

## The digital last mile:

**How to optimise  
authorisation rates to  
help increase conversion  
and drive revenue**





## Introduction

Everyone in your organisation is focused on improving your bottom line. From product offerings and marketing channels to website design and customer experience – it all leads to that final stage: checkout and payment. But if payment isn't authorised, the transaction remains uncompleted and you may lose a customer and remain unpaid. In the case of fraud, this may result in unnecessary transaction costs. Focusing on that digital “last mile” and the payment experience can help to increase transaction authorisation rates – and revenue – while maintaining customer satisfaction and reducing customer churn.

A successful digital last mile begins with a consumer-focused “front end” experience that facilitates a friction-free checkout interface, helping to lower the chances of cart abandonment. Next, the consumer considers available payment methods, which can be critical, as **54%** of companies believe that lost sales are due to limitations in payment methods and options.<sup>1</sup>

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The last and often overlooked leg of the journey is the “back-end” conversion process, or the payment authorisation.

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A payment is not complete until the issuer authorises the transaction. Issuers treat each authorisation as a distinct economic decision. Some transactions present too much risk and potential loss to the issuer, so the issuer declines them. At this point, the shopper is asked to enter a different form of payment, which may increase the risk of abandonment.


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It is critical that you understand what information you can provide to give the issuer the confidence to approve a transaction.

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While there are a few reasons for declined transactions, sometimes a payment is declined unnecessarily due to processing issues. When this happens, you've got a real opportunity to capture these sales by diagnosing why your transactions are being declined and what you can do to improve outcomes.





Even small  
improvements can  
yield big results

As one of the leading payments providers, PayPal payment processing, powered by Braintree, has unique insight into issuers' decision-making processes. We're continuously optimising authorisations and generating increasingly accurate information to help improve authorisation rates. PayPal's massive-scale, high-quality data set processes more than 15 billion transactions annually for more than 429 million active accounts and merchants in 200 markets.<sup>2</sup> We pass on the learnings and benefits of our global connections from our wallet business to our business customers, helping them feel confident their processing setups are optimised, regardless of the payment method.

With our unique set of tools, technology, relationships, and data, we can help you optimise for high authorisation rates and revenue. PayPal has spent more than 20 years creating a global infrastructure, collecting unique and significant data. This aggregated data enables us to develop highly sophisticated and accurate risk-analysis tools to help serve businesses better. Coupled with direct card network connections and data sharing with issuers, this helps us stay ahead of industry changes and anticipate possible future challenges.

## Optimisation in action: The case of Speedway

### ► Problem

Speedway was searching for a way to increase conversions and provide a seamless checkout experience.

### ► Solution

After integrating mobile checkout with PayPal, Speedway experienced an increase in PayPal checkout completion of **70.54%** compared to **44.47%** with other payment methods, and a **10x** reduction in clicks.<sup>3</sup>



## Optimising the user experience

A successful checkout experience relies heavily on a streamlined end-to-end process for your customers. Each transition represents an opportunity to increase efficiency and boost conversions.



A fast, user-friendly front-end experience should include an ecommerce platform designed to reduce cart abandonment and facilitate a smooth checkout. Tools like hosted fields and a customised user interface, coupled with consistency in website look and feel, can go a long way to optimising the user experience. An efficient, secure back-end conversion process can then help bring transactions down the final stretch and increase transaction authorisation rates.

# Top four ways to improve the authorisation process

## ① Optimise checkout

### Easy navigation

Provide customers with a clean, consistent checkout experience that offers little room for error. Checkouts, whether online or via a mobile app, should be easy to navigate and look like a natural extension of your website.

### Visibility

Ensure that customers' credit card and Card Verification Value (CVV) numbers are visible to them as they type – don't asterisk-out the information. This can help ensure that they correctly enter their information the first time. Presenting a mobile-friendly keyboard – in this case, a number keyboard – can also help smooth the process.

### Stored payment information

Help speed up the process and improve authorisation rates by allowing return customers to store their payment information. PayPal can securely store customer payment information so that customers can select a payment method without running the risk of mistyping key details.

