DRIVING THE FUTURE OF PAYMENTS

10 MEGA TRENDS

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WILD RIDE AHEAD

Change in payments has gone into overdrive, and will only get faster. From digital disruption and the race to innovate to regulatory requirements and customer demands, traditional payments players are being squeezed from all sides. The pressure will not let up.

Payments companies must anticipate what's next—now. They must constantly flex and adapt in a market that never stands still. One that will reward agility and punish inaction. In this spirit, this point of view explores ten trends that Accenture believes will drive the future of payments. It includes consumer views based on the results of Accenture's 2017 North America Consumer Payments Pulse Survey of 1,500 consumers in the United States and Canada.

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TREND 1
GEN Z RISING

One-third of Gen Z consumers want to share their payments on social media while only three percent of Baby Boomers would.

68%

of Gen Z consumers are interested in instant person-to-person payments—more than any other age group.

Source: Accenture 2017 North America Consumer Payments Pulse Survey

Meet Gen Z, the generation right behind the much-talked-about Millennials. The oldest among them are just teens and young adults today, but Gen Z consumers are the payments industry's future customer base. This group is projected to make up 40 percent of all US consumers by 2020.[1] It's time to get to know them.

While these future consumers share some traits with their older siblings, Gen Z is very different from their parents and grandparents. Gen Z is naturally digital. They have never lived without Google, Apple, Facebook and Amazon. They are mobile mavens. Eighty percent would give up television for a day—and an astonishing 28 percent would give up friends or money—to keep their mobile phone.[2] This "see now, buy now" generation craves immediacy. Devotees of Snapchat and Instagram, their average attention span is just a few seconds. While they move fast, GenZers still demand personalized and highly-relevant experiences as consumers.

While our survey reveals that online banking is the most frequently used banking channel among all consumers, GenZers gravitate to mobile banking apps. Sixty-nine percent use them daily or weekly. Compare that to just 17 percent of Baby Boomers. This confirms a massive generation gap in accessing banking services that will continue to widen. Intrigued by digital tools that manage payments, bills, expenses and personal finance, GenZers want their mobile wallets to think for them. One example would be a wallet that automatically chooses the card that offers the best rewards or savings. Surprisingly, while Gen Zers are mobile first, they have not abandoned traditional channels. Our survey results show that Gen Z is actually more engaged than other consumers across all other channels, even call centers and branches.

Not only is Gen Z nuanced in its banking preferences, it is upping the ante. As GenZers enter the workforce and their financial needs become more complex, they will radically reshape payments. They are likely to be the first generation to forgo the leather wallet for the digital wallet. Their desires will break down the walls between social media and payments in ways that have yet to be imagined. They will also force traditional players to elevate mobile payments value as a matter of survival. Trendsetters themselves, Gen Z will influence other consumers, upending what the industry thinks its knows about its customers.

TREND 2

UX IS THE NEW GOLD

The ties that bind customers to traditional payments players are fragile at best.

As the payments universe expands, customer experience is becoming the prime competitive differentiator. The irony—and the danger—for traditional players is that customer experience is in the spotlight just as they are losing control of customers. Less touchpoints mean less opportunities to shine. So when companies have customers' attention, they better get it right.

Think about how Google makes a fortune as the destination of choice to find anything. The genius is that by owning search, Google collects billions in advertising revenue. Even if people have no interest in the ads, the times that they actually do is pure gold. The same is true in payments. Providers that are present across the payments journey in the moments that matter to consumers—not just if or when a transaction occurs—are golden.

With digital, payments providers can connect with customers in these moments like never before. Consumers are ready. Our survey indicates that most—including about 70 percent of Millennials and GenZers—are interested in digital payments advisory and expense management services that can give them a better understanding and control of their personal spending. This is a clear signal that payments has moved beyond the transaction. Next-level customer experiences matter more than ever. Experiences that align not just with how people pay, but with moments of influence in their lives. To deliver, the industry must design payments experiences around human needs. Case in point: ZapBuy from Omnyway makes it possible for consumers to hold their smartphones over any display ad on any channel, including print, television and online, and make a purchase immediately.

