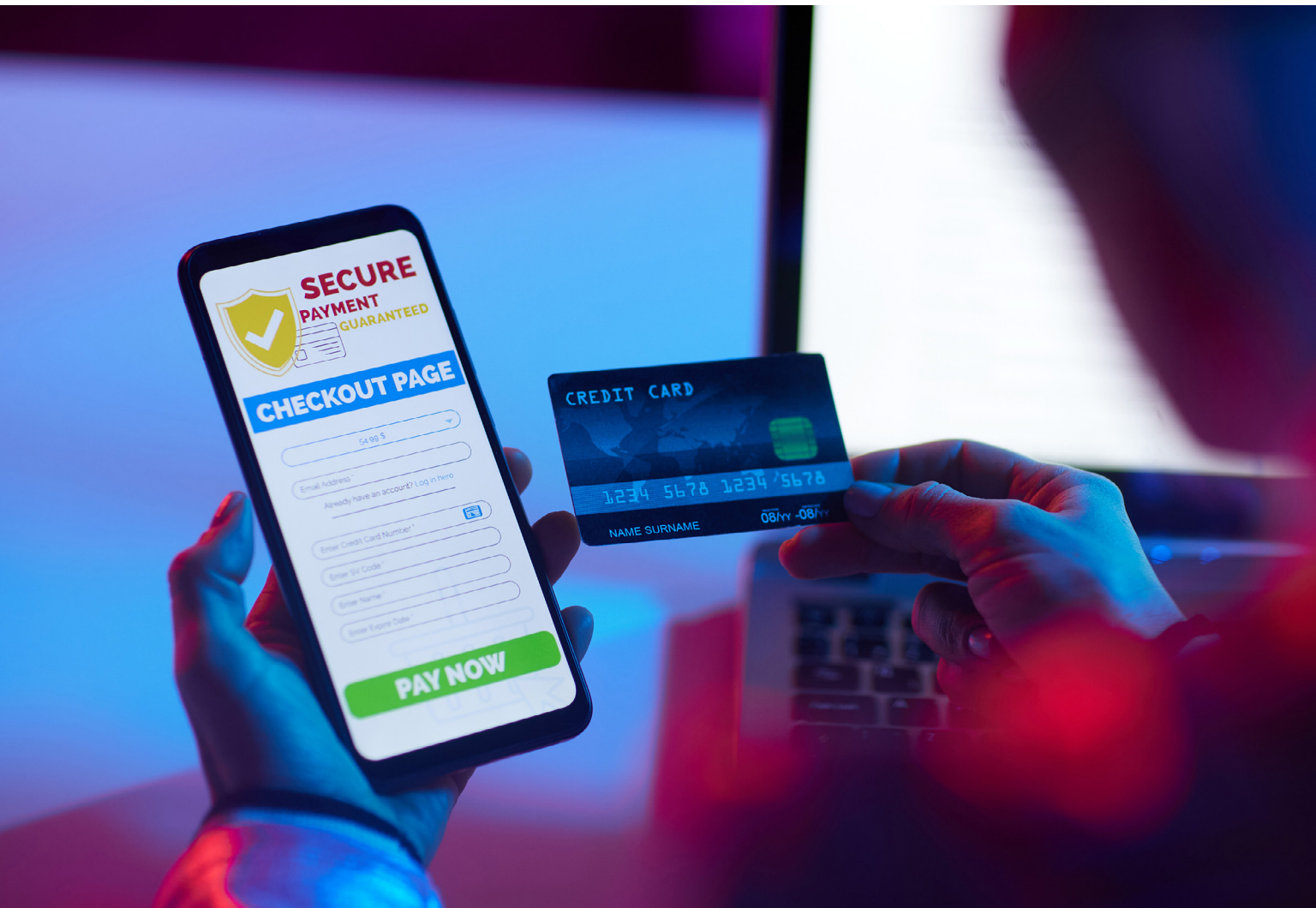


September 2023

OPTIMIZING THE E-COMMERCE PAYMENT EXPERIENCE



INTRODUCTION

Merchants and customers both want a simple and secure online payment process at checkout. The pandemic accelerated the shift to e-commerce — and consumers continue to shop online in ever increasing numbers. Data supports this: E-commerce as a percentage of U.S. total retail activity continues well above pre-pandemic years.

Total online sales accelerated through the pandemic, followed by the return to the mean of a pre-COVID-19 compound annual growth of 11%, according to a Boston Consulting Group and Shopify report,¹ “Leading Online Shoppers to the Finish Line,” conducted in June 2023.

Merchants want to make it easy for consumers to complete their purchases by providing checkout solutions their customers prefer. If the checkout process isn't easy, merchants risk losing the sale.

1. Leading Online Shoppers to the Finish Line

Merchants want to make it easy for consumers to complete their purchases by providing checkout solutions their customers prefer. If the checkout process isn't easy, merchants risk losing the sale.

IDENTIFYING MERCHANT CONCERNS ABOUT PAYMENT OPTIONS AT CHECKOUT

This research report delves into survey results about merchants' concerns, needs and plans to avoid cart abandonment. Digital Commerce 360 conducted the survey, "Optimizing the E-commerce Payment Experience," with 101 merchants in May 2023, to uncover what merchants are looking for in e-commerce payments.

