5 costly mistakes made by payment experts in managing online payments

Learn from insights drawn from real-life experiences to prevent errors in your e-commerce business.

Payrails

Executive summary

In this collection of stories, five experts from the payments industry shared their experiences and lessons learned from mistakes made in handling online payments. The key takeaways emphasize the importance of thorough planning, risk assessment, and effective management practices when dealing with various payment processing challenges. The topics covered include the challenges of integrating new payment gateways, streamlining reconciliation processes, cost-cutting strategies, and managing chargebacks. By learning from these mistakes, businesses can avoid similar errors, enhance customer satisfaction, and ultimately, protect their revenues and growth.

Key findings:

› **Lack of a robust fraud prevention system** leading to a high number of incoming chargebacks highlights the importance of proactively detecting and preventing fraudulent transactions.

› **The cost-cutting strategy backfires, resulting in a 10% revenue loss** highlights the importance of utilizing data-driven methods such as A/B testing, and gradual rollout can help optimize payment processes.

› **Forgetting to capture payments after authorization** leads to millions of dollars in revenue losses, emphasizing the need for proper reconciliation to minimize human errors.

› **Integrating a new payment gateway gone wrong**: double charging and missed subscriptions charges lead to customer frustration and revenue loss; thorough planning and testing are crucial for a successful transition.

› **The accidental confirmation of a £10 million payment error** highlights the need for an automated reconciliation system to prevent human errors, especially for digital platforms that handle a large number of transactions every month.

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The critical importance of accurate and reliable payment processing in E-commerce

Nowadays, accepting online payments is no longer optional but a necessity for all businesses across every industry. From e-commerce giants to emerging startups, companies worldwide embrace digital payments to keep up with the ever-growing demand for a convenient and seamless checkout experience. With the e-commerce industry anticipated to see substantial growth, increasing from a projected volume of $4.11 trillion in 2023 to a remarkable [$6.35 trillion by 2027], it's clear that this growth is not slowing down anytime soon.

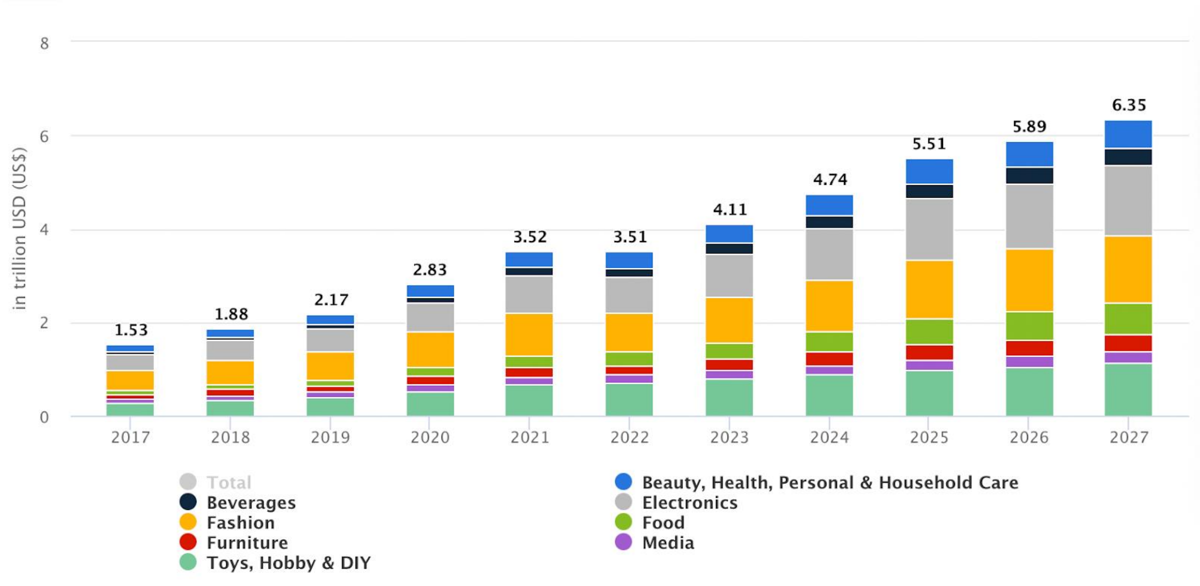

Fig. 1: E-commerce growth projection (Statista, 2023)

As the preference for online payments grows, the need for effective and accurate payment management practices becomes increasingly important. One of the main challenges in achieving this is minimizing the impact of human error. When dealing with critical financial inflows and outflows, human mistakes can lead to significant consequences that can impact businesses in various ways. These may include financial losses due to incorrect charges, payment processing issues, or failed transactions, which can adversely affect both businesses and their customers.

