

Challenges of PayPal

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Abstract

PayPal has faced many different challenges over the years. In the beginning of their journey the biggest challenge of PayPal was the overall ignorance to prevent fraudulent activities and to provide high safety systems. By solving this, PayPal has changed and improved the opportunities of secure online purchases. During couple of years new mobile payment services have developed around the world. They are quick, safe and simple. Especially in the market of peer-to-peer PayPal will meet more competition in the future. Another big challenge of PayPal will be if more online retailers follow Amazon.com's example and start using their own payment options and by this isolate PayPal as a payment option.

Introduction

Online purchases have a history of fraudulent activity. Since new payment platforms, especially PayPal, have been created has this illegal actions been reduced a lot (Jackson, 2008). The conditions for online purchases has changed and more people than ever are using this type of payment platform. PayPal is used for both private- and business users. In the field of customer to customer PayPal is the leader payment platform and their business users are also rising (Gonzalez, 2004).

According to PayPal over 70% of all online purchasers in USA have a PayPal account and 2015 PayPal managed over 280 billion US-dollars (PayPal, 2016a).

PayPal has faced many different challenges over the years. PayPal has a separate analytic group whose work is to analyze diverse data such as product use, customer behavior etc. This helps the company to grow and develop with what the users are demanding. Stepping into their customers' shoes helps PayPal create value and to retain more customers. The analytic group also has to look at trends and not only develop new services to understand how the market is changing and how PayPal has to evolve with the market (MIT Sloan Management Review, 2012).

What challenges have PayPal faced over the years and what challenges may appear in the future are two questions among others that will be clarified. These questions will answer why PayPal has been such a success and also what challenges PayPal might be facing in the future to continue this successful journey. Hopefully the following reading will give the reader more knowledge about PayPal's evolution over the years and their future.

Method

This study is both based on primary and secondary sources. The secondary sources are scientific literature and are gathered to complement what the primary sources could not answer. A survey was made to create more information about individual's online purchasing habits and what impact PayPal has in this. The data in the survey was gathered in a mall in Kungsbacka 2016. This was done in three occasions and the questions were posed to 250 individuals evenly in between ages of 18-55+. The age options for the respondents were divided as follows: 18-24, 25-34, 35-44, 45-54 and 55+. The survey includes only respondents who have made at least one online purchase in their life. The respondents completed the survey without participation of the author more than when the survey was handed over to them.

When data was gathered it was analyzed through charts. The primary data was compared to the secondary data to find some patterns and create conclusions. Using

both secondary and primary data strengthens the information and creates a full coverage of the reality of the challenges of PayPal.

Theoretical framework and literature review

Through PayPal users can shop safely in online stores in the whole world. They are also able to purchase safely customer to customer in services such as EBay. With this service PayPal provides users to purchase online and a guarantee that the goods and the money are transferred correctly (PayPal, 2016a).

Users do not have to buy or sell things for the use of PayPal. They can also transfer money between friends. This service is useful when you maybe need to split a cab or a dinner. Then one person only has to pay and the rest can transfer money quickly through this service to that person (PayPal, 2016c).

PayPal has developed a service called One Touch to facilitate purchases for their users. This service requires no login on your tablet or phone. It only requires a press on a button. The users can decide for themselves if they want to use the service or not and it is covered by the buying insurance. The insurance will cover if a purchase is done incorrectly or not by the real user. This service speeds up the purchasing process for the users (PayPal, 2016b).

PayPal has a great insurance for its users. On their website it says:

“If someone has purchased something online that then are not delivered, or that deviates markedly from the seller's description, PayPal can reimburse the full amount of the goods, including shipping costs. Their buyer protection may cover purchases, wherever you pay with PayPal online.” (PayPal, 2016a).

Also on the sell side there is protection if there is problem with the purchase.

“If someone receive an unauthorized payment (such as from an account hacked), or if a buyer claims that the goods was not delivered, the seller can take advantage of our seller protection and be covered for the full amount.” (PayPal, 2016a).

