*

Raising capital

Closely linked to having a view of payments going in and out is the way a business is financed. *"External funding is really important – we rely on our bank for overdrafts and loans, and regularly discuss our business with them,"* explains **Prayank Agarwal**, Management Accountant at ROL Construction.

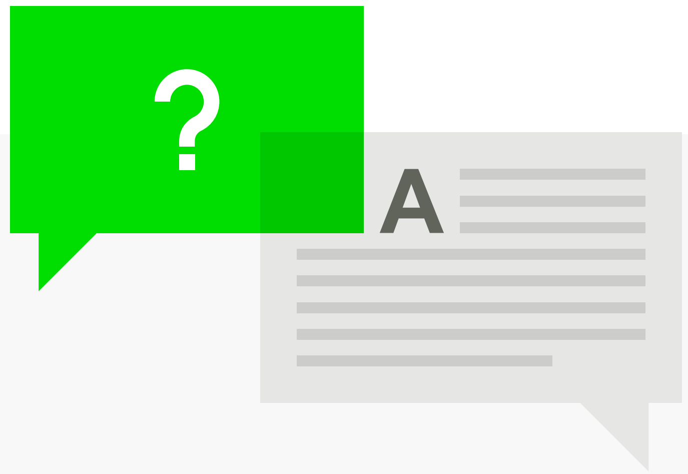
Traditional banks are still the main provider of funding for those that need it. While most businesses still use bank finance, around a third (33%) say banks aren't doing enough to make capital available to them and more (41%) want the government to put more pressure on banks to lend. *"It would definitely help,"* says Agarwal. *"It would be great if all banks showed a willingness to support their local businesses in a thriving economy".*

Nearly two-thirds (58%) of those we surveyed cited their bank as a source of finance over the last year. However, **alternative financing options** provided by companies like Market Invoice and Funding Circle, both Sage partners, are gaining popularity, with 44% of businesses saying they would consider using this in future.



The most popular types of alternative finance include crowdfunding and peer-to-peer lending, with 12% and 11% of businesses respectively having used these methods in the last 12 months. *"Peer-to-peer funding is useful because you can make your supplier your strategic partner and then discuss your business together,"* says Agarwal at ROL Construction.

Fifty-nine percent of businesses we surveyed **found crowdfunding an easier way to access funding** than a traditional bank and 62% say they would use it again. The top reasons for pursuing alternative finance were that it was less costly and more straightforward than conventional funding.



SAGE SAYS

Smart payment solutions can help SMBs tackle late payments effectively. Integrated payment applications with accounting software are convenient and save businesses time.

Be prepared. The principles of PSD2 will revolve around increasing choice and access to payment systems for consumers and SMBs. Legislation is already drafted and will be effective from January 2018, and we believe this will come into force regardless of the UK's decision to exit the EU. Talk to a trusted payment provider about the implications.

Big businesses should help SMBs thrive by supporting their cashflow and this will benefit the economy as whole.

OFFICE

Omnichannel retail case study

Selling shoes the smarter way

Rob Worthington, Multichannel Director at OFFICE, explains how e-commerce is changing shopping habits and the challenges that selling via multiple channels – or 'omnichannel' – presents for retailers.

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What's the challenge when it comes to omnichannel retailing?

Technology is changing the way we shop. Customers are now using digital in all aspects of their lives and expect a consistent shopping experience across all channels.

While at OFFICE we have a range of stores, none of them can carry the product range we have online. With so many customers browsing our web and mobile sites before visiting stores, it's **become essential that we offer them access to everything available online in-store as well**, to prevent them leaving empty-handed.

Our solution to this was the OFFICE **'In-store Tablet' (IST)**. The aim was to let customers buy from our huge range of products not available in-store, with free next-day delivery, so they could get the items as soon as possible. All sales are placed by our staff, who are credited with the sale, which was an important part of increasing store management buy-in, as well as driving up revenue.

While setting up the content for the IST was relatively straightforward, the challenge was around payment. We needed to give customers the **simplicity and security of a handheld chip-and-PIN device**, but wanted a solution that was quick to implement and **integrated with our existing order processing and payment systems**. **Sage Pay** was already providing the payment gateway for our e-commerce sites, and suggested its cloud solution through Envoy.

How does the system work?

The IST site is a **separate website on the Hybris platform** that's customised to use the **Sage Pay Cloud** solution as a payment method, rather than the standard online credit card or PayPal process. It **shares the same content catalogue** as the main OFFICE website and all of our updates to products, prices and stock can be handled remotely.