### Payment updates

Most major Australian card issuers allow customers to opt in for account updates if a card has expired or needs to be replaced. In these instances, PayPal can automatically update payment information without additional customer input. These updates are key to keeping recurring payments on track and ensuring that a customer's stored payment options are up to date.

### Current customer data

Checkouts filled with expired cards, old addresses, or other outdated information can potentially lead to higher declines. Through the use of payment vaults, PayPal helps support companies by:

- ▶ Removing expired cards from customers' stored payment options
- ▶ Presenting the most recent card as a default payment method
- ▶ Making it easy for customers to update payment details
- ▶ Proactively communicating with a customer when a card expires

## 2 Provide instant feedback

Many declined transactions are the result of simple user error, such as unintentional card number typos – especially common for mobile users. Some customers might miss a field altogether. By pointing out these innocent mistakes before customers submit their orders, you can help to minimise declines.

## 3 Focus on high-converting payment methods

According to research, the average online shopping cart abandonment rate is **69.57%**.<sup>7</sup> For a large company, even a small percentage of cart abandonment can have a substantial negative impact on annual revenue optimisation. To help avoid abandonment and transaction declines, offer customers alternative payment methods that have high conversion rates.

PayPal Pay in 4<sup>8</sup> is an interest-free instalment solution that helps increase customers' purchasing power by allowing them to buy now and pay later. Of buy now, pay later users, **68%** are more likely to complete a purchase if a buy now, pay later option is available.<sup>9</sup>

In fact, PayPal users are **2.8** times more likely to make a purchase on a site where PayPal is visible early in the shopper's journey.<sup>10</sup> And offering PayPal has shown to increase checkout conversion by **28%**.<sup>11</sup>

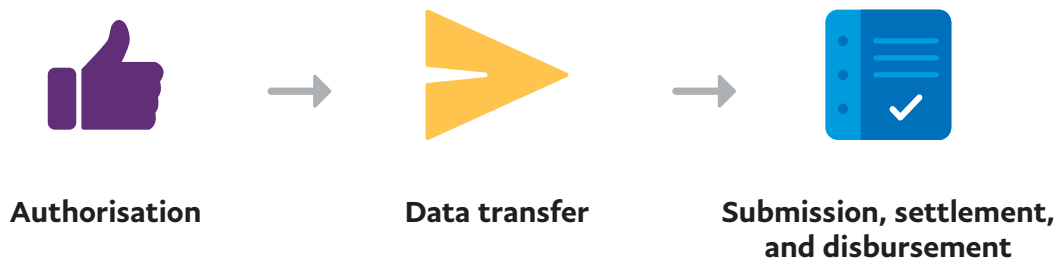
## 4 Avoid overly complex fraud protection

Building the right security steps into the checkout process can also help improve authorisation rates. By using Address Verification Service (AVS) and requiring CVV, you can give your customers more-specific feedback when declines do occur, and offer suggestions to correct the problem.

Just as important is striking that delicate balance between strong fraud protection and positive authorisation rates. Often, overly complex fraud detection rules result in false declines of good transactions. Using machine-learning technology and real-time risk assessment can help you detect fraud without rejecting legitimate transactions and creating unnecessary customer churn.

## Behind the scenes

Once a customer submits payment information, the real decision maker in ensuring a successful transaction is the issuer. Issuing banks represent the customer and ultimately make the decision to approve or decline a transaction. PayPal believes the key to authorisation is the right data in the right format. We consistently strive to provide better data in easily digestible formats to help increase issuer confidence and allow for more-informed decisions.



### 1 Authorisation

After payment information has been submitted, PayPal checks with the issuer of the customer's payment method to confirm the payment method is legitimate and that sufficient funds are available. If the bank or provider approves, the transaction is authorised. This authorisation places a hold on the funds in the customer's account but doesn't transfer them just yet.

### 2 Data transfer

To help improve authorisation rates, PayPal passes along Level II and Level III data to card issuers. Providing information such as sales tax amounts, product codes, and more, can offer an additional level of security to issuers, which can translate to fewer declines in authorisation rates. Passing on the right data can help issuers feel comfortable approving the transaction.