Before PayPal, companies and government had big problems preventing fraudulent activity. The people at PayPal solved this problem by recognize patterns and other repeated things frauds tended to do. By doing this PayPal created value to consumers through trust. This was the main factor of PayPal's success (Jackson, 2008).

PayPal puts much effort and resources to prevent fraud. By boosting their security and develop an anti-fraud team PayPal has reduced its fraud rates down below 0.5%. According to market research firm Gartner is the average E-business fraud rate 1.3-2.6%. PayPal's anti-fraud team is so competent that they even helped the FBI catch two famous Russian hackers who were accused of hundreds of Internet crimes against the computer system of US banks and E-commerce sites (Gengler, 2002).

Many of PayPal's competitors haven't solved this problem good enough and therefore does not exist in the market anymore says Peter Thiel, chief executive of PayPal (Gengler, 2002).

With some phones it is possible to log in to PayPal with only your fingerprint and no need of any password (Biometric Technology Today, 2016). This has created a new way for hackers to try fraud. PayPal has responded to this new type of attack by ensure that their anti-fraud team continuously prevent fraud before it happens. If it sadly does happen are the affected person covered by PayPal's buyer protection policy (Biometric Technology Today, 2014). This is a free insurance provided by the company against unauthorized transactions (Gengler, 2002).

As a payment provider, PayPal gets much personal information of its users. There are several things connecting to a transaction such as names, what is bought etc. All this information PayPal possesses and their privacy policy gives them the right to share this information with third-party service providers. These providers are limited to use this personal information in connection with the services they perform for (Preibusch, Peetz, Acar, & Berendt, 2015).

PayPal is mostly known as an online payment service but the company is working to develop their service in the physical world as well (MIT Sloan Management Review, 2012). The partnership with MasterCard opens opportunities for PayPal users to use their account also in the physical world. PayPal users are now able to withdraw money out of MasterCard supported ATMs. They are also able to spend money at MasterCard accepted merchants from their PayPal account (Card Technology Today, 2001).