For now, banks have a monopoly on the data they need to deliver meaningful customer experiences. But as our consumer survey shows, with more than half of Millennials and Gen Z consumers willing to share online bank account credentials with third parties, this monopoly is vulnerable. Not to mention that this is the era of open banking. PSD2 in the European Union allows third parties to access customer account information via application programming interfaces (APIs). While it is an ocean away, PSD2 is a harbinger of things to come in North America. Already, large banks in the United States have started to open their data to third parties. The battle over customer experience has begun, and it is anyone's to win.

61%

of consumers welcome open access to their finances so they can see checking account or credit card balances when paying with *any* mobile app.

Source: Accenture 2017 North America Consumer Payments Pulse Survey

TREND 3

MOBILE HITS ITS GROOVE

23 percent of consumers would give up their mobile banking app for a digital wallet with all their payments information in one place.

Consumers' use of mobile payments has been consistently lackluster even as they fell madly in love with their mobile phones in other aspects of their lives. Not a shock considering that all the industry did was put a piece of plastic on a phone with more technology than it took to land on the moon and expected magic to happen. But how could it without new value?

64%

of consumers plan to use a mobile wallet in 2020, up from 46 percent today—a 39 percent rise in the user base.

Source: Accenture 2017 North America Consumer Payments Pulse Survey

This will change. Mobile payments is poised to finally have its day thanks to APIs and open banking. These advances make it possible for payments players to deliver more valuable, consumer-focused payments experiences—with immediate rewards, proactive balance alerts and more—that bring the power of mobile, the ecosystem and data sharing to life. This is about finding engaging ways to offer true value beyond the transaction itself.

Consumers are desperate for a different breed of mobile payments options. Our survey suggests that one of the value-added services that we predict will gain traction in the coming years is a single view of account information. This is possible with a mobile banking app that allows consumers to see all checking and credit card balances at one time. The risk here for banks, considering the rote functionality of their mobile payments apps, is that aggregators will start to disintermediate banks in mobile payments by providing this increasingly sought after unified view of consumers' finances. Banks are essentially two APIs away from losing a big chunk of their mobile app traffic.

Delivering this unified mobile payments experience will become ground zero in the battle over customer experience between traditional players and third-party payments providers. Today, bank mobile wallets have lower penetration among consumers (28 percent) than the both the Pays (Apple Pay, Android Pay and Samsung Pay) (49 percent) and merchant wallets (39 percent).[3] If traditional players do not think beyond the functional aspects of their mobile payments apps to create mobile experiences that engage consumers to do more—to get more value—Google, Apple, Facebook, Amazon and others will do it for them.

TREND 4

REWARDS REVOLUTION

Consumers want more and more—and still more—in rewards and are willing to switch cards to get it.

Consumer spending on rewards cards since the Great Recession has skyrocketed. Last year, consumers received $15 billion in rewards value through cash back, miles and points, according to our estimates and analysis. But there is a tug-of-war going on. Rewards are hitting new highs while the interchange remains relatively flat in the United States and has been reduced in Canada. Something has to give. In the end, it will be the nature of rewards.

This push and pull of opposing forces has intensified in recent years. Banks, card companies and retailers are locked in a battle of wills—and significant investments—as they introduce one-up premium rewards cards that extend rewards value. Our analysis of publically available card company data reveals that one company's marketing and rewards costs as a percent of revenue more than doubled from 2008 to 2016 from nine percent to 20 percent. Another's jumped from 18 to 29 percent. At the same time, major discount retailers often pay small fees to accept credit cards.

This unsustainable friction between rewards and interchange fees means two things. First, the traditional rewards model is at or close to peak. Second, it is time for a new rewards playbook. Put simply, consumers want more rewards. Consumers are most likely to switch their primary rewards cards for a large up-front signing bonus or more points or cash back on their purchases. Convenience is key too. Seventy-six percent of our survey respondents want to redeem deals tied to their card when swiping at the point of sale. Already, Google's Smart Tap technology makes it possible to pay and redeem a loyalty card at once. Consumers also crave personalized rewards. Half of those we surveyed are interested in or can be convinced with the right incentives to share their personal information to get more relevant offers.