### 3 Submission, settlement, and disbursement

Once PayPal has helped the process toward the capture stage, businesses send instructions to move the transaction from its pending, authorised state to a final, settled state – normally within 7 to 10 days to avoid authorisation expiration. When payment posts to a business's account, the transaction is deemed settled, and the funds are routed to the business's bank account.





## Understanding and solving for decline rates

A declined payment does not automatically translate into a lost sale. In fact, if you correctly identify the source of the decline, provide customers with helpful feedback, and offer payment alternatives, you can quickly put a transaction back on track.

In a recent success, PayPal lifted the PayPal user approval rate for an online payment business, which resulted in a **2.8%** increase in authorisations.<sup>12</sup>

When an authorisation fails, PayPal helps you clarify the reason for the decline, along with the specific authorisation decline code. There are four main types of transaction authorisation declines:

### 1 Insufficient funds declines

By leveraging PayPal's multiple payment options, your company can help drive conversion and sales performance. By offering a range of other digital wallets – such as Google Pay, Apple Pay, and Samsung Pay – as well as local payment methods to help accommodate the preferences of customers in their local markets, PayPal provides consumers with access to multiple funding options, which can help drive conversion and add to your bottom line. The variety of payment options can help decrease the likelihood of insufficient funds and lead to increased sales.

### 2 Administrative declines

Administrative declines occur as a result of configuration errors or transaction format and structure. The PayPal integration team ensures proper onboarding and comprehensive testing to ensure that administrative declines are not a factor.



### 3 Lifecycle management declines

Lifecycle management declines are triggered by expired customer payment credentials and information. PayPal's robust collection of data, two-sided networks, Vault Technology, Account Updater tools, and more, can help you maintain accurate and current customer payment credentials to help capture seemingly lost sales.

### 4 Security and policy declines

False positives – transactions that are mistakenly indicated as fraud – represent a significant portion of security and policy declines because issuers lack complete insight into transaction information.

PayPal's powerful fraud detection and carding module tools, coupled with our extensive relationships with issuers, can help you accurately make decisions on transactions and reduce security and policy declines, while also helping your sales performance.

## Best practices for analysing decline rates

It is critical for companies to correctly diagnose declined transactions in order to solve for a real opportunity to capture sales. Analysing decline rates in the aggregate can offer insight into revenue optimisation, identify technical issues, help detect fraud, and optimise checkout flow.

Decline rates change over time. Whether these fluctuations are driven by changes to your checkout or customer base, seasonal trends, product lines, or card types, responding to them helps troubleshoot possible issues in the last mile of the checkout process. Once your company identifies the top causes of declines, take more-specific action:

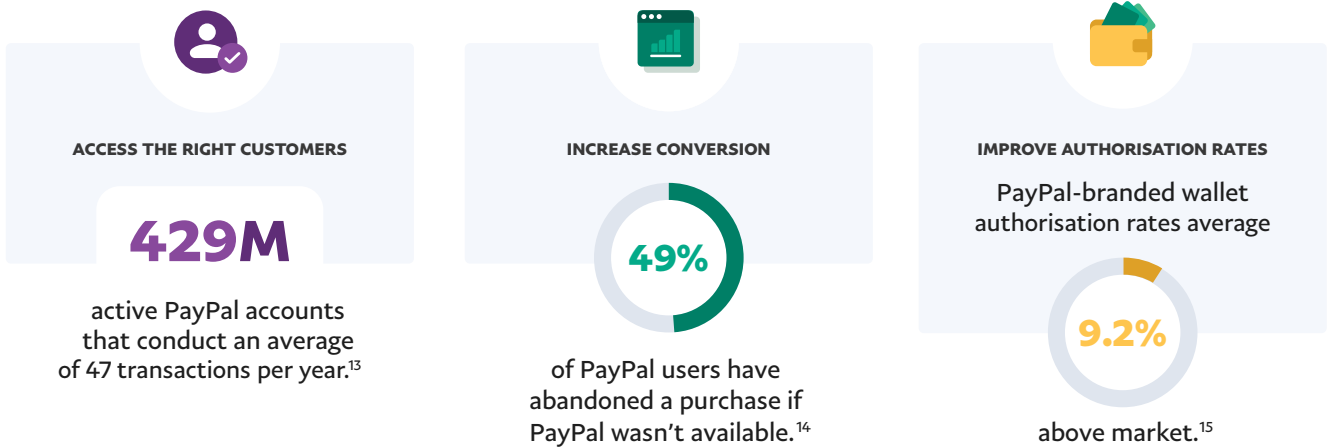
| Issue              | Potential Resolution  |
|--------------------|---|
| Insufficient funds | Better communicate total price or dates when subscription charges will be billed. |
| AVS or CVV errors  | Revisit how this information is presented on your checkout page.                  |
| Generic declines   | Ensure you're relaying enough information for issuers to evaluate risk correctly. |

