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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.

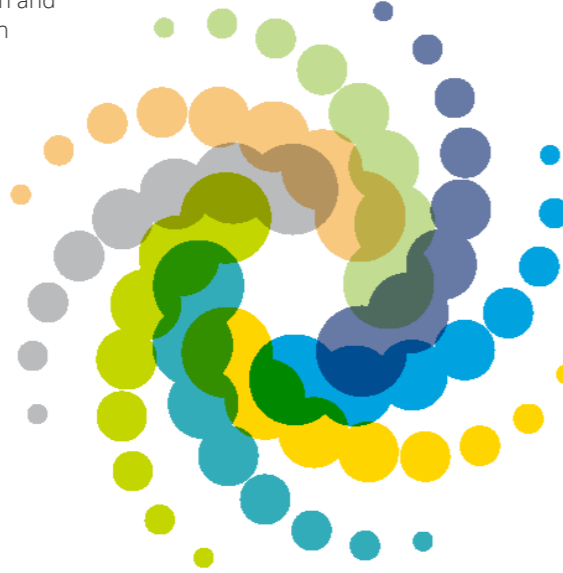
The report identifies **8** key forces impacting all aspects of financial services:

Cost Commoditization: Financial institutions will accelerate the commoditization of their cost bases, removing them as points of competition and creating new grounds for differentiation

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

Data Monetization: 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

Systemically Important Techs: Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies



Profit Redistribution: Technology and new partnerships will enable organizations to bypass traditional value chains, thereby redistributing profit pools

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

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

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

Open questions

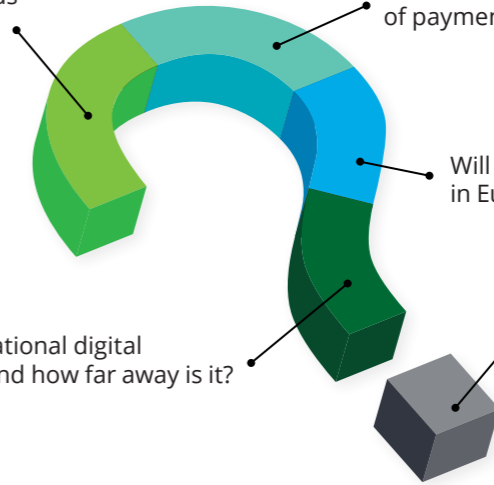
Will payments split into two worlds (retail and online), or can they be bridged?

Who will benefit most from the monetization of payments data?

Will PSD2 create new payments value chains in Europe?

What will the first national digital currency look like, and how far away is it?

Will mobile payments ever capture a major (double-digit) share of retail payments in card-based countries?



Possible futures

Loss leader	As payments move from being a cash cow to a loss leader, market leaders look for new strategies. The rest look for partnerships.	Merchants will benefit. Customers may benefit. Intermediaries will likely not benefit.
Two ecosystems	Post-PSD2, online and retail payments could split into two different worlds.	The implications for customers are unclear, but merchants will come out ahead at the expense of intermediaries.
Increasing fragmentation	Instead of coming together, payments may fragment as merchants, intermediaries, and schemes all try to differentiate themselves.	Customers will enjoy individually tailored experiences but may lose track of spending. Banks will gain power as they track a customer's entire payment profile.

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 behavior 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.

Key takeaways

Data monetization. As new competition and increased regulation erode the profitability of essential payment activities, payment providers will turn to data monetization for revenue. Data streams will be much more valuable where they are granular (e.g. product-level data) and multidimensional (e.g. location data), making data cooperation and partnerships critical to realizing any gains.

Local payment needs. Instead of letting technology determine the payment solution, institutions will design payment solutions that fit their customers' lives – which will lead to regional solutions. Emerging countries that lack a mature payments ecosystem will likely take the lead in developing payment solutions.

Power of large merchants. As large merchants increasingly influence their customers' payment choices (especially online), their negotiating power will grow as well. Combined with the growing importance of product-level payments data, merchants will be able to wield this power to reduce fees and shape the broader evolution of payments ecosystems.