In this whitepaper, our goal is to offer an excellent opportunity for payment industry professionals to learn from each other's experiences by investigating five of the biggest oversights made by some of the most seasoned payment experts, each responsible for overseeing millions of transactions for their businesses. Each interview will focus on three key questions:

- What was their biggest mistake in managing online payments?
- What was the impact of the mistake on the business?
- What steps did they take to prevent this mistake from happening ever again?

Through these stories, we hope to offer valuable lessons and best practices for payment professionals, helping them navigate the complex world of online payments and avoid costly mistakes. By learning from each other's experiences, we can create a stronger and more resilient industry, better equipped to handle the challenges of today and the future.

Lack of robust fraud-prevention setup leading to a high number of incoming chargebacks

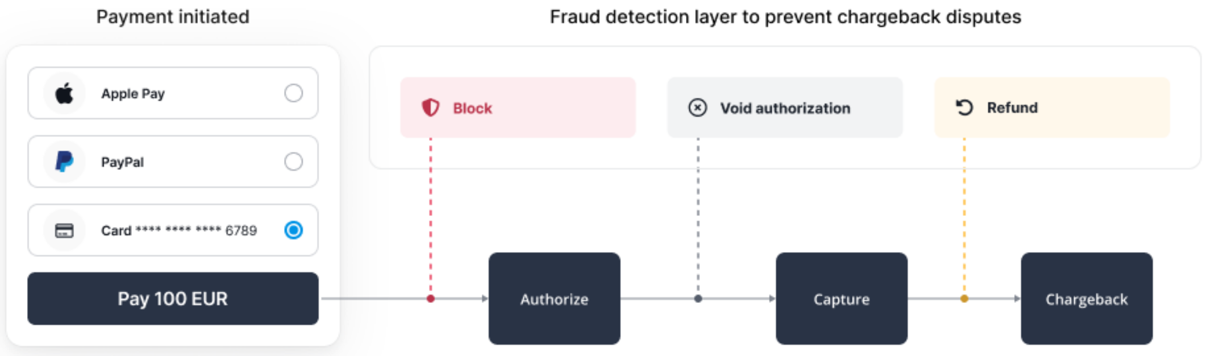

Fig. 2: Preventing fraudulent transactions.

Our first story highlights the Head of Product at a leading global EdTech company. Prior to his current role, he served as the Chief Product Officer for an e-commerce company dedicated to improving the accessibility of online and cash payments throughout Latin America.

What was your biggest mistake in handling online payments?

"Our biggest mistake was not realizing the significant impact chargebacks could have on our business. Initially, we didn't view them as a significant concern and assumed they were just a normal part of doing business. However, as our customer base grew, and during significant events and campaigns, we experienced unexpected spikes in chargebacks, which began to take a toll on our finances and our client's businesses."

What was the impact of the mistake on the business or customer?

"The impact was significant for both our business and our customers. These spikes in chargebacks caused delays and frustration for our customers. Some users even stopped using our service altogether. We quickly realized the severity

of the problem and the impact it was having on our business and customers and knew we needed to address the issue urgently. However, we didn't have a clear plan in place to handle chargebacks and lacked the necessary resources to investigate and dispute them effectively.”

What steps did you take to prevent this mistake from happening ever again?

“We began by implementing better fraud detection measures and improving our customer service to address issues before they lead to chargebacks. We also established a clear process for handling chargebacks, which reduced our losses and improved our reputation among customers and issuers. To prevent similar mistakes in the future, we also partnered with our clients to define a plan and new processes to reduce the impact chargebacks had on their experience with our platform.”

Key takeaways from this story

The key takeaway from this story is the importance of having a robust fraud-prevention setup to detect and prevent fraudulent transactions, as well as the negative impact chargebacks can have on a business. Chargebacks occur when customers dispute a transaction, resulting in the reversal of the payment and a fee for the merchant. Excessive chargebacks can lead to financial losses, damaged reputation, and even the loss of the ability to process payments. Implementing fraud detection measures and having a clear process for handling chargebacks can significantly reduce their occurrence and protect the business from their negative effects.