When a member of staff places an order on the IST, the site calls the Cloud payment service and creates a payment token. A member of staff can then find that payment on a specially configured chip-and-PIN device on which the user can pay with their card.

Once the card is authorised, it's transmitted back to the Cloud service. During this time, the website has been constantly polling the Cloud service to check whether the payment has been authorised. Once it has, the order is then completed, and passed through to our fulfilment and dispatch teams.

As **it's essentially a website with a customised payment method**, all orders are pushed into the order workflow as if they were placed on the main website. The user gets order confirmation and despatch emails as normal, and everything can then be monitored by our customer service team.

What results have you seen so far?

Because we used existing technology, the whole process was set up and **launched in a number of weeks, rather than months,** and it has already returned on the original investment.

Customers are loving the **extra choice** it gives them in-store, and staff are benefiting from added sales, as well as access to more detailed product information and imagery than they've ever had before.

The IST is an example of how OFFICE is adapting to the demands of this new generation of **'connected customers'** with a truly omnichannel approach, designed to make shopping more convenient, more inspirational and more personal – whether online, in-store or on mobile.

We are already working on new payment methods for the IST, and also developing a Euro version for use in our international stores. There's a great deal of interest in mobile payments, which we're also following closely.

Chapter 3

Security – the key to consumer trust in payments

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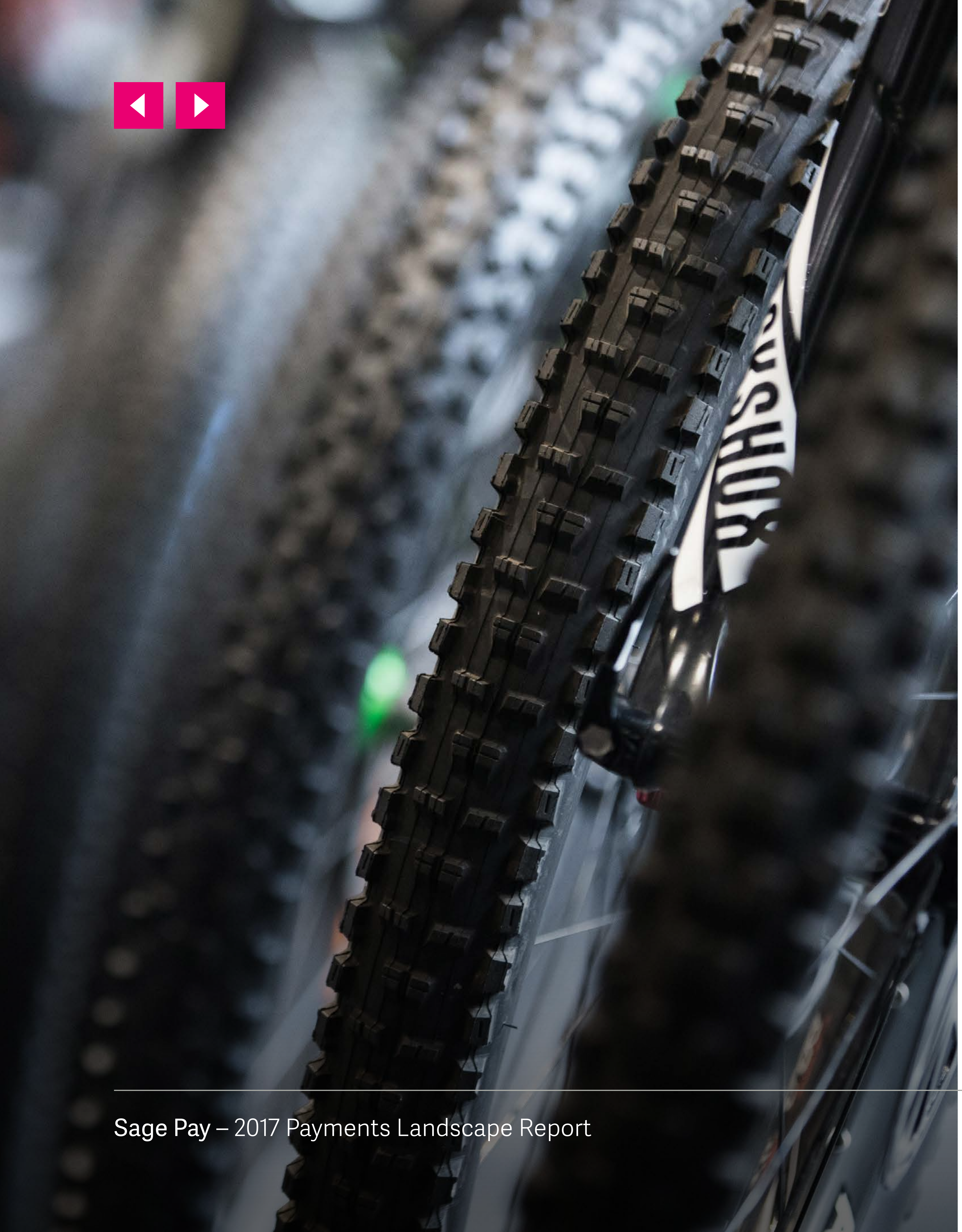
Security remains the **number one issue for consumers**, rated more important than both cost and convenience. Despite over half of consumers thinking that payment methods are more secure now than they were 10 years ago, 70% still say they have security concerns when paying online according to our research.