While competition will continue to be intense, payments players have tremendous opportunities to deliver next-generation rewards. Innovation will start with a clean slate and have many looks. Digital ecosystems will find ways to broaden the relevance and reach of rewards. Rewards will go beyond the card as consumer product companies partner with payments providers to digitize their coupons and offers. In essence, tomorrow's rewards will move beyond payments and become more experience based. They will reflect consumers' lifestyle needs and will be delivered seamlessly in real time.

48%

of consumers would switch their primary rewards card to get more value for their purchases, and 42 percent would switch for a large up-front sign-up bonus.[4]

Source: Accenture 2017 North America Consumer Payments Pulse Survey

TREND 5

THE NETWORK EFFECT

The power of the network is essential to win the future of payments.

After years of an on-again-off-again love affair with collaboration, banks are smitten again. They are embracing connected networks to multiply impact, collaborating in disruptive, new ways. By working within ecosystems, payments players are poised to create the next generation of payment rails, bank networks and alternative forms of payment.

Collaboration has come and gone among traditional payments players since the industry's early years. At the dawn of the digital age, banks were moving away from collaboration. Many were slow to embrace the potential of digital technology to provide an elegant backbone for new ways to collaborate. Take banks' initial approach to person-to-person (P2P) payments. In the early 2000s, banks tried to build their own P2P solutions to take on PayPal with little success. Today US banks are launching Zelle®, one API-enabled network of more than 30 partners to deliver real-time payments across thousands of banks and millions of consumers.[5]

Led by market and regulatory forces, collaboration is bigger and bolder than ever before. It goes beyond a mutually beneficial relationship between two parties. The industry's "new" collaboration reflects a fundamental premise. That the power of the network grows exponentially with the number of participants. Network innovation will surge as technology continues to drive competitive advantage in the industry. Because tapping into the network allows companies to multiply capabilities and reach without building and investing from scratch.

Zelle is just one example of the network effect at work in payments. Both MasterCard and Visa have expanded the use of partnerships, open APIs and other tools and technologies to deliver more customized and cross-device payments experiences. The Enterprise Ethereum Alliance brings together technology giants, financial and payments powerhouses, startups and governments to support Ethereum, a blockchain-based platform like Bitcoin. Collaboration like this will continue in the future. Because from now on, it will take a village to respond to and create change in payments.

TREND 6
FINTECH AND BANK FUSION

Payments innovation could lose its brilliance without fintechs and banks partnering.

Collaboration will make the payments fintech landscape unrecognizable in a decade. Fintech companies are more willing to work with traditional providers. Banks are starting to think and innovate like fintechs. This new marriage of opposites—fin and tech together—is a powerful mutual dependency. A symbiosis of very different organizations with complementary strengths.

There is no doubt that fintech companies have transformed financial services, from the mortgage industry to payments. They have disrupted traditional markets by combining bold new business models and cutting-edge technologies. Some have soared. Others have fallen. PayPal thrives. But in the boom-and-bust cycle of fintech in payments, few likely remember the now defunct Beenz and Flooz.

The reality of this here-today-gone-tomorrow dynamic points to an Achilles heel that some fintech companies will never overcome. Many lack the infrastructure, industry knowledge, brand reputation and customer base to scale. Traditional players have these things in spades. But they are not the leaders in disruptive digital technologies. What's more, their organizational structures and risk tolerance do not naturally enable agile innovation. This is why fintechs and banks are better together than they are alone. Investors are starting to think so too. Our analysis reveals that in North America, collaborative fintech investment as a percent of total investment (37 percent) is higher than it is in the rest of the world (18 percent).