# How PayPal can help

PayPal can help you optimise every stage along the way with a unique mix of data, tools, technology, and relationships. Use our solutions to help drive authorisation rates, capture lost sales, and drive revenue, while providing customers with a fast, easy, and secure checkout.



## HOW PAYPAL CAN HELP



As one of the first and largest Network Token Service Providers, PayPal has already tokenised more than 200 million cards on its payments platform.<sup>16</sup> This can provide visibility and insight across the entire payment ecosystem. We apply machine learning to our vast proprietary data set to analyse decline codes, and we can provide you with hands-on analysis and expertise – all to help you.

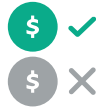
# PayPal differentiators

| Problem                                    | PayPal Capabilities  | Potential Benefits  |
|--|--|---|
| <b>Friction at checkout</b>                | “Always Fresh” data solutions (Account Updater, network tokenisation, and Vault Technology).   | <ul style="list-style-type: none"><li>▶ Helps reduce transaction disruptions and lifecycle management declines caused by inaccurate or outdated customer payment information.</li></ul>   |
| <b>Low first-time approvals</b>            | Innovative processing strategies delivered on a trusted, flexible global platform using cloud infrastructure and rapid gateway uptime. | <ul style="list-style-type: none"><li>▶ Helps to increase first-time approvals by optimising transaction messaging.</li><li>▶ Connects you with partners, systems, and tools to help you build an ecommerce experience for your business.</li></ul> |
| <b>False declines</b>                      | Risk algorithms, fraud detection, and carding module tools that use machine learning and real-time decision making.                    | <ul style="list-style-type: none"><li>▶ Helps maximise successful transactions for good users and accommodates your unique business requirements.</li></ul>   |
| <b>Insufficient data</b>                   | Global reach across the payment ecosystem, including deep relationships with issuers’ card networks across 200+ markets.               | <ul style="list-style-type: none"><li>▶ Helps you stay ahead of industry trends and power future experiences for your business.</li></ul>   |
| <b>Lack of clarity</b>                     | PayPal’s data science and industry expertise.  | <ul style="list-style-type: none"><li>▶ Clarifies declines and creates configurations that may match your business needs.</li><li>▶ Helps ensure correct merchant category codes and transaction configurations.</li></ul>                          |
| <b>Increasing fraudster sophistication</b> | Fraud Protection Advanced with out-of-the-box filters, filter simulation, and visual displays.   | <ul style="list-style-type: none"><li>▶ Helps identify, investigate, and mitigate fraud through adaptive risk management powered by rich data.</li></ul>  |

## PayPal can help you ask the right questions so you can optimise from Day 1:



Are we transitioning smoothly from our prior payment service provider?



Have we explored multiple strategies to better strike the balance of catching fraud without declining good transactions?



Are we ensuring that we're recognising and correctly identifying the different types of declines to obtain an accurate picture of our business?

Our years as one of the payments leaders coupled with our unified platform and global scale have shown us mistakes that both payment service providers and businesses make when optimising business setup for success. PayPal's industry experts are trained to help identify commonly unforeseen payment stumbling blocks that reduce authorisation rates. We help ensure proper payments by helping set up businesses from the beginning so they can be better positioned for authorisation rate success.