Consumers' concerns are not unfounded: **the cost of cyber security is increasing**, with scams often targeting SMBs a tough reality.



Nearly three-quarters (74%) of all targeted scams were directed at SMBs, according to the UK government's latest survey of information security breaches, while the cost of the most severe breaches can now reach as high as £310,800 – a significant increase from £115,000 in the previous year.

As well as losing money, a brand's reputation can be damaged if it has suffered a security breach, meaning there are long-term as well as immediate implications.

To boost consumer confidence and protect businesses from data breaches in our ever-more digital world, it is essential that businesses take cyber security seriously and put the right safeguards in place.

Social media and security

Perceptions of different payment options are clearly linked to perceptions of security. The most preferred payment methods in our research – **debit and credit cards,** and **PayPal** – are also thought to be the **most secure**.

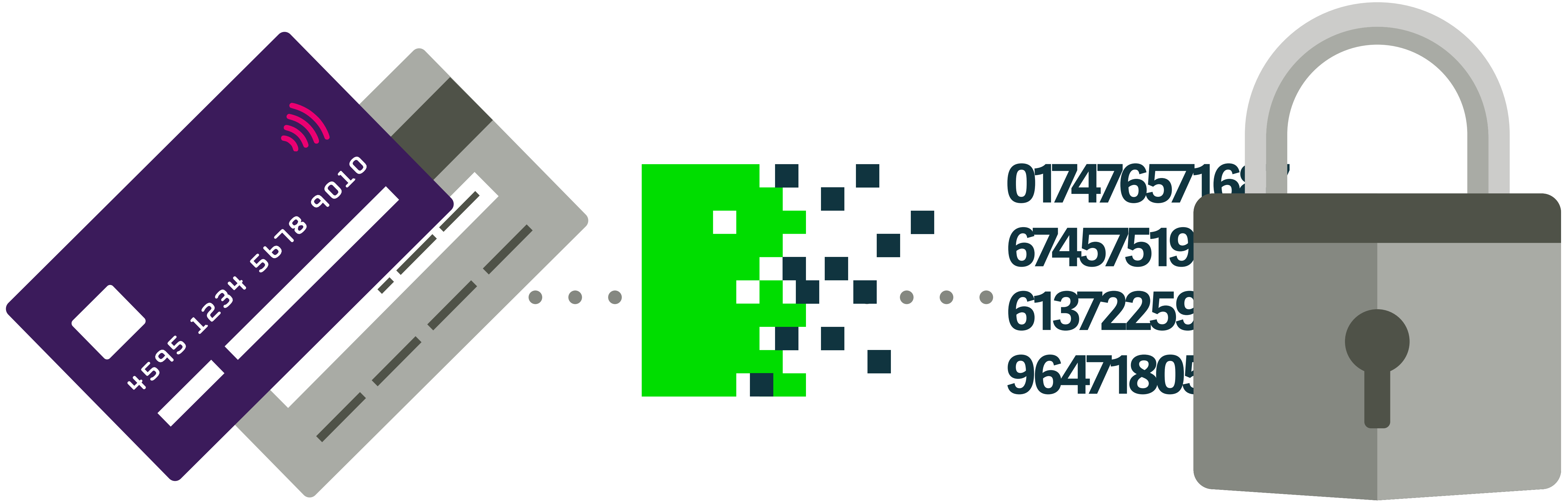
Sixty-three percent of businesses would not trust any social media platform – including Twitter, LinkedIn or Pinterest – to accept payments and the same percentage of consumers say that despite confidence in online payments, **trust towards social media platforms for making payments is low**. This is somewhat surprising given that social media use is so prevalent among all age groups and personal information is regularly shared.

