PERSPECTIVE

Cards and Payments: Renew the Old, Ring in the New

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Abstract

A number of shifts are underway in the cards and payments industry today. Cards and payments companies must be ready for the new business environment with a dual transformation strategy of Renew-New. In this paper, we discuss the opportunities for renewal and exploring the new that payments companies must focus on as they plan for growth.

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Non-banking players continue to drive some of the biggest changes in the global payments industry by putting technology front and center of the payments lifecycle, enhancing the quality of customer experience and raising the competitive bar in a hard-fought market. As cards and payments providers ride these developments, they must also ensure compliance with a number of regulatory, risk, security and privacy mandates.

To remain competitive, the industry should consider renewing their existing, and frequently, legacy systems and processes to extract maximum efficiency and performance on one hand, and innovate with new systems, practices and technologies to create further value, on the other.

Four areas present a great opportunity to apply the 'renew and new' approach – enabling digital commerce through newer platforms and partnerships, delivering integrated customer experience across channels, and combating security threats while improving business agility. Each of these areas has many opportunities that the industry must leverage to renovate what they already have and, at the same time, innovate to embrace the new, going forward.

Enabling Digital Commerce

From a straightforward barter exchange or swap of cash for goods and services, simple trade has evolved into complex digital commerce consummated in a lifecycle of investigation, transaction, delivery and support. Hence, payments today spans a complex set of processes and services starting before and ending after the actual monetary exchange. These pre-, at-, and post-payment experiences are interlocked and feed into each other. The ecosystem participants therefore need to be keenly aware of this end-to-end, 'payments plus' perspective to unlock opportunities.

- **Renew opportunities:** E-commerce has evolved considerably but a number of players still lag behind in getting their fundamentals right. Players such as Amazon have set a high benchmark for e-commerce experience. Aside from such leading players, customers face challenges with simple retail buying experience with the vast many. Their challenges range from complicated navigation, lack of one-click check out, inconsistent pricing, and inventory visibility. Another key area of concern is security. Customers manually key in card details, falling easy prey to phishing and other scams. Further, best-in-class sites have marched ahead with intuitive next best action, offers, loyalty and a frictionless redemption process. Clearly, there is a pressing need for the industry to simultaneously improve customer experience and security in e-commerce. This renewal will be core to survival for players who are counting on their growth through online experience.

  Then there is the white space of B2B payments. Reportedly, half of all payments received by a typical organization are in check form. This is even more pronounced in small and medium enterprises where 60 percent of transactions are paper-based. But this is also a very price sensitive space demanding high performance. Payment providers can leverage technology to drive the digitization of B2B transactions and end-to-end automation by incentivizing the use of digital payment instruments and developing new revenue-generating digital offerings for liquidity management, financial supply chain integration, and for the B2B purchase-to-pay value chain.

- **New opportunities:** The digital wallet is one of the many innovation opportunities in digital commerce. While the digital wallet is not a new idea any more, it is seemingly receiving a fresh impetus in the form of Apple Pay which has managed to address many of the issues associated with earlier offerings such as security (through tokenization and fingerprint ID), service reliability (by making the payment technology and the device that runs it), and acceptance (by lining up an impressive roster of retailers). Many of the solutions that undergird Apple Pay have been in existence but Apple has managed to make the customer experience seamless. Similarly, the robust counter moves from Samsung and Google which have acquired LoopPay and Softcard respectively, will play out in the short-term. Further, Host Card Emulation or HCE will aid the Android ecosystem to provide Wallet services through a software-based solution.

  Mobile payments and digital wallets are areas of intense interest not just from a customer standpoint. On the merchant side too, there is a steady increase in point of sale (POS) tablets that provide richer user interface and bring together meaningful capabilities from inventory management to digital marketing for the merchants in one place.

  Wearable represents another exciting new opportunity which when combined with digital identity could potentially transform the overall payments experience. The 2014 Innovation in Retail Banking report by EFMA and Infosys found that 8 percent of banks had already invested in wearable device services and another 20 percent were exploring the idea. Once this technology gains traction, it is quite likely that NFC-enabled wearable devices will be used to make payments, complete with biometric user identification and authentication.