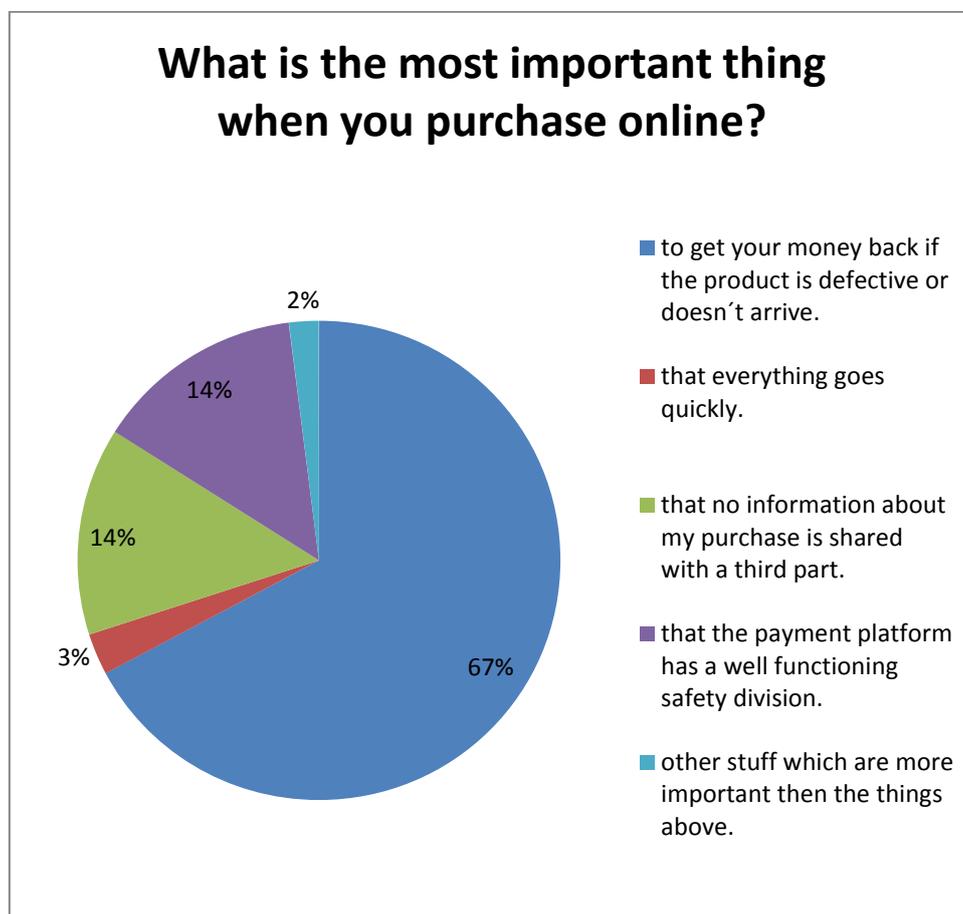


Diagram 1. According to the study made in Kungsbacka 2016 the most important thing when people purchase online is the insurance to get their money back if the product is defective or not even arrive to them. It was 67% of the 250 people who were asked that thought this way and it was similar statement in all ages. The two things that were different between younger people and older were that more of the

younger preferred not to share their purchase information with a third part and the older ages preferred that the payment platform has a well-functioning safety division. Overall, the differences were small only a few percentages and the total view is representative for the population.

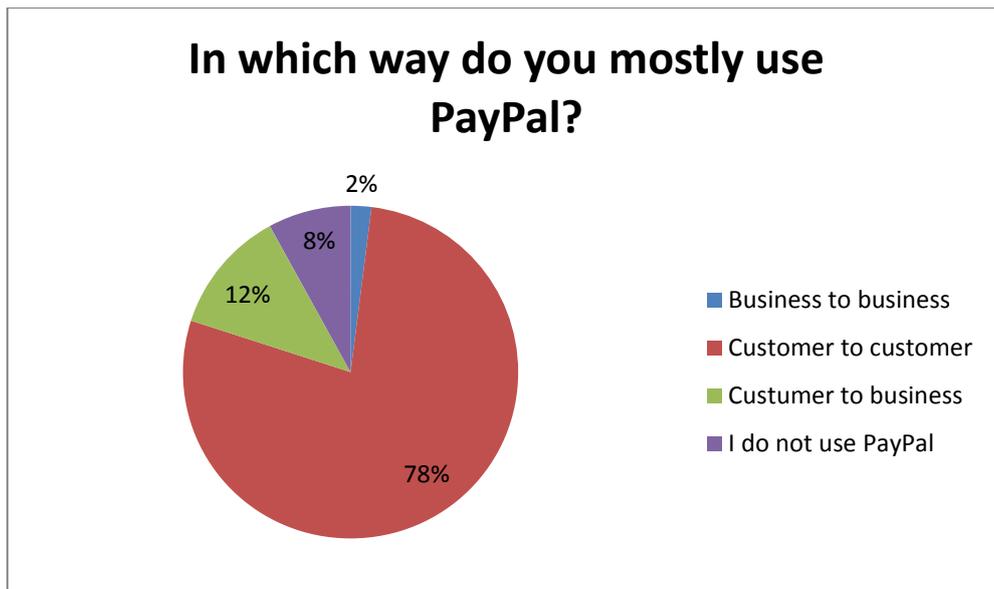


Diagram 2. PayPal is used in many ways. According to the study in Kungsbacka 2016 it is more used in C2C. It was 78 % that mostly uses PayPal costumer to costumer and 12% costumer to business. A small group 8% did not use PayPal at all. Those who did not use PayPal tended to be in the group of 55 years old and older.



Diagram 3. The biggest reason individuals use PayPal is because of their payback insurance. It was 67% that preferred PayPal for this reason the most and 16% preferred it for its security. The few percentages that preferred “it is simple” and “everybody else is doing it” were under 35 years old.