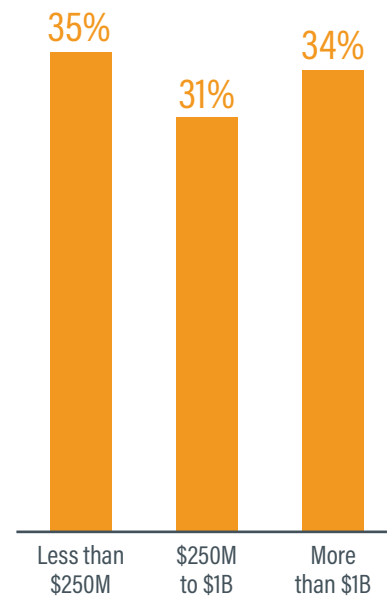
Results show that trust is key as consumers rely on merchants to provide safe and secure payment integrations at checkout. Digital wallets offered by financial institutions can provide security through tokenization without adding more transaction fees for merchants.

A simple and hassle-free payment process at checkout is also paramount, as most merchants said their customers abandon carts when they must enter their full 16-digit card number, expiration date, security code, and billing address.

Customers abandon carts if there are not a broad set of payment options available at checkout. They want to be able to check out quickly and easily by using credit cards, bank payments or digital wallets. Merchants believe there is room for additional digital wallets, particularly one offered by consumers' trusted financial institutions.

Merchants can reduce friction and eliminate steps during the checkout process to avoid abandoned carts and lost revenue by offering a financial institution-offered digital wallet option at checkout — particularly one that eliminates manual card entry.

SURVEYED MERCHANTS' ONLINE REVENUE



MERCHANTS WANT TO OFFER INNOVATIVE PAYMENT SOLUTIONS

Merchants want payment options that will:

- Avoid lost revenue
- Reduce card detail exposure
- Enable account creation and payments
- Drive more sales
- Encourage more repeat customers and visits

Sellers understand that consumers are also more likely to abandon their carts if shipping costs are too high, there is no guaranteed or estimated delivery date, or there are out-of-stock items. Businesses do not want their payment integration to be another risk factor for cart abandonment. According to BCG and Shopify's report, the use of accelerated payment methods like digital wallets can increase conversion rates by as much as 50%, and "simply offering them as an option can increase conversion."

Merchants want innovative payment options to optimize the customer experience at checkout to protect their bottom line. A digital wallet offered directly by financial institutions provides convenience to consumers by preloading cards from their financial institutions and provides a straightforward consumer authentication method. Merchants benefit by getting instant consumer scale.

SURVEY METHODOLOGY

35% of surveyed merchants' annual online revenue is less than \$250 million, 31% earn \$250 million to \$1 billion, and 34% earn more than \$1 billion.

Survey respondents span a wide range of business functions:

- Operations - 45%
- Marketing - 40%
- Customer experience/UX - 35%
- Finance - 31%
- Payments - 27%
- E-commerce - 20%
- Innovation/Digital experience - 11%

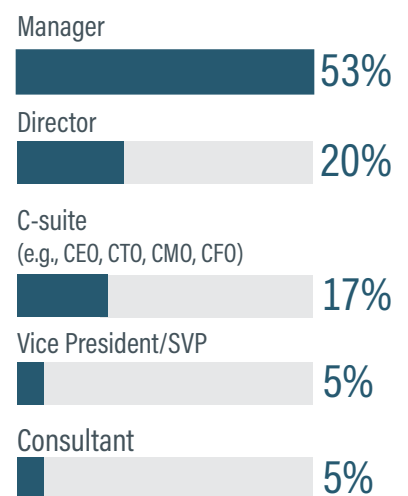
SURVEY DEMOGRAPHICS

More than half of survey respondents identified as managers (53%), 20% as director-level, 17% C-suite (chief executive officer, chief technology officer, chief marketing officer, chief financial officer), 5% as vice president or senior vice president, and 5% as a consultant.

They work in a variety of industries:

- Food & grocery - 30%
- Fashion & apparel - 21%
- Technology - 17%
- General merchandise - 14%
- Electronics - 12%
- Beauty & personal care - 12%
- Media & entertainment - 10%
- Airline & hospitality - 10%
- Household goods - 10%
- Online marketplace - 9%
- Specialty merchandise - other 8%
- Rideshare & rental - 4%
- Other (Art) - 1%

