



Beyond Fintech

Disruptive innovation in payments

Background

A 2017 report from Deloitte and the World Economic Forum, "Beyond Fintech: A pragmatic assessment of disruptive potential in financial services," examines disruptive innovation in financial services.

The report identifies 8 key forces impacting all aspects of financial services:

1. Cost Commoditisation

Financial institutions will accelerate the commoditisation of their cost bases, removing them as points of competition and creating new grounds for differentiation.

3. Experience Ownership

Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused.

5. Platforms Rising

Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services.

7. Financial Regionalisation

Diverging regulatory priorities and customer needs will lead financial services in different regions of the world down distinct paths.

2. Profit Redistribution

Technology and new partnerships will enable organisations to bypass traditional value chains, thereby redistributing profit pools.

4. Data Monetisation

Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time.

6. Bionic Workforce

As the ability of machines to replicate the behaviors of humans continues to evolve, financial institutions will need to manage labor and capital as a single set of capabilities.

8. Systemically Important Techs

Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies.



Trends

Where disruption has occurred?	Payments have continued to move away from cash and become less visible to the customer as more people buy via online and mobile channels.
	Payments businesses are under intense margin pressure thanks to both competition and a challenging regulatory environment.
	Payments ecosystems are diversifying by region in response to different customer behaviour and regulatory environments.
Where it hasn't	Mobile payment solutions are not so much better than cards, which is limiting their adoption.
	Almost no customers have accepted nontraditional payment schemes such as alternative currencies.

Open questions



When will mobile payments reach critical mass and how?



To what extent will disruptive new players disintermediate payment sector incumbents across parts of the payments value chain?



How will NPP and alternative currencies impact the payment mix in Australia?



How will financial crime and regulatory obligations be met as payment value chains become increasingly complex and disintermediated?

Possible futures

<p>Loss leader</p>	<p>Declining revolve rates and further interchange reform will continue commodisation of card products while new customer payment experiences built on NPP will potentially cannibalise volumes.</p>	<p>Card businesses in Australia will more likely evolve into supporting units that help diversify banking relationships with customers as compared to the stand-alone cash cows they are today.</p>
<p>Two ecosystems</p>	<p>Open banking is likely to eventuate with industry coordination required to overcome issues with privacy and data security, etc. It is envisioned that open banking would promote data sharing (and consumption) through APIs to improve personal banking data availability (among others) for the customer with tailored solutions being developed (rather than two ecosystems eventuating). Further, open banking, tied with the NPP could provide a challenge to card schemes in the online space.</p>	<p>Potential solutions (e.g., WeChat Pay, funded by a bank account) could churn debit card payments to the NPP.</p>

Key takeaways

Data monetisation

There is an increasing focus on development of value-added services for users (e.g., loyalty, inventory management, etc.), with payments shifting to the background and the overall experience being the differentiating factor. The focus of fintechs is therefore more on knowing the customer (through data), their needs, and how solutions can be tailored to them.

Local payment needs

Australia, similar to other jurisdictions has esoteric payment needs and trends. In particular, it has the highest per capita contactless usage in the world. Further, it also has an affinity to China (as a key trade partner, and due to its proximity), for cross-border payments, both business and personal.

Power of large merchants

Large merchants in Australia do indeed promulgate the rise of particular payment methods (as Coles and Woolworths did with contactless). Likewise incumbents need to understand and prepare for the challenges that will be thrown by new players, like Amazon, Alipay, or NPP overlays entering the market.



Payments

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