Banks are in build, buy and partner mode themselves. Non-bank payments providers like card companies are partnering with fintechs as well. A scan of the headlines reveals how prevalent fintech and bank partnerships and strategic investments are in payments. In fact, partners are fast becoming the new disruptors. Chase Pay has turned to scanner company LevelUp to expand its footprint in quick-service restaurants. Working together, Bank of America and PayPal are making it possible for the bank's customers to link their cards into PayPal to pay in store. TD Bank and Moven came together to bring Moven's money management app to customers in the United States. The list goes on. Best-of-both-worlds partnerships like these will power the future of payments transformation.

TREND 7

AN ARMS RACE IN CODE

The way consumers think about their credit card accounts is about to undergo the most radical shift in 100 years.

Accounts are identified by a string of numbers. But with EMV, every credit card account becomes software code. Code that runs securely and can produce a different number every time. Combine this with advancing digital payments technologies, and the potential is mind boggling. Over the next few decades, this change will disrupt nearly every aspect of payments.

The industry is already experiencing the first wave of this disruption with tokenization. It enabled Apple Pay and Android Pay—a watershed moment because it was the first time that banks ceded control to outsider third parties. But this is only the beginning. Consider this. Tokenization allows custom account number code unique to a single website. If the code is stolen, it is useless for any other transaction. This alone could change the face of credit card security, which consumers care about deeply.

There is a monumental impact to the power structure to consider as well. Code will kill the physical card and upend the payments infrastructure as credentials become virtualized and can be embedded anywhere. The processing side changes completely if card providers become token providers and cut out the service layer. This is uncharted territory. To navigate this change, traditional players will need very different approaches to innovation and management of payment credentials. First movers will not only continually push the boundaries on the art of the possible in code, but also, invest in and develop rapid innovation capabilities to bring ideas to market before anyone else does.

The broad impact that code will have on the industry illustrates just how much, and how quickly, technological advancements are impacting payments. From blockchain and augmented reality to advanced biometrics and the no-payment payment, the deluge of so much technology so fast can be unnerving. But the value to the industry is not about the "what" of the latest and greatest technology, but "how" it will reinvent customer experiences, standards, regulations and safety and security measures.

TREND 8
PAYMENTS EVERYWHERE

Everyone can be a merchant—and every device can be an acceptance device.

Payments players once controlled their own destiny in accepting payments. Now there is a proliferation of payments acceptance at the point of sale, online and on the go. Payments that were location bound are now device enabled. This shift points to a future of universal acceptance that will alter relationships between merchants, customers and payments intermediaries.

In 1999, an unknown company had an idea that was before its time. The company had a vision to enable people to beam money to each other using their Palm Pilots. This proved difficult because individuals could not easily accept card payments. The company was PayPal and by focusing on solving the personal acceptance challenge, it changed everything. The Eureka moment was not about payments. It was about acceptance. More specifically about democratizing acceptance.

Fast forward to today. In a world of PayPal, Venmo, Stripe and Square, there are countless ways that individuals and small businesses can accept payments. Take Stripe, which is behind billions in online transactions every year. Businesses of all sizes use it—from entrepreneurs selling out of their basements to the likes of Lyft and Amazon.[6] Not only can anyone accept cards now, they can do it from anywhere. All it takes is connectivity and a portable card reader to create the next-generation point of sale.

Technology will continue to evolve how payments are accepted, and by whom. As a result, there will be a recalibration of the payments network as we know it. Take the relationship between cards and acceptance locations in the United States. The trend in recent years has been that card growth has outpaced merchant outlet growth. In other words, there are more cards than there are places that accept them. This gap will start to close as universal acceptance becomes a reality. Because unlike merchant locations, devices can scale one-to-one with card use. With that, the payment network becomes bilateral for the first time.

TREND 9

FRAUDSTERS INNOVATE TOO

Criminals are making it their full-time job to out innovate the payments industry.

In this industry, the battle between good and evil is between payments companies and fraudsters. It goes like this. The industry erects new security protections, and the bad guys get around them. Over and over. Unfortunately, EMV has not stopped card fraud, and there can be no letting down of defenses. Security frameworks must advance, evolve, mutate and morph as security threats do.