MOST RESPONDENTS ARE MANAGERS

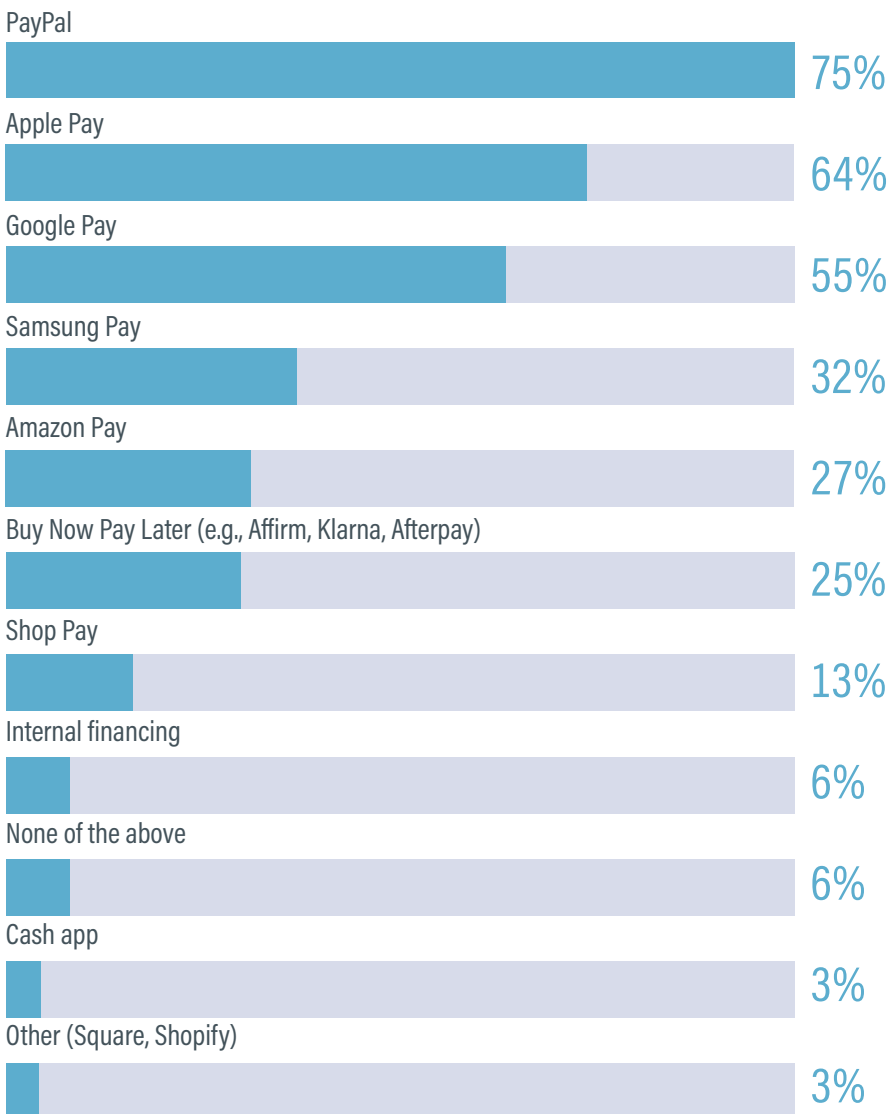


MERCHANTS OPEN TO NEW PAYMENT INTEGRATIONS

The majority of surveyed merchants are already providing PayPal (75%), Apple Pay (64%), and Google Pay (55%) to their customers.

MAJORITY OF SELLERS PROVIDE PAYPAL, APPLE PAY AND GOOGLE PAY

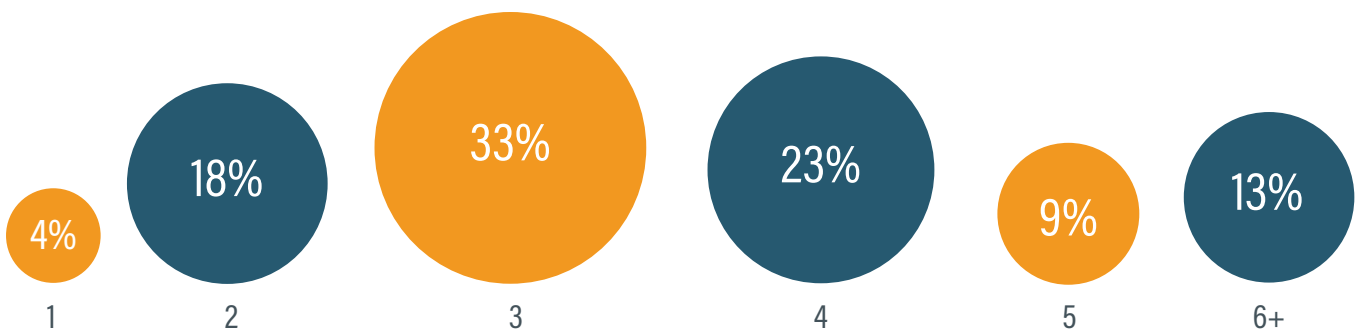
What payment or financing options do you provide to your customers?



Most surveyed merchants said they would ideally offer three to four payment options at checkout, while 22% said they'd ideally offer as many as five to six payment options. The reason? More than half (55%) of merchants believe customers abandon their shopping cart because their preferred payment option is not offered.

Retailers are already offering multiple payment options to meet customer demand. According to Digital Commerce 360's Top 1000 data, retailers offered a median of eight payment options in 2022, up from seven in 2021 and six in 2020 and 2019.²

MOST SELLERS WANT TO OFFER 3-4 PAYMENT OPTIONS AT CHECKOUT



². Top 1000 retailers are North America's leading online retailers, ranked 1-1,000 by annual web sales.

According to survey results, merchants are wasting no time adding payment options. 40% of sellers plan to add payment options to their website in 2023, and 33% of sellers plan to in 2024. Only 27% said they have no plans to add more payment options.

40% OF SELLERS EXPECT TO ADD ADDITIONAL PAYMENTS IN 2023

Plan to add in 2023



Plan to add in 2024



No plans to add additional payment options



CONVENIENCE IS CRITICAL

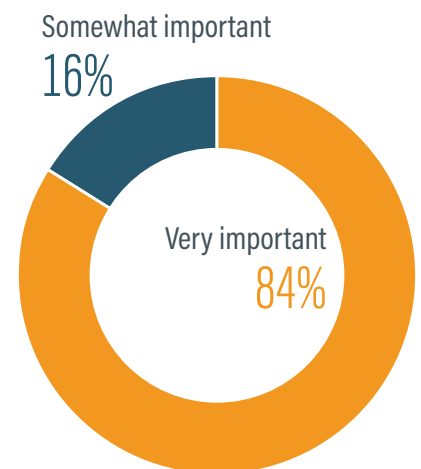
Merchants want to provide customers with a better checkout experience. 74% of merchants believe customers abandon carts when they must manually enter their 16-digit credit card information.