Delivering Integrated Customer Experience

Customers are clearly articulating their expectations from payments services: freedom to choose from a range of innovative products, simple meaningful experiences that minimize friction, uninterrupted service at all times and across channels, and of course, security and privacy. As payments providers seek to deliver an integrated customer experience, they can draw inspiration from the likes of Amazon and Uber whose payment processes are quick, streamlined, and pretty much 'one touch'. Lastly, customers are expecting a 'Netfilx-like' experience across channels where they are able to pick from one channel what they left in another. It is not about whether they prefer one channel over the other but providing one continuous experience and this includes call centers.

- **Renew opportunities:** Providers can breathe new life into customer experience by personalizing it to the customer's need and context. Take the example of Barclay card whose customers are targeted with 'bespoke' offers based on their demographic characteristics, preferences and even current location. Renewing the consumption experience through personalization enhances conversion rates and engagement to improve the efficacy of customer relationship management. It also enhances an organization's overall innovation capabilities.

  Customer self-servicing platforms can be simplified and enhanced to be predictive and based on a range of real-time variables such as browsing patterns and transaction history, response to previous marketing campaigns, and demographics. In cross-border remittance space, we are seeing players vastly improve customer experience with online and kiosks supplementing traditional agent-based models. Many new players have taken the extreme approach of going digital only to provide very competitive alternatives to existing providers.

- **New opportunities:** A leading analyst says that 3 billion people on the planet will create 8 zettabytes of data this year and almost all of them want to be able to purchase, receive and return goods across channels. That's the customer view of an omni-channel experience – an experience that is consistent, seamless and portable across all channels and devices of access. From the payment provider's perspective, it means acquiring the right technology infrastructure complete with new solutions such as big data analytics which will enable them to see an integrated customer view at all touch points and empower frontline staff on every channel with the same real-time data so that they take efficient, timely and consistent actions. Undoubtedly, omni-channel is one of the most exciting new opportunities awaiting payments.

Another one is social listening. At MasterCard's social command center, a dedicated team listens to social media conversations to understand what customers are saying about their brand. When early adopters of mobile payments complained about inadequate POS acceptance and customer support, they employed this feedback, and inputs from other people in the MasterPass digital wallet.

There is a proliferation of apps and an ever-growing need for payments. For example, Uber's deceptively simple app has revolutionized the way we hail a cab. Payment setup is a one-time activity and totally embedded in the experience. Uber underscores the need for payments players to have a presence that is native to any app and more broadly, accessible on any channel at the moment of need.

Mitigating Security Threats and Ensuring Compliance

A survey of finance professionals in the U.S. revealed that 60 percent of organizations in the country faced payment fraud attempts in 2013; 43 percent of these organizations said that cards were targeted. 2014 was no different, with the likes of Target and Home Depot suffering security breaches.

Today, security is a top organizational priority across the board, more so, in financial services companies and leading from that, regulatory compliance is one of their biggest challenges.

As the level of regulatory stipulation and oversight increases steadily – think CARD ACT, CFPB, SEPA, FATCA, Basel III, and PCI DSS – payments providers are grappling with rising reporting, compliance and penal costs. This challenge can turn into competitive advantage for organizations that carefully plan, articulate and implement their compliance strategies. IT plays a key role here, not only as the technology backbone enabling monitoring and compliance, but as next-generation analytics solutions that can detect and therefore prevent attempts at fraud.

- **Renew opportunities:** Businesses have used the POS infrastructure for decades now but there is a new thrust to renew this infrastructure. EuroPay MasterCard Visa (EMV) 'chip and pin' cards are a proven and safer alternative to the old magnetic strip variant. Countries in Europe, and Canada witnessed a sharp drop in card fraud once they switched to EMV. The U.K. Card Association credits EMV with bringing skimming down to a record low in 2011, when it dropped to 75 percent of its 2007 level.

