



# Value of Acceptance

## Understanding the Digital Payment Landscape in Pakistan







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# Executive Summary

Digital payments are poised to transform Pakistan's small and medium-sized enterprises (SME) landscape, with a strong recognition of their importance among businesses. This Visa-commissioned report highlights a significant opportunity to enhance economic growth and financial inclusion by addressing barriers to digital payment adoption.

While cash remains prevalent, the benefits of digital payments – such as increased revenue, improved security, and convenience – are influencing merchant behavior. However, challenges like security concerns, and complex onboarding processes hinder wider adoption.

This report advocates for a multi-pronged approach that includes public-private partnerships to simplify onboarding processes, promote best practices in security, and create tailored educational initiatives for SMEs. Leveraging Visa's expertise and innovative solutions, such as Tap to Phone can unlock the full potential of digital payments, driving economic growth and fostering a more inclusive financial ecosystem.





# 1 Understanding The SME Landscape in Pakistan



Small and Medium Enterprises (SMEs) are the backbone of Pakistan's economy. A thriving digital payments ecosystem is emerging, fueled by a growing recognition among Pakistani SMEs (78%) of the importance of digital payments for business growth.

This section explores the evolving landscape of digital payment adoption among SMEs, examining the key trends, perceived benefits, and potential barriers to wider acceptance. Understanding the dynamics of this evolving payments landscape is crucial for developing effective strategies to support and accelerate the transition towards digital transactions.



## 1.1 A Strong Foundation For Growth

**Pakistan's SMEs exhibit a positive outlook on digital payment investments,** with 78% considering them vital for growth. This optimism is supported by high satisfaction rates, as over 70% of SMEs surveyed report being satisfied with the card payment process, and nearly three-quarters observe a positive impact on revenue and footfall.

**Pakistan's digital payment ecosystem is both established and dynamic:** over half of SMEs surveyed have been accepting digital payments for more than two years, yet a majority (53%) still plan to invest in new digital payment technologies. This ongoing investment signifies a commitment to innovation and a belief in the continued growth potential of digital payments.

**Overall, the digital ecosystem is vibrant and evolving, with card payments garnering more confidence than cash.**

While cash remains a common payment method, card payments are increasingly seen as enhancing a merchant's image and encouraging higher spending.

**Significantly fewer merchants (20%) have fraud concerns with card payments compared to cash (46%),** and 45% of SMEs have noticed a reduction in these worries over time, highlighting a trust advantage for digital methods. Furthermore, concerns about the security risks of handling cash, such as robbery – a concern for more than 45% of SMEs – further highlight the opportunity to promote digital payment solutions.

These trends underscore the potential for growth in digital acceptance, particularly as digital payments are associated with faster processing, convenience, and enhanced security. Leveraging these perceptions to drive further transformation is crucial.





## 1.2 Digital Payments: A Key Enabler

**Digital payments are crucial for SME digitalization**, offering numerous advantages for Pakistan's businesses. These include increased revenue through access to a wider, increasingly cashless customer base; improved customer satisfaction due to faster, more convenient payment options; and reduced operational risks by minimizing cash handling and associated risks. Furthermore, digital transaction records provide valuable data that can facilitate access to financing, empowering growth<sup>1</sup>.

As highlighted in the previous section, **merchants perceive digital payments as offering faster processing, greater convenience for both themselves and their customers**, and enhanced security overall. These positive perceptions, coupled with the growing trust in digital payment methods, particularly card payments, are key drivers of adoption.

**Understanding merchant motivations is key to accelerating adoption.** While the cost of acceptance remains a concern for some merchants, awareness around the value versus cost, along with security and convenience benefits, can encourage a more robust transition from cash to digital preferences. Additionally, addressing

onboarding challenges, a key concern for 40% of merchants, and promoting success stories can further drive digital payment adoption among SMEs.

**Moreover, digital payments are a gateway to broader financial inclusion.** For the unbanked, they often represent the first step into the formal financial system, enabling access to services like remittances and government assistance. Transaction accounts increase the likelihood of utilizing other financial services, such as savings, credit, and insurance, empowering individuals and businesses.

**Finally, digital payments are a powerful engine for economic growth.** Research shows that transitioning from cash to digital payments can generate annual GDP gains of 1% to 2%. Globally, increased payment card usage (debit, credit, and prepaid) added \$245 billion to real GDP between 2015 and 2019; across 70 countries and territories studied, each 1% increase in card usage correlated with an average annual increase of approximately \$67 billion in consumption<sup>2</sup>. In addition, a mere 5% increase in digital payments per year for five consecutive years could reduce the informal economy by 11–13% and boost tax revenue.<sup>3</sup>

<sup>1</sup> Visa & Kearney. Digital enablement of SMBs. Accessed at: Digital enablement of small and medium-sized businesses

<sup>2</sup> Moody's, 2021. Accessed at: <https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf>

<sup>3</sup> Visa & Kearney. Digital enablement of SMBs. Accessed at: Digital enablement of small and medium-sized businesses



### 1.3 Addressing Barriers to Adoption

While the outlook for digital payments in Pakistan is positive, several barriers hinder wider SME adoption. Cash-only businesses are deterred by perceived costs, inconvenience and complexity, particularly around onboarding.

Unlocking the full potential of digital payments requires addressing these barriers, enhancing security, and promoting the value proposition of digital payments.