Digital wallets streamline the process of inputting payment information at checkout. As a result, merchants bypass human error causing declined payment or user frustration leading to cart abandonment.

A digital wallet must be easy for consumers to use, but also easy for merchants to implement. 84% of surveyed merchants said it was very important that the digital wallet be easy to implement.

73% of merchants are concerned about the trust customers have in merchant platforms and payment integrations with consumer card details.

8 IN 10 SELLERS WANT EASY IMPLEMENTATION



A financial institution-offered digital wallet resolves that issue. Consumers trust their banks to provide a digital wallet, according to McKinsey & Company's "New trends in U.S. consumer digital payments"³ report.

Financial-institution-offered digital wallets combine consumers' eligible cards from participating financial institutions, removing the need for manual entry and card updates. Such a wallet offers consumers a convenient choice among cards while ensuring a smooth checkout that is always free from manual card entry.

Faster checkout leads to higher conversion rates across most industries, according to the BCG and Shopify study.

"We have noticed a significant increase in the conversion rate, starting from the moment the checkout experience begins, when customers can complete the full checkout process in less than 90 seconds."

The report also noted that if the process takes longer, the lower funnel conversion rate may decrease by as much as 47% on average.

3. "New trends in U.S. consumer digital payments" report.

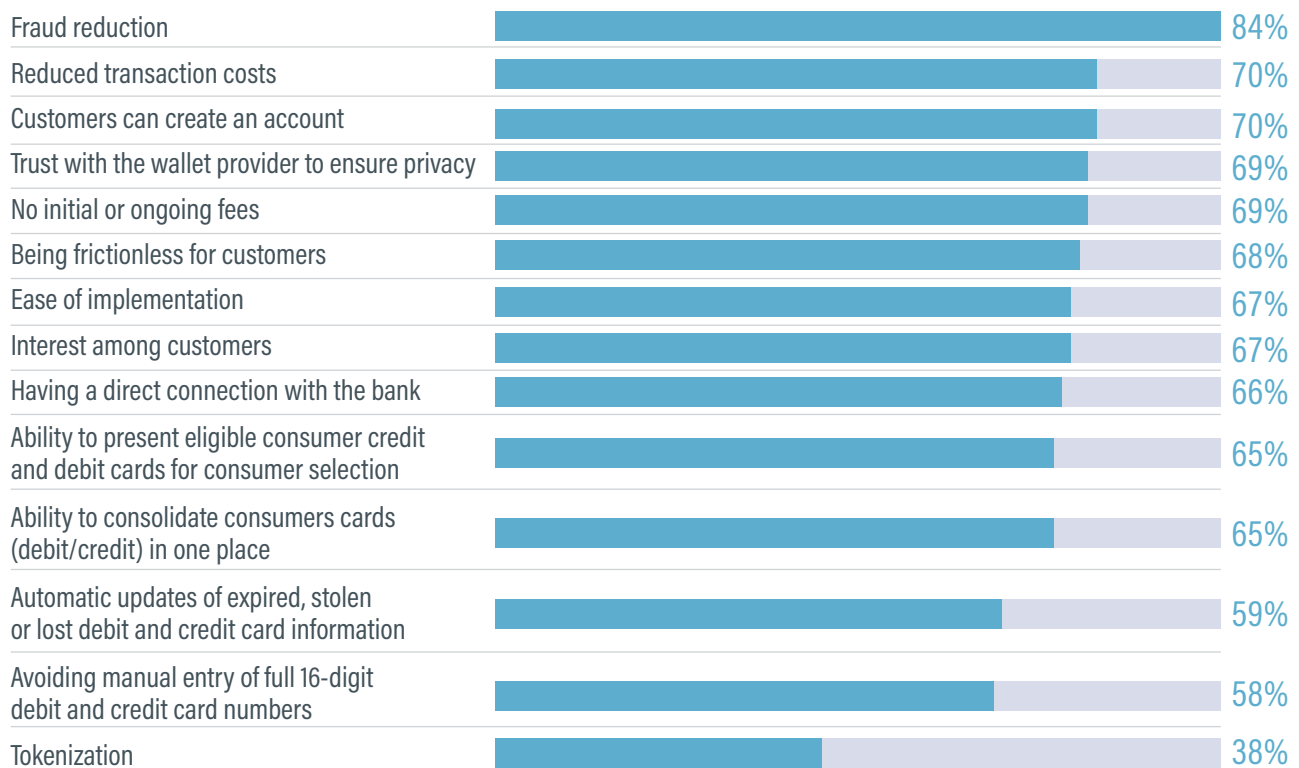
WHAT MERCHANTS VALUE IN A FINANCIAL INSTITUTION-OFFERED WALLET

84% of surveyed merchants said fraud detection is important when considering adding a digital bank wallet to its checkout process. Any step that does not feel secure and convenient during checkout can be a deterrent for consumers, according to the BCG and Shopify report. It is important to allow customers the ability to easily complete payment during checkout. Fraud detection should not feel like an obstacle to an easy payment experience at checkout.