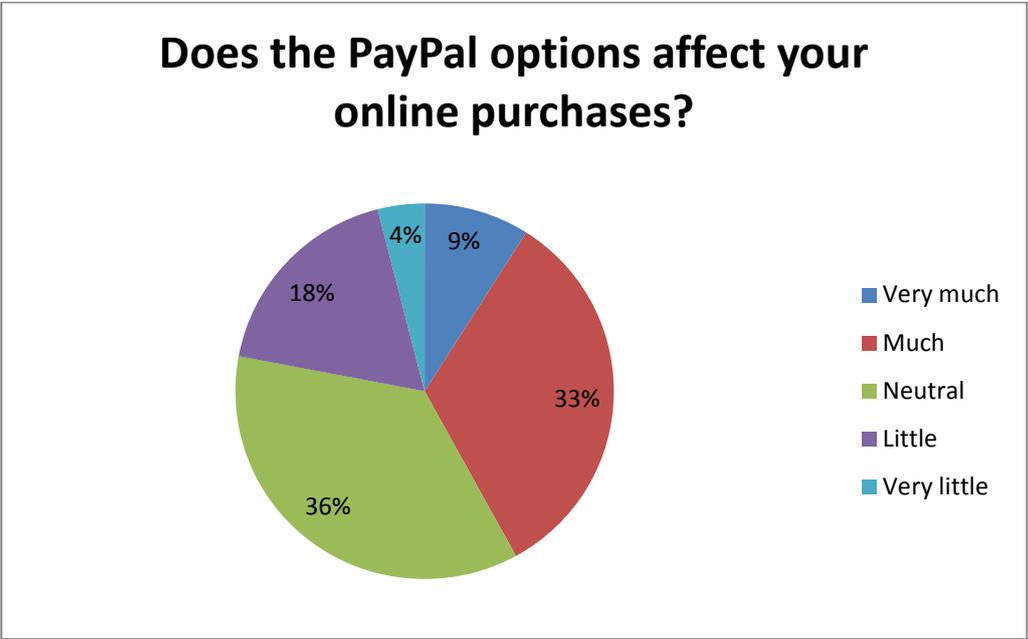


Diagram 4. 9% thinks PayPal options affect their online purchases very much and this was mostly common by ages in between 35-54. 36% was neutral and this was

mostly represented by the younger people under 35 years old. 33% thinks they are affected much of PayPal options and they were spread through all ages. Little affect was 18% and very little 4%.

The largest internet-based retailer in the world Amazon.com has started to use Amazon Payment option for its users. This option gives the users an Amazon Payment account which they can transfer money into and withdraw to a credit card. The selected credit card uses also as an addition to the account if any amount is not covered by the Amazon Payment account at the time Amazon is shipping the order. First is the Amazon Payment account charged then the credit card if it is necessary. The users can choose to only pay with credit card as well (Amazon, 2017a).

Amazon has an option for those users who does not have a credit card and it is a checking account. By using this option the users must fill in some bank account numbers and personal information to valid the payment process (Amazon, 2017b). Amazon gives also their users the option to pay with cash on delivery but with some restrictions such as only for orders up to a total of \$1,500 (Amazon, 2017c).

Amazon is protecting its users by informing how to avoid payment scams. The site lists several common tricks and suspicious behavior frauds tend to use so the users can avoid them such as “do not do business with a seller that direct you of Amazon” or “do not send money to a seller who claims that Amazon or Amazon Payments will guarantee the transaction, refund your funds if you are not satisfied with the purchase, or hold you funds in escrow” (Amazon, 2017d).

Credit cards have outstanding real-time processing speed, easy functions and evolving security systems (MasterCard, 2017a). MasterCard has developed a SecureCode to make online payments safer and more secure. This option works in two ways either Static Password or One Time Password. With the Static Password the user uses a unique password for their MasterCard every time they purchase online. With One Time Password the banks cooperates with the buyer and generate a new password for every purchase and sends this to the buyer (MasterCard, 2017b).

MasterCard provides Payment Gateway Services which meaning is to reduce the risk of fraud. It is most suitable for business users but also useful for private users. This fraud and risk management solution can be employed in-house or can be outsourced. By using this multidimensional security service the users prevent fraudulent activities by the following:

- **Account Registration** to screen and evaluate consumer account registration risk.
- **Payment Authentication** to analyse and define security strategies to verify genuine customers.
- **Transaction Processing** to identify, detect and review high-risk transactions based on unique risk profiles.
- **Dispute and Recovery** to manage and resolve chargeback disputes to recover losses.
- **Evaluation and Refinement** to analyse and refine fraud performance against trends. (MasterCard, 2017c).