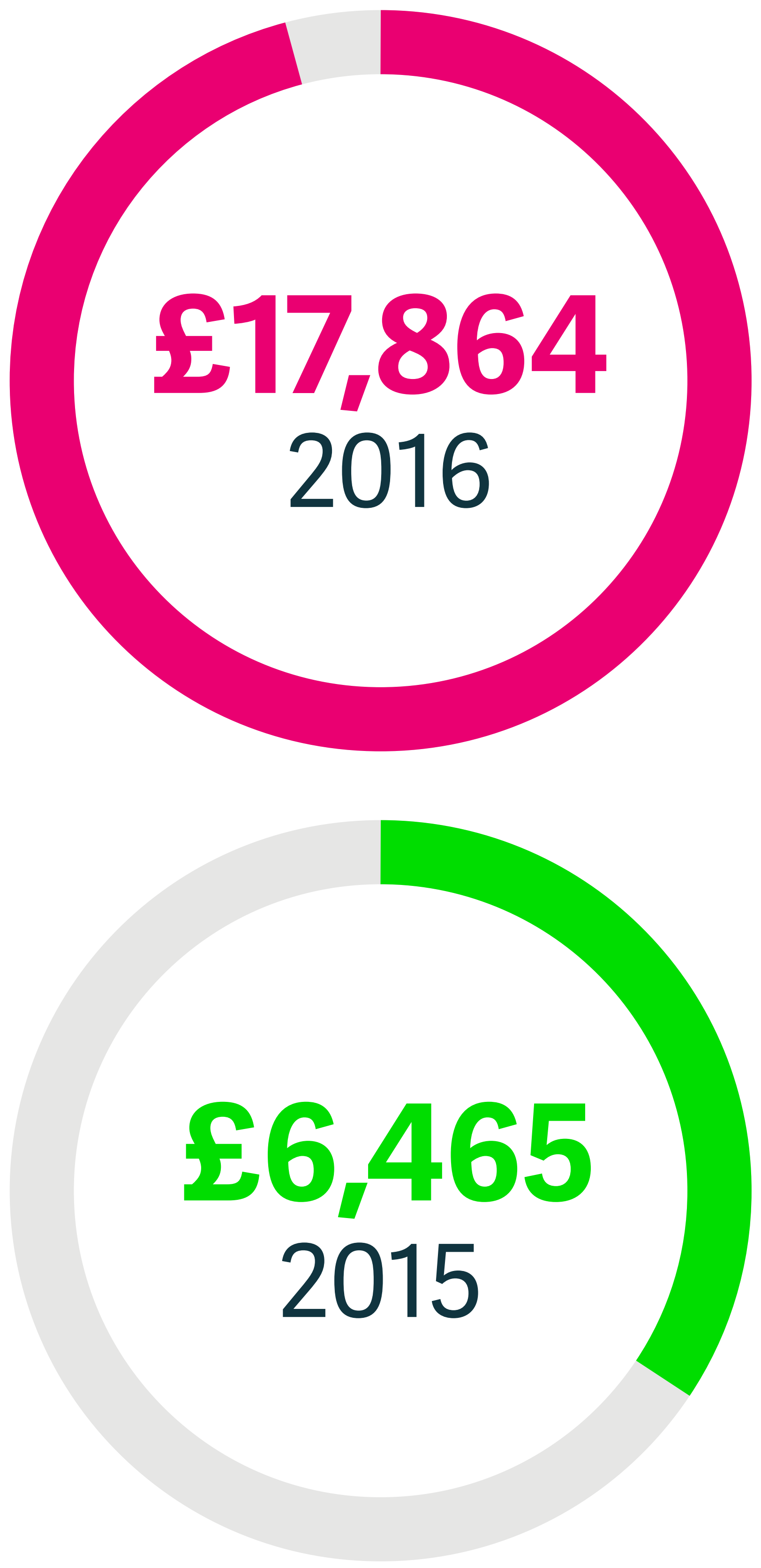
63%

*WOULD **NOT TRUST** ANY SOCIAL MEDIA PLATFORM TO TAKE PAYMENTS*

Fraud is a serious business

As we move towards increasingly digital forms of payments, the issues of security and fraud become more pressing. According to our research for this report, only 12% of consumers say they have suffered online fraud in the last 12 months, however the **average amount lost is significant at almost £4,000**. This is an increase on last year, when the average amount people were **defrauded of was £2,169**. More than 80% of consumers feel that more could be done by businesses to protect people against fraud.