  Meanwhile the U.S. which persisted with the old technology was seen as a weak link in the chain of card and POS fraud. But now, the long-awaited adoption of EMV standards by the U.S. is expected to boost card transaction volumes in that market. We believe that this is the technology to watch, given that the U.S., where only 10 percent of the 12 million POS terminals are EMV-enabled, is aiming for more than 50 percent coverage by 2018, and for 70 percent of all cards to have the necessary chip by the end of 2015.

  EMV alone does not address all security pitfalls as some of the high-profile compromises in recent times have rightfully highlighted. This is forcing payment participants to accelerate the use of tokenization to protect personally identifiable information (PII).

  Furthermore, the mandate of upgrading merchant POS terminals before October 2015 EMV deadline has increased the availability of NFC-enabled terminals in the U.S. According to Juniper Research, there will be 500 million NFC users by 2019 globally. Apple Pay is expected to play a big part in accelerating NFC payments worldwide.

  Cards and payments companies must embrace these measures that will not only improve security and confidence in card payments, but also reduce the cost of complying with PCI DSS requirements and liability in the event of a loss due to 'card-present' fraud.

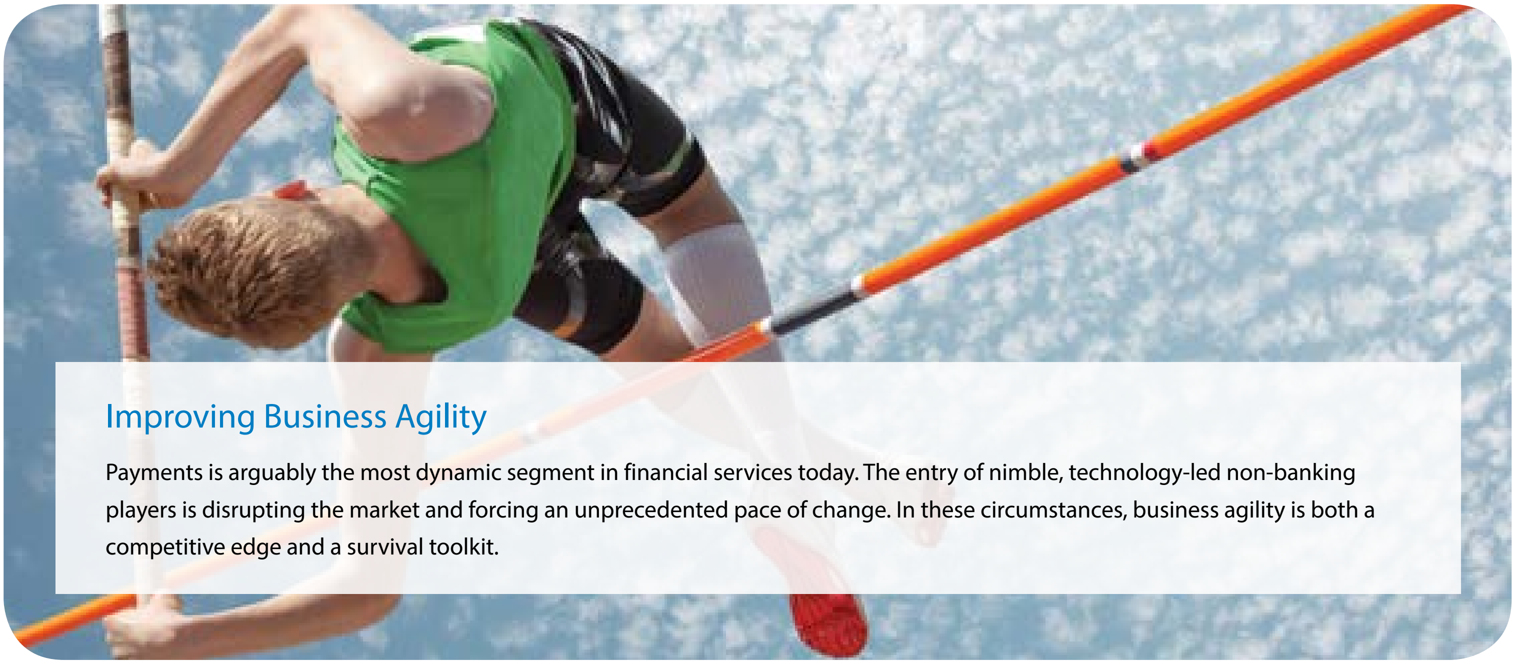
- **New opportunities:** Big data-based approaches are indispensable in building out a range of threat mitigation, both real-time such as those in trade reporting, and periodic, that the increasingly sophisticated regulations mandate.