**Addressing these concerns is crucial for facilitating greater uptake of digital payment technologies.**



#### **Reducing Cost Barriers:**

Government incentives, and collaboration such as educating merchants on the value of digital payments can make acceptance more accessible and encourage wider adoption, particularly among the 37% of cash-only SMEs planning to acquire POS systems.



#### **Conducting Cost-Benefit Analysis:**

Awareness campaigns that clearly quantify the value proposition of digital payments versus perceived costs can boost SME confidence and encourage adoption by demonstrating the return on investment.



#### **Enhancing Security Measures:**

More than 45% of SMEs are concerned about the risk of robbery associated with handling cash. Promoting secure digital options can mitigate such worries and encourage a shift away from cash.



#### **Streamlining Onboarding Processes:**

A major barrier for cash-only SMEs is the perceived inconvenience and complexity of onboarding, often due to excessive terms and conditions. Simplifying policies, streamlining the onboarding process, and working with payment providers to improve the merchant experience can facilitate easier transitions for cash-only SMEs.



## 2 The Value of Acceptance: Driving Digital Progress



The payment acceptance ecosystem encompasses all forms of commerce, from in-person transactions to unattended kiosks, mobile payments, and e-commerce. Merchants are the cornerstone, and their willingness to accept electronic payments is crucial for growth.

As the merchant landscape evolves, so do their needs, requiring tailored solutions for different business sizes, from sophisticated integrated solutions for enterprises to simplified, affordable options for SMEs. While traditionally, merchants connected to networks like Visa through acquirers, the ecosystem now includes various intermediaries catering to the diverse needs of the modern marketplace.

Payment acceptance typically follows a lifecycle: consumers are introduced to card payments (often via ATMs), acceptance expands across merchant segments (from travel and entertainment to everyday spending), electronic payment volume rises, and card payments become preferred, reducing cash usage. While variations exist, this lifecycle provides a framework for understanding card payment growth.

Increased acceptance maturity drives economic growth. Card-based payments create a virtuous cycle: increased consumption fuels production, leading to job creation, higher incomes, and stronger economic growth. Studies show a direct correlation between card usage and GDP growth.

### This positive economic impact is driven by several factors:

- **Reduced Friction:** Streamlined transactions eliminate the need for exact cash and reduce cash handling risks.
- **Standardized Spending:** Global acceptance standards simplify international transactions and cross-border commerce.
- **Encouraged Innovation:** A standardized ecosystem fosters competition and innovation among payment providers.
- **Enhanced Security:** Secure card payments build trust, essential for driving consumption.

A balanced approach that combines these elements can effectively drive the digitalization of the SME sector and stimulate broader economic growth.<sup>4</sup>

<sup>4</sup> Visa. The New Acceptance Landscape. April 2023. Accessible at: 208295bd-644e-475b-a513-885e31c77ed0.pdf



# 3 Partnering with Visa to Accelerate Digital Payment Acceptance



Many countries are actively seeking to expand their acceptance of card and digital payments. Visa is uniquely positioned to support Pakistan's transition to a more digital economy.

**As a trusted advisor and partner, Visa offers a range of capabilities to help governments, financial institutions, businesses, and technology providers enhance their digital payment acceptance maturity.**



## **Understanding the Evolving Landscape:**

Visa provides insights into the dynamic acceptance landscape, including emerging trends, technological advancements, and best practices from around the world. This knowledge helps stakeholders make informed decisions and develop effective strategies.



## **Implementing Proactive Solutions:**

Visa's suite of solutions includes programs for specific merchant segments, innovations like Tap to Phone, Contactless Payments and Click to Pay, and resources educating businesses about the benefits of digital payments.



## **Assessing Ecosystem Maturity:**

Visa can help assess the current state of a country's acceptance ecosystem, identifying strengths, weaknesses, and areas for improvement. This assessment provides a foundation for developing targeted interventions and prioritizing key initiatives.

By partnering with Visa, governments and businesses can leverage a wealth of experience, resources, and innovative solutions to accelerate digital payment adoption, drive economic growth, and foster a more inclusive financial ecosystem.<sup>[1]</sup>

<sup>[1]</sup> Visa. The New Acceptance Landscape. April 2023. Accessible at: 208295bd-644e-475b-a513-885e31c77ed0.pdf





## About the Report



This report, commissioned by Visa and conducted by 4Sight Research & Analytics (October 2024), examines the current payment acceptance landscape in Pakistan, focusing on how digital payments can empower SMEs and providing actionable recommendations for government support.

Investing in SME digitalization through digital payment promotion is a strategic imperative for governments seeking to drive economic growth, enhance competitiveness, and foster financial inclusion. Implementing the recommendations outlined in this report will empower SMEs to thrive in the digital age, contributing to a more prosperous and resilient economy.

### Research Methodology

This study employed a face-to-face methodology, interviewing 250 owners/store managers who are key decision-makers in their respective businesses across Pakistan.

The sample comprised nano businesses (17%), micro businesses (54%), and small businesses (29%) across diverse sectors, with a mix of retailers accepting cash only (40%) and digital payments (60%).

### Research Objectives

#### The research aimed to:

- Understand the triggers and barriers to using digital payment methods and cash.
- Understand the impact of accepting digital payments on small businesses.
- Gauge the level of openness to digital payment options among those currently accepting cash-only payments.