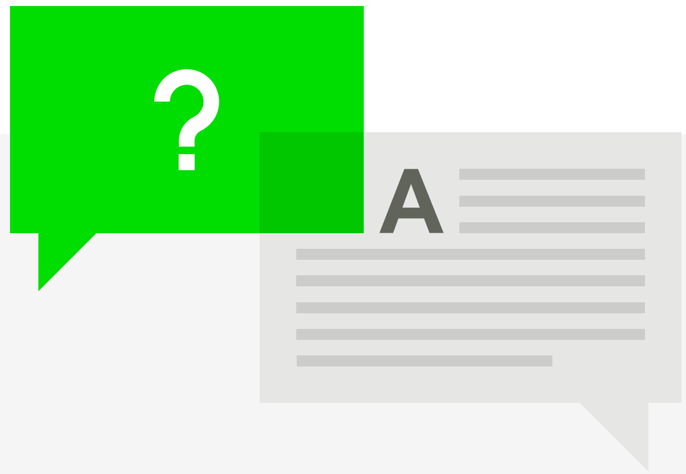


The average cost of fraud

Meanwhile, 60% of the businesses we surveyed are concerned about cybersecurity, and around a third say they have suffered customer fraud in the last year. Those businesses that have suffered fraud have lost on average £17,864, according to our study, and this is **almost triple the average amount lost** last year: £6,465.

Interestingly, the amount that businesses spend on fraud protection averages £20,287, **exceeding the amount lost due to fraud**. That said, without investing in fraud protection their losses may have been much greater.

However, a quarter of businesses don't invest in fraud prevention tools at all. **3D Secure became the most-used fraud deterrent in 2016:** 20% of businesses use it. In 2015, CV2 – the additional three or four-digit security key that is usually found on the signature strip on the reverse of a debit/credit card (22%) – and in-house experts (21%) were the most popular ways for companies to protect themselves.



SAGE SAYS

A quarter of businesses are still not protecting themselves and their customers from fraud. Owners and operators of businesses must prioritise security in their business and take it seriously.

Businesses need to be rigorous with their choice and application of payment mechanisms. Help for this is more readily available and accessible than you might think. If you present trusted and secure payment mechanisms, you will get more business.

UK SMBs are losing a total of £9.4bn each year to theft and human error with cash. Investigate different payment methods carefully, to find the right one for your business.[5]

Your payment gateway is one of your most valuable sources of data. The integration of this data into your fraud engine will enable far greater levels of accuracy and sophistication in the fight against fraud, says Sage partner ACI Worldwide.