During couple of years new mobile payment services have developed around the world. In Sweden for example has the most successful one Swish become the natural choice when money transfers peer-to-peer. Swish provides a quick, secure and simple way or P2P money transfer service. The money is transferred in real-time by using the mobile phone numbers, which are linked to corresponding bank account. To verify the transaction the users need to log in with their smartphone to the mobile Bank ID. Swish is evolving and at the moment also possible to use for business users as well but P2P is still most successful sector (Markendahl, 2013).

Bitcoin is a cryptocurrency and a payment system created 2009 (Miers, Garman, Green, & Rubin, 2013). It has received much attention recently and its users have increased. The system is peer-to-peer and transactions take place between users directly, without intermediary. The design of Bitcoin enables large anonymity for its users (Bitcoin, 2017).

Analysis

PayPal is the leader in the field of online payment platform (Gonzalez, 2004). To keep developing and increase market shares PayPal has a separate analytic group whose work is to analyze diverse data such as product use, customer behavior etc. This helps the company to grow and develop with what the users are demanding (MIT Sloan Management Review, 2012).

PayPal's success started with solving the big problem that companies and governments had with fraudulent activities. The people at PayPal solved this problem by recognizing patterns and other repeated things frauds tended to do. By doing this PayPal created value to consumers through trust (Jackson, 2008). According to Peter Thiel, chief executive of PayPal, many of the competitors to PayPal haven't processed this problem with the same success as them and therefore no longer exist in the market (Gengler, 2002). Their hard work preventing fraudulent activities has boosted PayPal's security significantly and reduced their fraud rates down below 0.5%. This is comparable to an average level of E-business fraud rate at 1.3-2.6% (Gengler, 2002). According to the survey made in Kungsbacka 2016 14% thinks that the most important thing when they purchase online is that the payment platform has a well-functioning safety division (Diagram 1).

PayPal provides security to its users through the pay and sell insurance. If the goods are not delivered when a user has purchased something or if the goods deviate markedly from seller's description, PayPal can reimburse the full amount. The insurance covers also if the seller receives an unauthorized payment, or if a buyer claims that the goods were not delivered (PayPal, 2016a). According to the survey made in Kungsbacka 2016 this payback insurance was the biggest reason 67% of the respondents use PayPal and 16% for its security (Diagram 3). The result of the survey also shows that 67% thinks that some kind of reimbursement guarantee if the goods does not arrive or is defected is the most important thing when they purchase online (Diagram 1).

PayPal provides their users a safe way to shop in online stores and also in costumer to costumer services such as Ebay. They guarantee that the trade is done correctly and that the money only is transferred if everything is acceptable (PayPal, 2016a). PayPal is used for both private- and business users but is more common in the field of costumer to costumer. In this field is PayPal the leader payment platform in the world and their business users are rising as well (Gonzalez, 2004). More than 70% of all online purchasers in USA have a PayPal account (PayPal, 2016a).According to the survey made in Kungsbacka 2016 78% is using PayPal mostly for its costumer to costumer use and 12% for its costumer to business use (Diagram 2).

Users are able to do more than buy and sell stuff through PayPal. They can also transfer money quickly between friends (PayPal, 2016c). PayPal is consistently developing and a new service is One Touch. This is a service that makes the purchase easier and faster. The users have the opportunity to purchase online smoothly and all that requires is to press a button. This service option is covered by the buy and sell insurance (PayPal, 2016b).

PayPal receives much personal information of its users. Their privacy policy gives PayPal the right to sell and share this information with third-party service providers. These providers have limitations in how they are allowed to use this information (Preibusch, Peetz, Acar, & Berendt, 2015). According to the survey made in Kungsbacka 2016 14% thinks that it is the most important thing when they purchase online that no information of the purchase is shared to a third part (Diagram 1).