## The road ahead

In today's competitive marketplace, every step leading up to and through a transaction can have an impact on your bottom line. Understanding the impact of payments – from the beginning of the checkout process all the way through authorisation – could improve your odds of success for any given sale. This places you in a strong position to drive conversion rates, grow customer loyalty, and win new business.



# About PayPal's enterprise solutions

Beyond offering our popular digital wallets, PayPal provides end-to-end payments processing services that enable digital, mobile, and in-person payments on behalf of consumers and businesses worldwide. Through a combination of innovation and strategic partnerships, our platform helps create better ways to manage and move money, and offers choice and flexibility with modular, enterprise-grade solutions.

Available in more than 200 markets and 100 currencies around the world, PayPal is committed to democratizing financial services and empowering people and businesses to join and thrive in the global economy.

The content of this article is provided for informational purposes only. You should always obtain independent business, tax, financial, and legal advice before making any business decision.

<sup>1</sup> B2B International, commissioned by PayPal in June 2019. n=2,000 SMB merchants (Sample sizes By Geographic Market-U.S.-500, Germany-400, France-400, Mexico-400, and Hong Kong-300). \$25k-\$10, revenue. Payment decision makers.

<sup>2</sup> PayPal Q1 results, April 27, 2022.

<sup>3</sup> Data based on the business's own internal analysis. Results may vary substantially by business, 2020. \*For new users in checkout if they used PayPal Express Checkout versus other methods of payment.

<sup>4</sup> Mercator research brief, sponsored by PayPal. "Are You Maximizing Your Revenue Potential?" Dec 2020.

<sup>5</sup> Mercator research brief, sponsored by PayPal. "Are You Maximizing Your Revenue Potential?" Dec 2020.

<sup>6</sup> PYMNTS.com, October 2020. PYMNTS and PAAY collaboration surveyed more than 2,000 U.S. consumers who engage in online shopping within last three months and examined how transaction disputes and declines impact their perception of merchandises, issuing banks, and card networks.

<sup>7</sup> Baymard Institute. (March 28, 2019). Online shopping cart abandonment rate worldwide from 2006 to 2019.

<sup>8</sup> About Pay in 4: Loans to California residents are made or arranged pursuant to a California Financing Law License. PayPal, Inc. is a Georgia Installment Lender Licensee, NMLS #910457. Rhode Island Small Loan Lender Licensee.

<sup>9</sup> TRC, commissioned by PayPal, April 2021. TRC conducted 20 minutes online survey amongst 1,000 consumers ages 18+ in AU. (among BNPL users, n =447).

<sup>10</sup> Nielsen Study, commissioned by PayPal, July 2020 to September 2020 of 15,144 U.S. consumers to understand and measure the impact that PayPal has for U.S.-based LE merchants across different verticals. *PayPal users are people who used PayPal to make an online purchase / non-PayPal users are people who used any non-PayPal method to make an online purchase.*

<sup>11</sup> Nielsen Study, commissioned by PayPal, July 2020 to September 2020 of 15,144 U.S. consumers to understand and measure the impact that PayPal has for U.S.-based LE merchants across different verticals. *Checkout conversion measured from the point at which the customer starts to pay.*

<sup>12</sup> PayPal Anonymized Win Study 2020. Data based on the business's own internal analysis. Results may vary substantially by business, 2020.

<sup>13</sup> PayPal Q1 earnings-2022, based on internal data.

**Active Accounts:** An active account is an account registered directly with PayPal or a platform access partner that has completed a transaction on our Payments Platform or through our Honey Platform, not including gateway-exclusive transactions, within the past 12 months.

<sup>14</sup> An online study commissioned by PayPal and conducted by Netfluentia in November 2020, involving 1,000 U.S. online shoppers ages 18-39. (Among PayPal users, n=682).

<sup>15</sup> PayPal internal data, June 2019.

<sup>16</sup> Mercator research brief, sponsored by PayPal. "Are You Maximizing Your Revenue Potential?" Dec 2020.