Merchants also cited reduced transaction costs (70%), the ability for customers to create an account through their checkout experience (70%), and trust with the wallet provider to ensure privacy (69%) as top concerns.

TRUST, COST AND EASE-OF-USE ARE TOP OF MIND FOR SELLERS

What merchants consider extremely important when adding a bank wallet



Simplifying the payment process is also critical, as 68% of surveyed merchants believe a frictionless experience for consumers is important. Ease of implementation (67%), interest among customers (67%) and having a direct connection with the bank (66%) were also important features to merchants considering a digital bank wallet for their businesses.

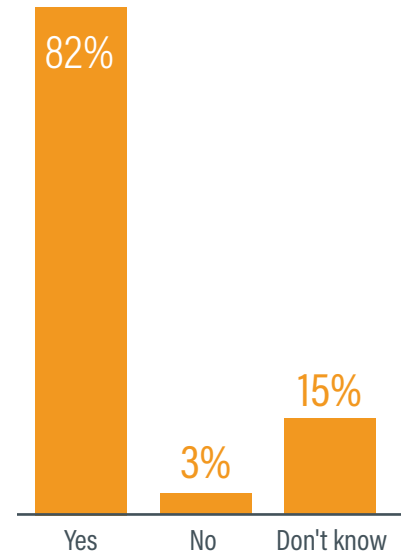
CUSTOMERS WANT A FINANCIAL-INSTITUTION-OFFERED WALLET

Merchants already provide PayPal (75%), Apple Pay (64%) and Google Pay (55%) to their customers. Consumers trust their banks more than other providers to offer a digital wallet, according to the McKinsey report. Merchants benefit by providing customers with the options they want.

Consumers already entrust financial institutions with their banking and credit card information. A financial-institution-offered wallet removes the need for third party providers.

82% of merchants strongly believe online customers want to have a wallet option offered by their financial institutions.

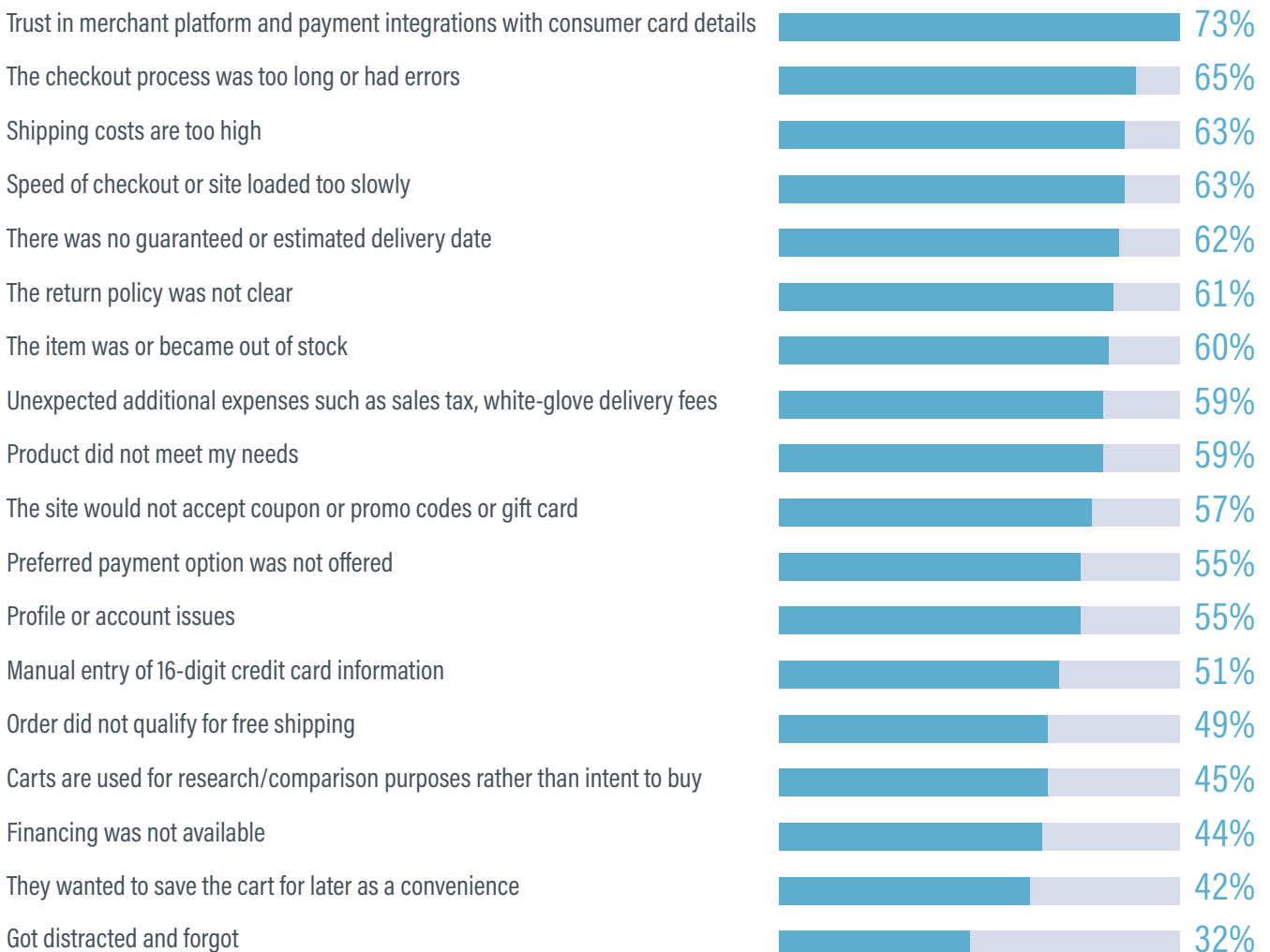
82% OF SELLERS STRONGLY BELIEVE ONLINE CUSTOMERS WANT A DIGITAL BANK WALLET OPTION