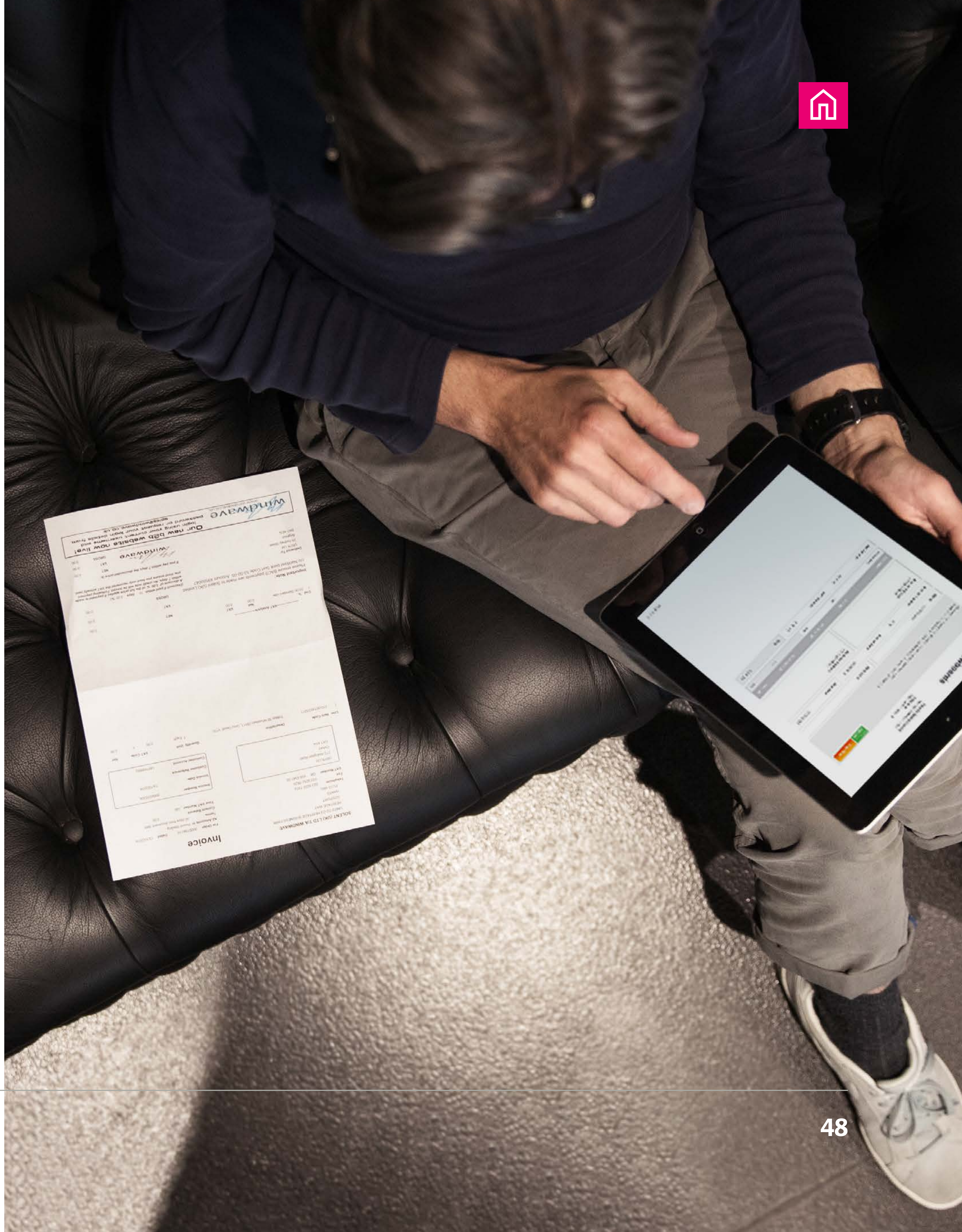
When thinking about using a fraud deterrent tool, ACI Worldwide says it's worth considering whether it can provide the right intelligence for your business, such as visibility of emerging fraud patterns and longer-term trends, as well as being able to profile customers.

If a business is considering an overseas expansion, it's worth noting that fraud on cross-border transactions is three times higher than on domestic payments, so a detection and deterrent strategy needs to be in place. (ACI Worldwide, 2015–2016)

[5] *Calculation based on the number of SMBs in the UK as of Nov 2015 and research by Viga*

Conclusion

It's a hugely exciting time for SMBs, with **a wealth of innovative technology** streaming into the market and a collective desire to improve cashflow practices and financing, to the benefit of everyone in the supply chain. The growth of online and mobile transactions **highlights the need for tighter security**, and compliant, secure applications and support from payments providers. Additionally, with the right systems in place, businesses can **make transactions frictionless**. When amplified to include everyone within the cycle of payments, this will have a positive impact that stretches far beyond any individual business, to the economy as a whole.



What's next for payments?

What will the payments landscape look like in the coming months and years? Responding to consumer demand and preferences, and keeping a close eye on emerging technologies and security measures, will give businesses the best possible chance of future-proofing their brand.

Payment methods

Both businesses and consumers think **contactless will be the most popular payment method** by 2020 – but only 12% of businesses are ready to invest in it in the short-term.

34% of UK business leaders believe cash will become extinct within the next 20 years.[6]

Investment

Business investment plans over the next year look vague – a quarter of businesses **do not know what payment methods they will invest in** and another quarter are not planning any investments at all.

Technology

There is some **uncertainty among consumers** when it comes to biometric technology – fingerprints, face or eye recognition. While half would be happy to use it if it made payments more secure, just under a third remain unsure.

[6] Based on an online survey with 304 small and medium business leaders from across the UK, conducted by Viga in October 2016

ABOUT SAGE

Sage is the **market leader for integrated accounting, payroll and payment systems**, supporting the ambition of the world's entrepreneurs. Sage began as a small business in the UK **30 years ago**. **Over 13,000 colleagues** now **support millions of entrepreneurs across 23 countries** as they power the global economy.

We reinvent and simplify business accounting through brilliant technology, working with a thriving community of entrepreneurs, business owners, tradespeople, accountants, partners and developers. And as a FTSE 100 business, we are active in supporting our local communities and invest in making a real difference through the philanthropy of the Sage Foundation.

Sage – the market leader for integrated accounting, payroll and payment systems, supporting the ambition of the world's entrepreneurs.

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