  Card issuers and merchant acquirers can enhance their enterprise-wide fraud management platform by implementing machine learning and data management techniques to detect fraud, such as money laundering, terrorist financing and other financial crime by scanning all transactions and preventively recognizing patterns that imply novelty or uncommon activity.

  Card players can maintain card member positive history with data such as billing address, phone number, email ID, IP address, and device fingerprint. This repository can be used for real-time risk assessment for 'card not present' transactions.

  Visa has recently launched a mobile location service that enables card issuing banks to identify cardholders with the help of their mobile phone's geo-location data. This service is expected to help reduce card transaction declines when the cardholder is making purchases during his/her travels. This will also reduce the number of customer service calls made to issuing banks for pre-travel requests and to research declined transactions.

  There are a number of initiatives that have taken ground in the last year to mitigate the threat of an imminent security breach. Several merchants have initiated point-to-point encryption to protect data in transit and tokenization to protect data at rest. These technologies will also alleviate their PCI compliance obligations. Merchants are also evaluating and adopting EMV before the imminent October 2015 deadline. Lastly, the acceptance of emerging payment form factors (phone, wearables, IoT), wallets (Apple Pay, Google, Samsung, MCX), and payment modes (in-app) are necessitating merchants to move to a more flexible and new payment architecture.



Improving Business Agility

Payments is arguably the most dynamic segment in financial services today. The entry of nimble, technology-led non-banking players is disrupting the market and forcing an unprecedented pace of change. In these circumstances, business agility is both a competitive edge and a survival toolkit.

- **Renew opportunities:** There are a range of opportunities for firms to modernize their core payments platforms from implementing a payments hub to replacing legacy platforms such as ACI Base 24. There is an opportunity to relook at the infrastructure from the ground up to create a more elastic and secure private cloud and migrate to a modern, open source, cost-efficient and highly agile platform.

  A need for rationalization and modernization of card management platforms may appear when existing ones are not able to quickly support new product launches and regulatory changes, or when the IT division has accumulated an unmanageable portfolio of card platforms through mergers and acquisitions. Rationalization and modernization initiatives in card management platforms can include roadmap refresh, platform migration, platform re-hosting, or platform replacement using a third-party package.

  Implementation of a unified card management platform using third-party package software and migrating multiple geographic markets on to it presents key benefits such as lower TCO, a standardized approach to IT and business processes in the front- and back-office, standardization of customer experience and scale, and uniformity to enable a factory-based approach to back-office activities, application maintenance and support.

- **New opportunities:** Faster Payments, adopted by more than 20 countries, including South Africa, Mexico, Nigeria, Poland, Sweden and Singapore, and in the offing in the U.S., Canada and Australia is a new option for speedy settlement, and one that is attracting more and more interest in the B2B space.

  Faster Payments enable digital payments service providers to offer innovative solutions to customers and retailers. Paym in the U.K. provides mobile phone-based P2P transfer that leverages Faster Payments Services. Zapp, also in the U.K., leverages faster payments and mobile NFC/QR Codes to support cardless payments at merchant outlets. Faster Payments reduces counterparty and settlement risk for banks, reduces payments processing costs, and accounts receivables for merchants, and provides convenience to customers.

  Payments providers should seriously tap this avenue for improving business agility and others, such as API integration.

Conclusion

The cards and payments space is at the nub of several transformative changes, which present both opportunities and challenges. To survive and thrive in this environment, providers need to undertake a two-pronged transformation strategy of 'renew and new'. As payments companies renew existing infrastructure and practices in a quest for improvement and invest in new technologies to create value, they will have to strike the right balance to make sure that both endeavors stay on track and on target.

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