A DIGITAL BANK WALLET MAY REDUCE CART ABANDONMENT

73% of merchants believe customers think trust in a merchant's platform and payment integrations with customer card information is important. A financial institution-offered online payment option is one less concern for merchants. A payment integration reinforced by banks and credit unions safeguards customer information.

TRUST IN PLATFORM AND PAYMENT INTEGRATION WITH CONSUMER CARD DETAILS IS THE MOST IMPORTANT FACTOR IN CART ABANDONMENT FOR 3 IN 4 CUSTOMERS



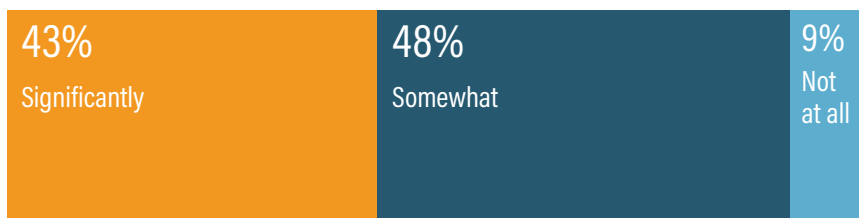
MERCHANTS WANT TO REDUCE FRICTION AT CHECKOUT FOR THEIR CUSTOMERS

Merchants want customers to avoid frustration during checkout, as 65% of merchants believe customers abandon their carts because the checkout process is too long or has errors.

Part of that frustration is linked to what options customers have when selecting how to pay. More than half of merchants (55%) believe customers abandon their carts because their preferred payment option is not offered. A financial institution-offered wallet is likely to include the consumers' preferred cards for online payments.

It is a cumbersome process to manually input a 16-digit card number, security code and expiration date on a computer or mobile device. 43% of merchants said a digital wallet would significantly reduce the cart abandonment rate instead of requiring consumers to manually enter their information.

43% OF COMPANIES SURVEYED BELIEVE THAT CART ABANDONMENT RATES WOULD BE SIGNIFICANTLY REDUCED BY A DIGITAL BANK WALLET



HOW IS PAZESM DIFFERENT?

PazeSM is a service operated by Early Warning and offered by participating merchants and financial institutions that eliminates manual card entry and combines debit and credit cards into one wallet for consumers. Consumers initially activate their wallet, and that's it — they don't have to set it up. The cards are there and ready to use. Consumers can “set it and forget it” because any account changes are reflected into their Paze digital wallet. Consumers do not need to log in and update card numbers when they expire.

Because Paze is offered by participating financial institutions, cards issued through those financial institutions are automatically loaded into the Paze wallet. Paze use of network tokenization ensures automatic updates to payment credentials when changes are made to cards.

Merchants can integrate Paze into their existing consumer checkout experience. This removes the need for manual card entry and is critical, as nine out of 10 merchants believe that cart abandonment rates would be reduced by integrating a digital wallet that doesn't require this step. With Paze, there are also no user names or passwords to set up and remember, or third-party apps to download. The goal of Paze is to eradicate manual card entry and simplify guest checkout to reduce cart abandonment.

Nine of out of 10 merchants surveyed said they believe that replacing the manual process of adding credit card details with a digital bank wallet would reduce cart abandonment rates.

HOW THE PAZE DIGITAL BANK AND CREDIT UNION WALLET CAN HELP YOUR BUSINESS

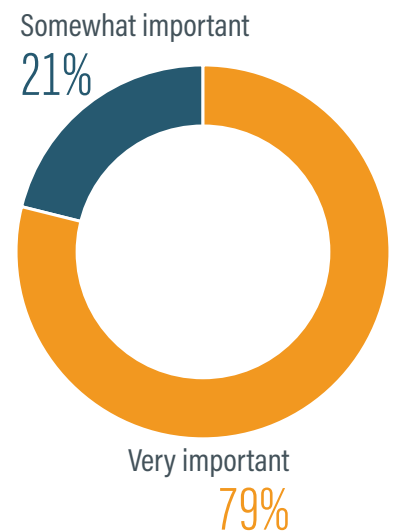
Integrating a digital wallet alongside a simplified UX on the website and a clean product page can achieve higher conversion rates, according to the BCG and Shopify study. Paze offers an easy integration into merchants' existing checkout processes. The Paze digital wallet offers merchants a secure payment choice customers can use with confidence.

- Paze makes it easy: Customers do not need to manually enter their 16-digital card number and other personal information.
- By reducing friction for customers, Paze makes payment transactions seamless and can reduce cart abandonment.
- Paze gives merchants an easy payment integration with a clean UX/UI design and fully customizable product page.