The cost-cutting strategy backfires, resulting in a 10% revenue loss

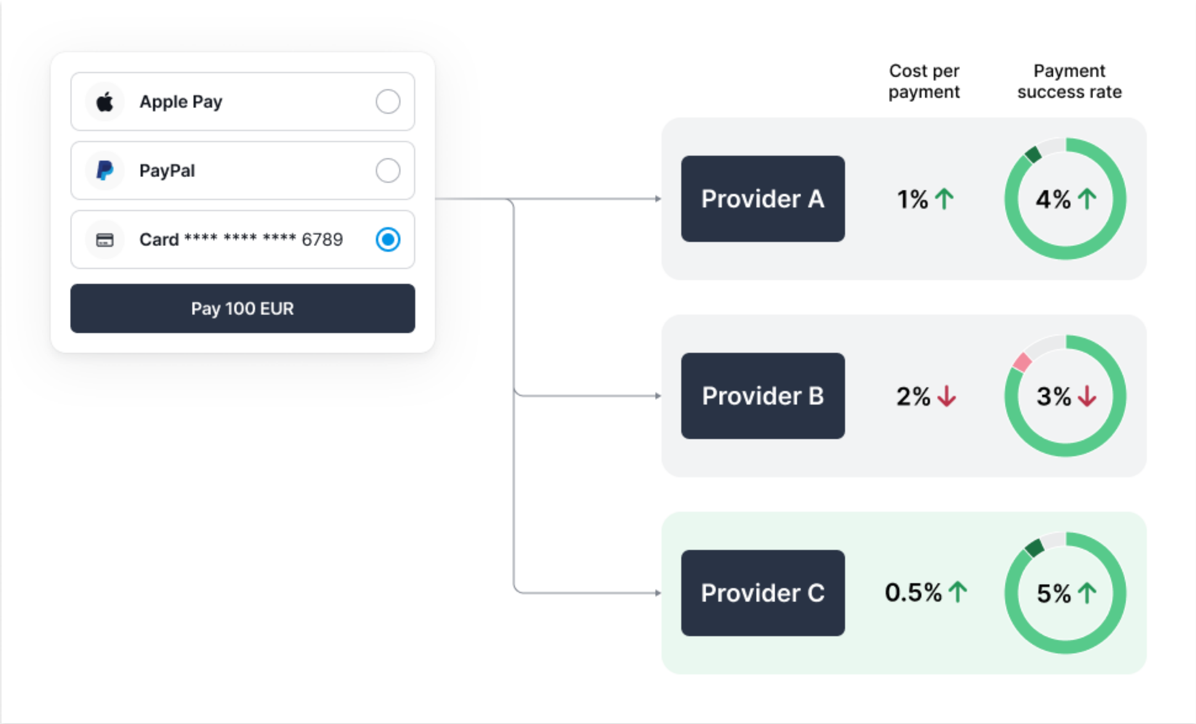

Fig. 3: Sacrificing conversion rates to reduce cost

In our second story, we spotlight a Vice President at a popular ride-hailing company. With experience spanning both merchant and banking sectors, he currently handles payment volumes exceeding hundreds of millions of USD while overseeing the company's payment strategy and operations.

What was your biggest mistake in handling online payments?

"We were looking to cut costs and change our transaction routing while relying on a single partner. However, when it came to the realization of the product, the partner was very slow in making the necessary adjustments. Even pushing through the CEO didn't work, and we realized we couldn't meet the deadline with this partner because they hadn't developed anything. As the due date approached, we decided that we couldn't rely on them anymore and needed to develop the feature ourselves."

What was the impact of the mistake on the business or customer?

"Although we successfully reduced costs, the payment conversion was a disaster. We experienced a negative growth of around 10% compared to our previous solution. We had hoped that by cutting costs, we could fuel our revenue and growth, but in reality, we sacrificed revenue by reducing the payment conversion on our payment page. After about a week, we discovered the problem and reverted to the previous version. It took us six more months to develop different scenarios for the payment page and backend to improve conversion rates."

What steps did you take to prevent this mistake from happening ever again?

"To fix the issue, we implemented payment retries, optimized routing between debit and credit cards, added more information to the payment page flow, and incorporated many other features that could help us reach the numbers we saw before. Moving forward, we also do multiple A/B testing and collect customer feedback to track metrics such as bounce rate and conversion rate to prevent similar mistakes from happening again. In my experience, it's essential to invest in integrations and transaction routing early on, even if they aren't needed immediately."

