

IT ZONE

By: Alexander J. Hanna

What Does E-commerce Mean For The Bahamas?

Often, so called experts talk about E-commerce and what it can do for The Bahamas. One thing has become clear-- they are out of their league. There are too many of them misleading the public when it comes to e-commerce. Some uninformed statements that I have heard include but are not limited to:

- BTC & Cable Bahamas need to get their act together and solve the e-commerce problem
- The Government must force the banks to setup e-commerce
- E-commerce can be the third pillar of our economy
- Without e-commerce laws, we cannot implement e-commerce in The Bahamas

Based on statements above, it is clear that these people are amateurs. I am not attempting to criticize anyone, but to highlight the issues. Uninformed information only creates confusion thereby missing the real issues that should be addressed.

Therefore, I decided to write this article in an attempt to assist the public in understanding the challenges regarding e-commerce in The Bahamas.

Simply put, e-commerce is trading goods and services over the Internet. Most Bahamians purchase goods and services online. Whether you are purchasing a book from Amazon or paying for airline tickets, you are participating in e-commerce as consumers of these goods and services. These online purchases are generally from international businesses.

Most people understand the concept of e-commerce, but the problem lies when introducing our e-commerce laws and where Bahamian businesses now want to sell their goods and services online.

Why E-commerce Laws?

I am not an attorney, but generally speaking, the e-commerce laws were designed to set a legal framework for businesses operating e-commerce operations in the commonwealth of The Bahamas. These laws are designed to govern how e-commerce is conducted and how disputes are managed. As you may remember, there was a lot of hype about the new laws when they were introduced many years ago. This was when we started seeing all of the so called "Doctors of e-commerce" coming out of the wood-work. I believe this has gotten Bahamians nowhere in e-commerce.

All of a sudden, people started talking about attracting the conglomerates such as Sears, Amazon, and others to set up their e-commerce operations in The Bahamas. They believed that once the laws became law, we would see many of these businesses setup shop in The Bahamas. I never saw this happening and have argued so for several years. This is because having e-commerce laws was only a small part of the equation. To get results, there are several other parts of the equation that must be included before you can attract the big conglomerates of the world.

Superior Internet and electrical power services

Noteworthy is the fact that there are companies who have set up their entire business to operate over the Internet. What does this mean? For starters, if they were to lose power or Internet services for any period of time, their business will come to a complete stop. This could mean losses of thousands and even hundreds of thousands of dollars. For example, I implemented an online solution for a client where for every hour their e-commerce operation was down, they stand to lose over \$5,000. Depending on the time of day, this can be as high as \$15,000 per hour. Compare this to a company like Amazon, this is considered small change. The point I am driving is that e-commerce operations depends heavily on the Internet and electrical power service providers. Oh, and don't forget the cost for these services.

Though we have two major players in the marketplace (BTC and Cable Bahamas), there are still far too many issues. The example I described above was installed in a data center in the US with all the redundancies one could ask for. Regarding electrical power (mainly BEC), everyone in The Bahamas is qualified to be their own judge regarding the service level.

Superior Courier Services

Although we have the big three courier services and others in The Bahamas, the current processes are not efficient. For example, if I were in the US I could order a book or a camera from Amazon and get it delivered at my door the next day. However, in The Bahamas, you need to wait for days because of the involvement of Bahamas Customs. This has to be addressed if we want big conglomerates to set up their e-commerce operations in The Bahamas if goods are to now be shipped from The Bahamas. This is unacceptable with certain types of goods.

Skilled Labor

When you talk about serious e-commerce operations you need expertise to manage and support such solutions. As the number of customers (traffic) increases on ones website solution, it increases stress on the solution. If not designed properly, the entire e-commerce solution can fail. For example, imagine an application for processing over 250,000 transactions daily; such a solution will need experienced IT architects to design and implement.

The ability to process credit cards in real time over the Internet

Whose fault it is if we are unable to process credit card transactions online in The Bahamas? BTC? The Government? The Central Bank? Local banks? Heck, perhaps, all of the above. But wait, before we cast judgment on who is really at fault, let's examine the issues.

To sell goods and services online, you need your customers to be able to pay for goods and services. In a standard brick-and-mortar store, customers will walk in and select their goods, visit the cashier and pay by cash or a credit card. In The Bahamas, in most cases only cash is accepted (more on this later). For a store merchant to accept credit cards in their store, they must sign an agreement to receive what is known as a merchant account. Additionally, the merchant is charged a small fee for the usage of this merchant account (normally provided by a bank) known as the discount rate. So, for example, if the discount rate charged to the merchant is 3.5%; this means that for every \$100 charge using a credit card, the merchant will only receive \$96.50. Therefore, this means that the bank would receive \$3.50 for the usage of their network. The merchant funds are deposited into their account with the bank.

For a business to have an e-commerce operation, they should be able to accept payments via credit card online in real time. They should sign up with a financial institution to get an Internet merchant account. When a customer enters their credit card information online to pay for goods, the transaction is processed and the merchant will receive the balance after the discount rate in



their Internet Merchant account. Please note that these are very technical issues and I am simplifying for the audience.

For the international companies to set up their e-commerce operations in The Bahamas the merchants will need to obtain an Internet Merchant Account

For a local business to accept credit card transactions online, they require an Internet Merchant account. As it stands today, no local bank is readily providing Internet Merchant accounts. This is an expensive venture that leads to other issues. I do understand why this is the case. Think about it, how many brick-and-mortar merchants currently allow you to pay for goods using your credit card? Not much, considering the number of businesses in The Bahamas; and when they do, if there is a discount, it normally does not apply to credit card transactions but only to cash purchases. By the way, this is prohibited by the credit companies and should be reported. Then there are those merchants who require a minimum purchase amount before they would accept your credit card. What a joke!

So, if you consider this, the banks have to then ask the question; how many local businesses will sell goods and services online? As it stands now, banks do not see it as a viable venture.

Therefore, if a local business wants to sell goods and services online today in real time, they will have to acquire an Internet Merchant Account from an international provider. This alone requires a college degree to understand. However, in short, if you get a US Internet Merchant Account, you will have to pay higher discount rates to the provider and there is the little issue of currency conversion. For example, if a customer with a local bank (B\$) credit card purchases your local goods, they will expect to pay in B\$. However, the transaction will show up as a US\$ charge because the US Internet Merchant Account is settled in US\$. This all translate into higher fees to the e-commerce operator.

In sum, there is a lot more that can be said on this subject. However, if we are serious about e-commerce, we must first, along with the e-commerce laws, address all of the above-mentioned issues.

Alexander J. Hanna is President of MegaComm Systems which specializes in developing Windows and Internet Solutions. He is considered by many to be the most innovative software solutions developer in the country. Mr. Hanna has developed high-end solutions such as BankBahamasOnline (Internet Banking), ezDirectory, BahamasElections.com, online gaming solutions, and the first ever in The Bahamas text message voting via cellular phone just to name a few. Please send your feedback to itzone@MegaCommSystems.com.