Sellers want to offer customers a safe checkout method. 84% of sellers said reducing fraud is very or extremely important when considering offering a digital wallet for their business. Paze tokenizes card data to be securely shared with participating merchants when used for online transactions. Since Paze uses network tokenization, the customers' full card details are only retained by the consumer, issuer, and card network. This is in contrast to other forms of tokenization, where a merchant may not have direct access to a consumer's full card details, but their third-party payment service provider does.

Consumer privacy is also paramount, with 69% noting it as very to extremely important. As is owning the customer relationship, which eight in 10 merchants said it is very important, as opposed to the payment provider owning the customer relationship.

8 IN 10 SELLERS BELIEVE IT IS VERY IMPORTANT TO OWN THE CUSTOMER RELATIONSHIP



Merchants also do not want initial or ongoing fees (69%).

Paze does not charge merchants additional transaction fees — which 70% of sellers said is very or extremely important.

Sellers want easy implementation (67%), customer interest in a payment option or digital wallet (67%), and the ability to consolidate consumers' credit and debit cards in one place (65%).

Consumers trust their banks more than other third-party providers for a digital wallet. Paze is that solution. Three in four sellers believe trust in a merchant's payment integration is the most important factor in cart abandonment.

82% of merchants strongly believe online customers want a digital bank option. Paze provides an initial consumer reach representing consumers holding more than 150 million cards — this number is expected to increase as more banks and credit unions are added to the Paze NetworkSM in 2024. Paze provides an initial consumer reach representing consumers holding more than 150 million cards — this number is expected to increase as more banks and credit unions participate in 2024.

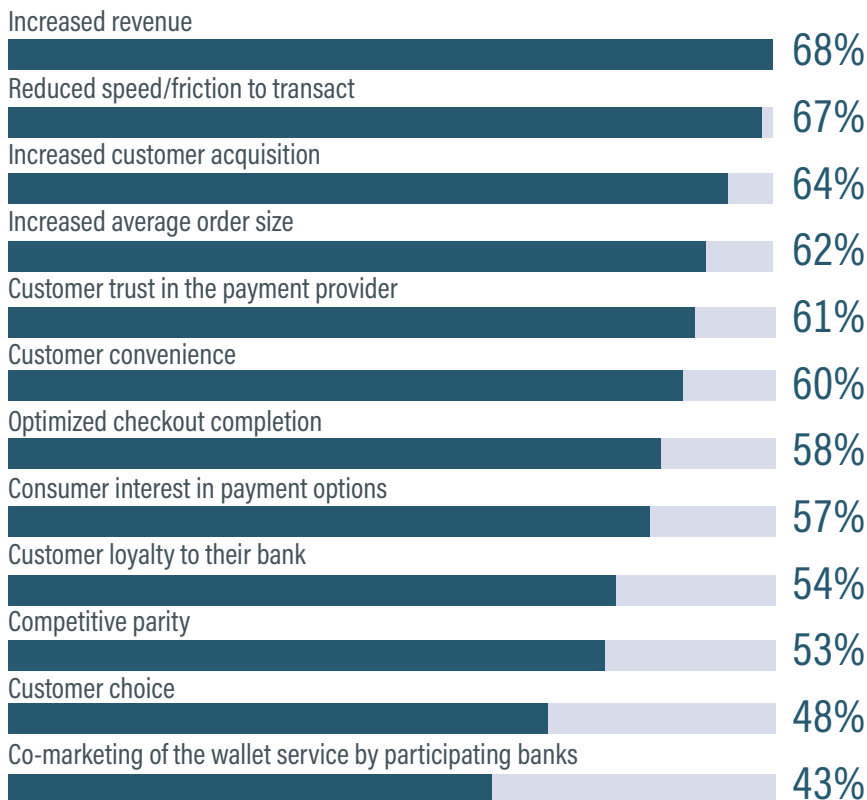
WHY MERCHANTS ARE MOTIVATED TO ADD A DIGITAL WALLET

Paze offers a solution for the nine out of 10 merchants that believe cart abandonment rates would be reduced by integrating an online payment solution that doesn't require manual entry of card details — ever. Paze eliminates rejected transactions that are the result of human error, such as mistyped credentials.

Merchants also said they are very motivated to offer a digital wallet to increase revenue (68%).

They believe a digital wallet will reduce friction to transact (67%) and increase customer acquisition (64%).