Key takeaways from this story

The key takeaway from this story is the importance of carefully evaluating cost-cutting strategies and their potential impact on overall business performance from various angles. In this case, the company's attempt to reduce costs by relying on a single partner backfired, resulting in a significant revenue loss. Consequently, it is highly beneficial to maintain multiple partnerships to be leveraged as fallback options or for disaster recovery. This approach not only safeguards against unforeseen challenges but also provides merchants with the flexibility and leverage to choose partners based on their payment success rates or cost-effectiveness. Furthermore, investing in a robust payment operating system and utilizing data-driven methods, such as A/B testing and gradual rollout, can help optimize payment processes and contribute to revenue growth while ensuring that cost-cutting measures don't compromise overall payment performance and customer experience.

Authorizing payments without capturing leads to a loss in millions of revenues

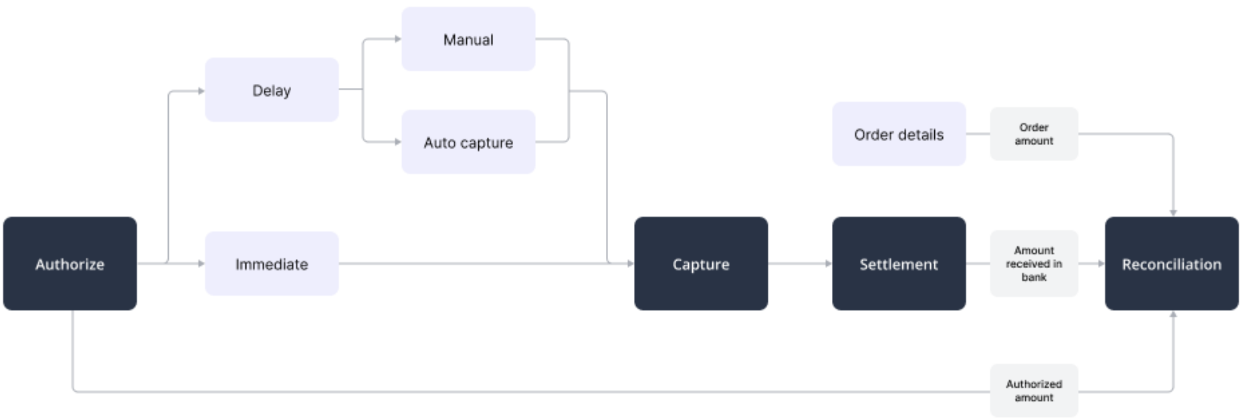

Fig. 4: Authorizing and capturing payments.

Our third story features an experienced global payment director at one of the top food and delivery service companies. With extensive experience and knowledge in payment processing across three international digital platforms and a payment service provider, he currently manages billions of online transactions annually.

What was your biggest mistake in handling online payments?

"In my experience, one of the biggest mistakes in payment processing is authorizing payments but forgetting to capture them. This is a common problem I've witnessed in every company I've worked with. Unfortunately, it can result in significant revenue losses, and I've seen companies lose millions of dollars due to this oversight."

What was the impact of the mistake on the business or customer?

"In our case, due to the settlement delay, we didn't realize we weren't capturing payments until a month later when we stopped receiving funds. It wasn't our

fault, but a bug from one of our payment service providers. Nonetheless, this mistake caused significant problems, as authorizations generally expire after seven days. In this case, it took us a month because nobody monitored it. One day, the finance team asked us, 'Where is the money? The money should have been there by now."

What steps did you take to prevent this mistake from happening ever again?

"I think the problem was more the lack of proper reconciliation and monitoring because we were just saying, 'Okay, the transaction is successful,' and then we forget about it. But we were not tracking whether the money we are getting was the money we should be getting and whether we've been authorized to capture or refund. The solution would be to monitor the payment processes closely and ensure that each day, all the actions that needed to happen have really happened."

Key takeaways from this story

In the payment industry, authorizing a payment refers to checking with the customer's bank or credit card issuer to ensure the payment can be processed. However, if the payment is authorized but not captured, the merchant may not receive the expected funds.

To prevent this common yet costly mistake, thorough reconciliation practices and monitoring are essential. Reconciliation involves matching and verifying financial transactions between two or more records or systems to confirm their accuracy and alignment. This process includes ensuring that the amount paid corresponds with the amount owed, facilitating timely payment processing, and detecting any discrepancies or errors that may have arisen for various reasons.

