SHIFTING PAYMENTS PRIORITIES

FOUR KEY CONSIDERATIONS NOW

The COVID pandemic has dramatically altered consumer behaviors and priorities through both an acceleration of existing trends (e.g. the decline of cash) and establishing new ones. Incumbents must adapt to a world changing at a faster pace than expected, and these new trends represent a wholly different challenge, one that may require banks and payments providers to make a strategic about-turn.

In aggregate, these trends are changing some of the fundamental economics of consumer payments. High margin businesses like cross-border payments are suffering, but there is more revenue to be gained from offering e-commerce-friendly payments technology. Use of cash, and associated ATM fees, are declining but there are greater strains on digital and phone customer support channels. As the economic model shifts, payments companies are faced with a choice: either be a commodity player soaking up high-revenue, low-margin business, or invest in finding the new high-value propositions that customers will pay for. With these factors in mind, we have identified four themes that should be considered when evaluating your payments priorities as we move into 2021.

1. BEING WHERE THE CUSTOMER IS, AND WHERE THE CUSTOMER PAYS

Over the past six months, government-mandated lockdowns and social distancing have precipitated an acceleration in digital consumer payments, as walk-in retail outlets have closed and health concerns escalated around the use of cash[1]. As economies globally begin to open back up[2], it is crucial for payment players and merchants to adjust in order to capitalize on the opportunity presented by new consumer behaviors. Key amongst these is the collapsing together of different payments channels, driven by the need to offer new and more distanced customer experiences. Restaurants are offering online ordering and payment, facilitated by e-commerce players like Deliveroo[3]. Touch-free payments via QR codes from Paypal[3] have also gained popularity as a result of the ongoing pandemic, and Apple is likewise starting to push this functionality. The message is clear: being a payments provider that focuses on a single channel is now an uncompetitive approach. App, website and point of sale are all blurring into one in the eyes of the customer.

2. RE-EVALUATING YOUR PROPOSITION ROADMAP FOR THE NEXT NORMAL

The changing economics of payments businesses will affect how, when and why new propositions land successfully in the market. Consumer expectations have performed a U-turn during the pandemic – some of those expectations will remain entrenched in the aftermath of COVID, whilst in other areas ‘traditional’ attitudes and behaviors will take some time to reestablish themselves. This will require firms to conduct a widespread review of pipeline and backlog to re-review perceived demand, requalify opportunities and confirm commercial viability.

When looking at high-value propositions, hyper-specialization will be key. Customers, whether consumers or businesses, are willing to pay for a proposition that meets all their needs and helps them

[1] https://www.ft.com/content/430b8798-92e8-4b6a-946e-0cb49c24014a
[2] https://www.reuters.com/article/us-global-markets/eu-recovery-fund-sends-shares-euro-to-four-month-highs-idUSKCN24L2UU
[3] https://www.telegraph.co.uk/technology/2020/06/29/restaurants-use-deliveroo-takeaway-app-table-service/
[4] https://www.forbes.com/sites/danieldoderlein/2020/07/14/the-timing-of-apples-qr-code-payments-in-ios-14-isnt-accidental/#57de4f9657fa

achieve their goals. We see this with paid-for propositions such as Revolut Metal and in the rapid growth in specialist acquirers that have tailored their proposition to micro-merchants, such as iZettle and SumUp. This is only possible with a clear and detailed understanding of your customers, market and competition.

When focusing on a high-volume approach, distribution and data are critical considerations. Distribution via partners, platforms and re-sellers is essential to achieve critical mass. Institutions today operate in an area of 'co-opetition' where partnering with the competition may be the key to achieving success. Data unlocks the value in high-volume payments. Recent acquisitions (over $6 billion[5,6] in value) of data-centric businesses demonstrate that there is a strong business case for aggregating, harmonizing and distributing payments data.

3. UNDERSTANDING THE STRATEGIC AND COMMERCIAL IMPACT OF FINANCIAL WELLBEING AND INCLUSION

During the initial response to COVID-19 and lockdown, financial institutions have demonstrated a phenomenal drive and ability to support customers in need. Dedicated phone lines, moving second line and back-office staff onto the frontline, and proactive communication with customers all featured in the banking sector's strong response to the crisis. Looking beyond the short-term shock, more needs to be done to address the long-term effects of the pandemic, however. We see this as requiring a three-pronged approach:

- **Address temporary financial vulnerability due to COVID-19:** financial vulnerability is often temporary in nature[7] and this has been amplified by the current economic environment;
- **Ensure equal access to financial services for all customers:** break down the barriers to access in financial services that are driven by technology, geography[8], disability, and socioeconomics[9];
- **Build better personal financial management (PFM) tools:** these can form part of customer lifecycle management, ensuring that customers remain financially 'healthy', engaged and more proactive about their finances over the long-term.

4. INVESTING IN PAYMENTS PROCESSING WITH PURPOSE

Processing is the engine that underpins any market-leading payments proposition. For the first time, there are credible options to self-manage, partner or fully outsource this capability, depending on its level of strategic importance to the business.

Outsourcing offers simplicity and access to proven technology at a reduced cost. However, it means relinquishing control of the technology, which can hinder future enhancements and introduces third-party risk, which - as recent events have shown - can have a real impact on business, brand and customers.[10]

Partnering or building a solution requires significant up-front investment and in-house technical expertise, and may result in increased operational and regulatory overhead. The upside is an unparalleled flexibility in terms of providing the precise experience customers are looking for, optimizing operations and streamlining costs.

Going forward, the decision to invest in payments processing should be firmly tied to the customer proposition: either to provide a differentiated, unique experience, or by using technology that is proven at scale in terms of capturing significant payments volume.

CONCLUSION

Our conversations with various payments firms have shown that most, if not all, are re-evaluating their strategies for the remainder of 2020 and beyond in light of recent events. However, most are only considering one or two of the factors outlined above. However, in the competitive world of consumer banking and payments, ignoring one or more of these trends invites the risk of disintermediation, inability to acquire new customers and loss of profitability.

Capco is helping clients create and execute holistic post-COVID strategies and can work with you to develop a plan to maintain a robust and profitable business, that delivers for all your customers.

5 https://apnews.com/39179bb87472041e47dc4212ced56275
6 https://apnews.com/ee1d23945f24489c9a6eeef684d514e7
7 https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8-exec-summary.pdf
8 https://www.bbc.co.uk/news/business-46399707
9 https://www.capco.com/Intelligence/Capco-Intelligence/Financial-Inclusion
10 https://edition.cnn.com/2020/06/29/tech/wirecard-uk-accounts/index.html

AUTHOR

Howard Rees
Principal Consultant, Capco UK

CONTACTS

Ian Hooper
Partner & Head of Banking & Payments, Capco UK
ian.hooper@capco.com

WWW.CAPCO.COM

CAPCO

JN_2347