MERCHANTS ARE VERY MOTIVATED TO ADD A DIGITAL WALLET TO INCREASE REVENUE AND IMPROVE THE CUSTOMER EXPERIENCE

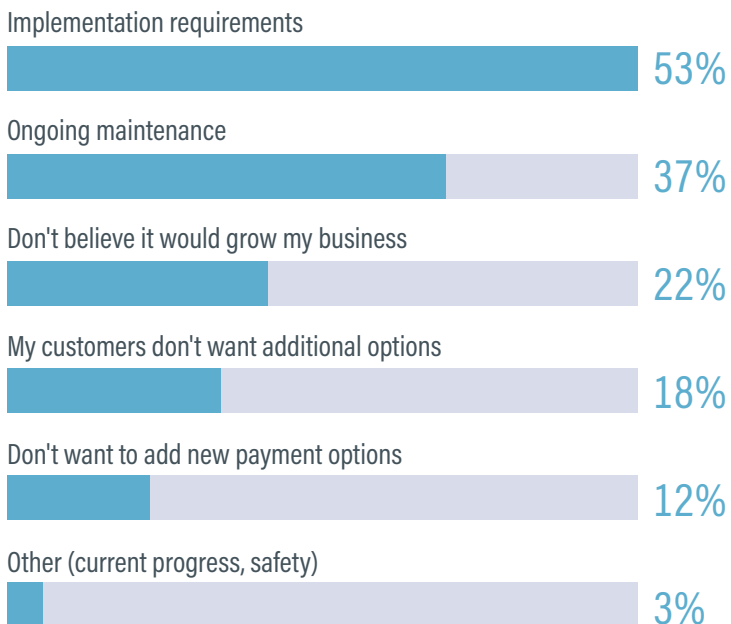


BENEFITS OF PAZE FOR MERCHANTS

Merchants want to offer a secure and easy-to-use digital wallet at checkout for customers. Most merchants — 73% — said they are very interested in adding a bank or credit union-provided digital wallet option at checkout. However, sellers would not offer a digital wallet at checkout if implementation requirements (53%) and ongoing maintenance (37%) subtract from the bottom line.

Customers do not need to download or sign up to use Paze. It is seamlessly integrated into a merchant's existing checkout experience.

IMPLEMENTATION REQUIREMENTS AND ONGOING MAINTENANCE ARE TOP 2 REASONS SELLERS WOULDN'T ADOPT A BANK WALLET



With Paze, consumers do not need to update card information. 68% of merchants believe that adopting a digital wallet will increase revenue, while 67% said a digital wallet would reduce the time and friction during the transaction process.

Paze tokenizes sensitive data to improve consumer security relative to wallets that do not participate in network tokenization. Instead of sending a customer's full card number, Paze sends a token representing the card to the merchant. The token is accompanied by a single-use cryptogram that is required for payment processing. This process protects consumers from fraud since their card numbers were not used and therefore cannot be used for an unrelated transaction without a new cryptogram being generated. It also allows for higher transaction approval rates/more purchase completions with tokenized card information instead of customers checking out with manually entered card information. When compared to non-tokenized transactions, tokens have led to a 28% reduction in fraud rates and 3% increase in approval rates, according to data compiled by Visa Token Service.

Paze is easy to integrate into a merchant's existing checkout experience. This is imperative, as easy implementation of a digital option is important to 84% of merchants, and 53% of sellers said implementation requirements, and ongoing maintenance (37%), were deterrents from offering a digital wallet to customers. With Paze, there are only three required APIs. A fourth, optional API is provided so merchants can decide how to present Paze to consumers.

According to James Anderson, Managing Director of Paze and one of the patent holders for network token technology, while cards are the accepted way to pay online, the process can be improved.

“We’re not trying to drive the consumer back through the Paze wallet each time. We may never see the consumer again once the consumer decides to have an ongoing relationship with that merchant — and we’re okay with that. We are happy that the customer is happy.”

— James Anderson, Managing Director at Paze

“What we’re building with Paze is infrastructure for all financial institutions, whether large or small, because they’re all important to the individual consumer,” Anderson said during the BIGcast Podcast.

Paze enables a one-on-one relationship between merchants and their customers. Consumers log into their Paze wallet and can save a card on file with a particular merchant. Paze steps out of the way if the consumer chooses to pursue that direct relationship.

“We’re not trying to drive the consumer back through the Paze wallet each time,” Anderson said. “We may never see the consumer again once the consumer decides to have an ongoing relationship with that merchant — and we’re okay with that. We are happy that the customer is happy.”

IMPROVE YOUR CHECKOUT EXPERIENCE WITH PAZE

With seven out of 10 merchants planning to add additional payment options in 2023 or 2024, Paze allows merchants to add an easy and secure option for consumers. Paze is easy to implement — a key factor, as 84% of merchants believe it's very important that the payment options they add are easily implemented.

There are two simple ways for customers to begin checkout using Paze:

- Entering their email address.
- Clicking/tapping on the Paze button when they see it at a merchant.

Paze gives merchants the ability to provide customers with a fast, convenient and secure checkout experience without having to manually input their credit card information. Financial institutions offer the payment option, allowing for convenient and error-free transactions. As more financial institutions join, consumer reach will scale. Merchants can improve their bottom lines, and the payment option makes it easy for customers to activate their Paze wallet on a merchant's website if it's their first time using it.

Meet the current consumer demand for a consistent payment experience that fits seamlessly into your existing checkout process. Paze fulfills merchants' primary wallet needs while making checkout easier for consumers.

Contact us to be part of the Paze merchant network at paze.com/for-business.



Offer your customers a simple, convenient e-commerce experience



Early access for PazeSM begins in the fall of 2023 in preparation for general availability in 2024. To learn how to participate as a merchant, visit paze.com/for-business.

Paze creates a unified wallet for eligible consumers—which includes eligible cards from all participating financial institutions.

Merchants can choose to implement a Paze button in their checkout experience or prompt consumers to enter their email address. If available, the consumer can choose to use Paze at checkout.

About PazeSM



Paze is a reimagined wallet that banks and credit unions offer to consumers and merchants for online purchases. Solving long-standing challenges in e-commerce, Paze provides an easy experience consumers and merchants can trust.



Upon general availability in 2024, participating banks will make more than 150 million credit and debit cards available for consumers to activate in Paze and use at checkout. Paze is operated by Early Warning Services, LLC, an innovator in payment and risk management solutions.