Gateway integration disasters - missing subscriptions and double charges upset customers and hurt sales

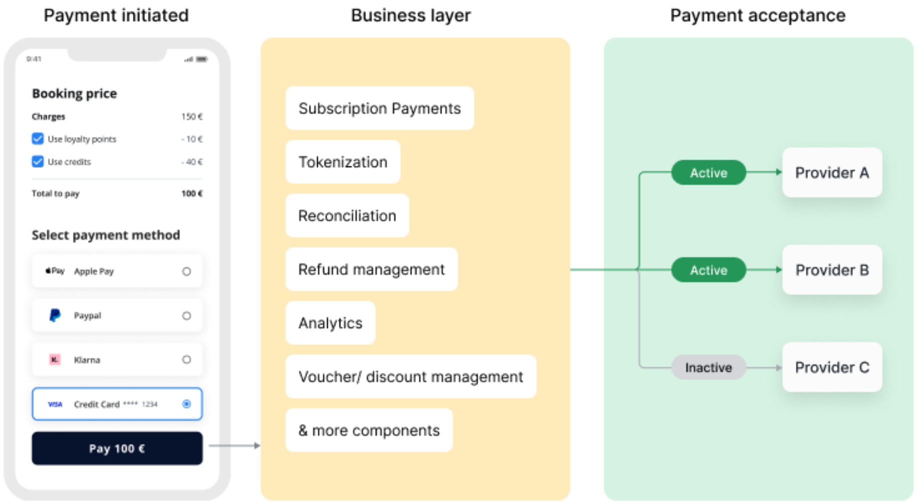

Fig. 5: Double charging customers through two different payment gateways

Our next story features a senior payment manager at one of the world's leading travel companies. Having previously worked for a global payment service provider, he gained expertise in merchant services, product management, payment operations, transaction monitoring, and risk management. In his current role, he is responsible for shaping the company's payment roadmap and improving cost efficiency and payment performance.

What was your biggest mistake in handling online payments?

"One of the biggest mistakes I made in payment processing is underestimating the complexity of integrating a new payment gateway. In our case, we had researched the gateway and believed it would provide a more cost-effective solution without any impact on our customers' payment experience. However, during the roll-out, we started to continuously experience technical problems such as double charges or missed subscription payments for unknown reasons."

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What was the impact of the mistake on the business or customer?

"It was found that our initial plan to migrate specific subscriptions to a new gateway resulted in both gateways having the same subscription, as it was impossible to cancel it in the old gateway or no subscription at all due to issues with subscription creation in the new gateway. We made the mistake of relying solely on the gateways to manage the migration process. These issues caused significant frustration for our customers and resulted in order delays, their subsequent cancellation, and essentially, the loss of revenue."

What steps did you take to prevent this mistake from happening ever again?

"We conducted a thorough review of our development process and identified specific areas where we could have been more proactive in identifying and addressing potential technical issues before the implementation starts, such as having dedicated event-storming workshop sessions and giving more time for the planning phase in general. A few extra days of planning would have saved us a few weeks of fixing the problem."

Key takeaways from this story

The key takeaway from this story is that payment gateway integration is a complex process that requires a comprehensive assessment to prevent technical issues such as double charges and missed subscription payments. On top of that, it is crucial to have sophisticated monitoring capabilities to help with catching and addressing any unexpected issues timely manner.

Having a clear understanding of the roles and responsibilities of all parties involved, including the payment gateway, the merchant, and any third-party providers, should be the initial phase of the implementation. By working collaboratively and having a robust plan in place, businesses can ensure a seamless payment experience for their customers and avoid potential financial and reputational damage.