Credit card fraud did not end with EMV. It is shifting. Think of it like squeezing a balloon. Put pressure on one area, and the air naturally moves into another. Following a few years of sharp rises in merchant breaches and counterfeit fraud, fraudsters are focused on card-not-present transaction fraud. The industry could expect $31.3 billion in global card losses in 2018, which have increased by 18 percent every year since 2013.[7] It is no wonder that bankers view data security as among the top challenges to compete in payments today.[8]

This challenge will get tougher. Bad guys love workarounds, and they keep raising the bar on innovation. For example, identity imposters are evolving. Not only are criminals using stolen identification to open credit lines, they are now creating new, digital-only identities by knitting together real and fictitious information. These "synthetic identities" exist only in the digital matrix. While the exact magnitude of synthetic fraud remains uncertain, estimates of financial industry losses range into the billions. Existing fraud detection models are designed to prevent transaction fraud, and cannot address these threats. Even fake fingerprints can outwit fingerprint sensors on smartphones. In addition, fraudsters can infiltrate cardholder authentication channels (mobile, online, and call center) to place false alerts and "verify" fraudulent activity.

Banks and card companies must push to out-innovate fraudsters. Some are using new technologies for digital applications and online, mobile and call center servicing channels. With geolocation data, banks can compare the location of the device used to complete an application or transaction with the applicant's or cardholder's stated location to evaluate the likelihood of fraud. Acoustic analysis evaluates risk in call center interactions by analyzing background noise during inbound calls to help confirm callers' true location. These are steps in the right direction, but this game of cat-and-mouse will get more complex.

TREND 10

RIP AND REPLACE REQUIRED

Traditional payments players cannot survive without a complete overhaul of existing systems.

Payments transactions have long been processed, cleared and settled over several days. This is laughable in today's world—much less tomorrow's—where so much happens instantaneously. The hard truth is that existing architectures have reached terminal velocity. They are no match for the industry's quantum leap in speed, enhanced feature functionality or messaging standards.

A confluence of forces is framing the imperative for payments modernization. Real-time payments is very real—39 countries have already implemented immediate payments, according to the InstaPay tracker. There is also the push to enable tokenization and new overlay services such as API integration and proxy and delivery services. In addition, nearly half of the global messaging standard ISO 20022 initiatives are happening in payments, moving beyond the European Union into North America.

For example, ISO 20022 adoption is a strategic part of payments modernization in Canada. Payments Canada started a multi-year initiative to transform the systems and rules essential to the nation's payments ecosystem. These changes include imminent enhancements to existing systems to speed up transactions, as well as longer-term improvements such as the implementation of a faster payments capability, a new core clearing and settlement system, and as noted, the introduction of ISO 20022, which will facilitate the transition from paper-based invoicing and checks to digital processing for these functions.

Many banks and payment service providers are contemplating or have already begun overhauling their payments infrastructure. Ripping and replacing will give payments companies newfound technical flexibility. Today's technology stack is monolithic. It is composed of large, inflexible systems. Reorganizations or replacements are by nature very costly and time consuming. Tomorrow's technology stack is the exact opposite. It is composed of open and flexible systems. It is inherently agile and can reorganize to predict and meet market needs on short notice. A must for payments players today and in the future.

BUCKLE UP. BUCKLE DOWN.

From a new generation of customers and an emphasis on experiences beyond the transaction to uncommon collaboration and systems modernization, any one of these trends in isolation is a game changer. Together, they point to an entirely new future for the payments industry.

With the right vision, this future holds great opportunities for banks, credit card companies and new entrants. The winners are not waiting for change to happen to them. They are already busy capturing first-mover advantage by evolving business strategies, operating models, systems and cultures—and by buckling up for what promises to be a wild ride.

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SURVEY POPULATION AND METHODOLOGY

This online survey was conducted by Accenture Research among 1,000 adults in the United States and 500 in Canada between September 1, 2017 and September 10, 2017. The overall margin of error is +/- 1.55 percentage points at the midpoint of the 95 percent confidence level.

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NOTES

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