The result of the survey made in Kungsbacka 2016 shows that 36% is neutral to the question “if the PayPal options do affect their online purchases”. 33% thinks they are affected much and 9% very much. 18% thinks they are affected little and 4% very little (Diagram 4).

Amazon.com uses many different options for purchasing online. It is the largest internet-based retailer in the world and is a major market for online purchases.

Amazon Payment is one of them and this option gives the users an account which

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they can purchase online from. This account is connected with a credit card and gives the opportunity to transfer money into it and withdraw from it (Amazon, 2017a).

Amazon gives the users the option to use a checking account if they do not have a credit card. This option demands more personal information and bank account information to valid a purchase (Amazon, 2017b). It is also possible to pay with cash on delivery but this has some restrictions (Amazon, 2017c).

To avoid fraudulent activities Amazon informs their users how to avoid payment scams by a list on the website. This involves several common tricks and suspicious behavior frauds may use and how to avoid these (Amazon, 2017d).

Credit cards have outstanding real-time processing speed, easy functions and evolving security systems (MasterCard, 2017a). Credit cards such as MasterCard are constantly trying to develop its security for its users. SecureCode is a service created to make online purchases safer and more secure. This option works in two ways either Static Password or One Time Password. Both options make the purchase safer by demanding an extra unique password (MasterCard, 2017b).

Payment Gateway Service is MasterCard's tool to reduce the risk of fraud. It is mostly suitable for business users but also useful for private users. By using this multidimensional security service the users prevent fraudulent activities by the following:

- **Account Registration** to screen and evaluate consumer account registration risk.
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During couple of years new mobile payment services have developed around the world. In Sweden for example is the most successful one Swish. Swish services are mostly used by transferring money peer-to-peer but it is also possible to use for businesses. It is quick, secure and simple. The money is transferred directly by using the mobile phone numbers, which are linked to corresponding bank account. To verify the transaction the users need to log in with their smartphone to the mobile Bank ID (Markendahl, 2013).

Bitcoin is a cryptocurrency and a payment system used in peer-to-peer where the transactions take place between users directly, without intermediary. The design of Bitcoin enables large anonymity for its users (Bitcoin, 2017).

Conclusions

PayPal is the leader in the field of online payment platform. In the beginning of their journey the biggest challenge of PayPal was the overall ignorance to prevent fraudulent activities and to provide high safety systems. By solving this, PayPal has changed and improved the opportunities of secure online purchases. Other companies and governments could not solve this issue with fraudulent activities before PayPal succeeded. PayPal is constantly evolving new services to meet their users' demand. As the technology has developed, the demand of faster purchase services from the users has forced PayPal to create a service for this which OneTouch is. The increased market of customer to customer purchase has created a big challenge and opportunity for companies to provide some security that the purchase is done correctly. By providing their advanced safety system and their buy and sell insurance PayPal is leader in the field of this challenge. Many of their users use PayPal because of this service which makes the online purchase risk-free. These qualities are what online purchasers value the most when they are shopping online and PayPal is at the forefront of this.

During couple of years new mobile payment services have developed around the world. They are quick, safe and simple. Especially in the market of peer-to-peer PayPal will meet more competition in the future. Today PayPal's buy and sell insurance is outstanding compared to other companies. This keeps the users who purchase online to continue using PayPal's services. The users who transfer money between friends will be harder to keep because more and more niche services are created.

The largest internet-based retailer in the world Amazon.com has started to use their own payment options for its users. This is a major market for online purchases which PayPal can't access. If more online retailers would start to isolate PayPal as a payment option then it would become a big problem for PayPal.

During the last years it has become more noticed that PayPal share users' personal information with other companies and this is already an issue for some users. Maybe this can make some users change payment platform in the future and PayPal should be aware of this potential outcome. For example provides Bitcoin more anonymity for its users and PayPal's peer-to-peer market share may be lost to them because of this.

Further studies

Amazon.com is the largest internet-based retailer in the world and has started to use their own payment options. What if more retailers follow Amazon's concept and isolate PayPal as a payment option. What affects and what kind of actions can PayPal do to prevent this from happening.

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