The importance of robust reconciliation in payment processing: lessons learned from a £10 million mistake

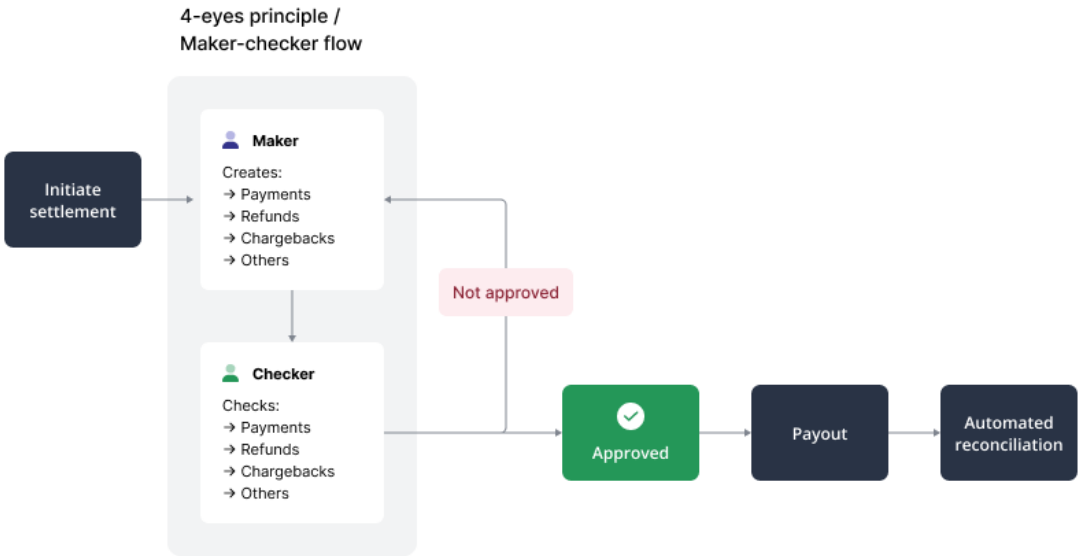

Fig. 6: Maker-checker flow to avoid slip-ups.

The fifth and final story features a Head of Payments at one of the world's leading digital asset lenders, who brings a wealth of experience in the payments industry to his role. He has held several key positions in the field, including serving as Head of Treasury at an acquiring bank and holding the position of Head of Card Issuing at a prominent financial institution.

What was your biggest mistake in handling online payments?

"As Head of the treasury, I confirmed a wrong settlement for more than £ 10 million. It was eventually recovered, but the important output is how important reconciliation and automation are."

What was the impact of the mistake on the business or customer?

“The delayed settlements and wrong payments resulted in worse working capital for our clients, ultimately hurting their bottom line. Additionally, trust was undermined in the eyes of our clients, as they relied on us to handle their payments accurately and efficiently.”

What steps did you take to prevent this mistake from happening ever again?

“We quickly realized that the mistake had been noticed by our end clients. This prompted us to take a closer look at our reconciliation process and make necessary adjustments. We focused on automating as many aspects as possible to prevent similar errors in the future and implemented several steps to ensure proper calculation and automatic confirmation of bank details.”

Key takeaways from this story

The story highlights the importance of using an automated reconciliation system to prevent human errors, especially for digital platforms that handle numerous transactions every month. Integrating a reconciliation system with a maker-checker flow and the 4-eyes principle can be highly beneficial.

The maker-checker flow involves two individuals, a maker, and a checker, where the maker creates a transaction, and the checker reviews and verifies it for accuracy. The 4-eyes principle ensures that every transaction goes through two individuals who check and authorize it before it's finalized.

This practice helps to reduce the risk of errors and fraud, ensuring that pay-ins and pay-outs are accurately balanced.

Key recommendations

These five real-life stories present an excellent opportunity for digital platforms to share and learn from each other's experiences. By embracing the lessons acquired, businesses can foster continuous growth and collaboration. A wide array of effective strategies and systems can be employed to adopt best practices and proactively address potential challenges, such as:

- **Implementing an automated reconciliation system:** This helps to identify and rectify errors, discrepancies, or any oversight early on. By automating the payment reconciliation process, companies can ensure the accuracy of pay-ins and pay-outs.
- **Partner with a reliable payment operating system provider:** As demonstrated in the stories, underestimating the complexity involved in integrating new payment gateways can result in significant issues such as double charges or missed subscription payments. Similarly, overlooking the complexity of transaction routing can negatively impact conversion rates. To avoid these problems, digital platforms can partner with a reliable payment operating system provider to obtain all the necessary products and tools to optimize their payment operations without requiring extensive in-house engineering efforts.

Implement a comprehensive fraud-prevention system that proactively detects and prevents fraudulent transactions, ultimately reducing the number of chargebacks. Utilize advanced technologies, like machine learning algorithms and 3D Secure authentication, to enhance your fraud detection capabilities. By doing so, you will foster customer trust and satisfaction, streamline the payment process, and safeguard your business's financial stability and reputation.