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Payments trends 2020

InFocus: Strategies to prepare for the future of payments

Top takeaways

Deloitte expects 2020 to be about the formulation of “big bets” in the payments space.

In particular, we see five emerging trends driving change, presenting challenges, and creating opportunities in the 2020 payments ecosystem.

What implications could these trends, collectively, have for payments companies over the next year? And what new stakeholder strategies and actions might be taken in response?

Payments trends 2020: Mastering a dynamic market

The dynamic payments industry continues to expand and evolve, with digital payment vehicles and transaction volumes growing across the globe. Over the past year, industry incumbents have been responding to numerous trends and drivers by:

- Modernizing their organizations and infrastructure to support new service offerings and identify new revenue streams

- Investing in cloud computing and other digital technologies to more rapidly address evolving customer preferences and mitigate risk and regulatory obligations

- Engaging in targeted M&A to fill in adjacencies and add capabilities and talent to address challenging areas such as cross-border payments, an improved end-to-end payment experience, multi-payment integration, and business-to-business (B2B) payments

- Collaborating with financial technology (fintech) players and other market entrants as strategies and playbooks for partnering continue to evolve

We anticipate that 2020 strategies will likely be about the formulation of "big bets." This could take the shape of either going all-in on a targeted set of preferred partners and platforms or going broader in an attempt to service the ecosystem. We view five emerging trends as driving these strategies, presenting challenges, and creating opportunities in the 2020 payments ecosystem. These trends could help shape strategies for organizations as they seek to master this dynamic market.

What implications may these trends, collectively, have for payments companies over the next year? And what new strategies and actions might be taken in response?

Five payments trends shaping 2020

1. Competition between closed and open payments platforms
2. Evolving payments economics
3. Development of new standards to govern the flow of money
4. Noncommercial entities' role in shaping the ecosystem
5. The future of payments organizations and talent implications

Trend 1. Competition between closed and open payments platforms

What do consumers value more from a payment services provider? The convenience of being able to conduct the entire buying experience, including payment, on a closed, all-in-one platform (be it device-centric or app-centric)? Or the choice of buying whatever they want, however they want, that is enabled by an open ecosystem?

We expect to see increased competition between established providers of closed and open payments platforms in 2020 as they vie for a larger share of consumers' and businesses' dollars and loyalty. Strategies are likely to include developing proprietary payment products that offer increased value within a platform or an extended financial infrastructure to facilitate commerce across platforms. We also anticipate that payments players will be deciding which of these types of platforms will be the most relevant to supporting their go-forward strategies and influencing product and service development, technology selections, integration approaches, and partnership models.

Trend 2. Evolving payments economics

Product commoditization and the pursuit of post-M&A value are fueling an evolution in payments economics. As value decreases for traditional competitive differentiators, such as transaction processing speed, convenience, and access, these offerings may become increasingly commoditized; this could reduce once-dependable payment processing fees and spur companies to establish alternative revenue streams. We also expect that recently consolidated scale players looking to drive revenue and shareholder value may leverage post-transaction synergies to offer new, differentiated, or enhanced customer experiences; expand into adjacent markets; and use data analytics to anticipate customers' changing needs and expectations, drive increased "word-of-mouth," and sell more profitable services.[1]

We see payments companies expanding into adjacent or new markets by acquiring or collaborating with software-as-a-service (SaaS) companies focused on serving, for example, restaurants or college students. This software-enabled strategy aims to drive payment volume by integrating payment capabilities with SaaS solutions. Other companies are looking to diversify their portfolio with more profitable offerings to increase customer and merchant "stickiness" and to form collaborations that undo traditional economic tenets; for example, the way credit is being issued, serviced, and managed. According to a recent Deloitte Center for Financial Services study, 66 percent of respondents said they would pay with an alternative instrument to a credit card if the merchant incentivized it with a similar rewards proposition.[2]

Finally, as some large banks refocus on providing core financial services, they are moving away from partnerships that have enabled them to provide payments-related capabilities such as merchant-acquiring services. We see payments companies—especially scale players born of recent industry consolidation—taking on more of these historically fragmented functions. While this trend may create opportunities for new scale players to generate revenue and disintermediate competitors, it also may create a need for effective post-merger/post-acquisition integration to drive streamlined organizational responsibilities, update governance models, and enhance speed to market to deliver on these capabilities. This need is particularly relevant for "aquihire" models, in which organizations acquire organizations for their critical talent and skills they plan to deploy to enhance their organizational capabilities.

Trend 3. Development of new standards to govern the flow of money

The increasing globalization of payment processing is highlighting the need for new standards to govern the flow of money and protect customer data. All companies that accept, process, store, or transmit credit card information already must comply with the Payment Card Industry Data Security Standard (PCI DSS),[3] and payments transactions in the United States and European Union are regulated by central authorities. However, players facilitating inter-regional transactions may find it challenging when each country has its own domestic schemes and different ways in which money can be sent cross-border.

Payments players will need to get their data houses in order, given that we anticipate the introduction of new payment rails and open solutions in 2020, as well as a sustained increase in cross-border transaction volume. We also expect public and private efforts to begin coalescing around the development of global industry standards, such as ISO 20022, to govern payments messaging, interoperability, interfaces, payment engines, and integration. Finally, there may be progress on developing stronger standards for assessing transaction riskiness, demonstrating traceability in a cross-border payment, and facilitating authentication across different forms of transactions.

Trend 4. Noncommercial entities' role in shaping the ecosystem

Two announcements in August 2019 may signal the beginning of a trend in which noncommercial entities (e.g., other central banks and/or public payment authorities) play a growing role in shaping the payments ecosystem in 2020 and beyond.

First, the US Federal Reserve Board announced that the Federal Reserve Banks will develop a 24x7, real-time gross settlement service, called the FedNow℠ Service, to support faster payments in the United States.[4] Second, China's central bank announced its plans to roll out a state-backed cryptocurrency for distribution by seven institutions—including two of China's largest financial technology companies, Alibaba and Tencent.[5]

These announcements may indicate that central institutions want a more active voice in the payments conversation. Future actions could include defining and overseeing anti-money laundering and know your customer standards, conducting greater oversight of industry disruptors, and demanding greater inclusion in existing payments networks via digitization, digital identification, and other means.[6] The private sector, meanwhile, has appeared to remain focused on developing its strategy around real-time payments solutions. The Clearing House (a banking association and payments company that is owned by the largest commercial banks)[7] has launched its RTP™ network. These activities provide new considerations and potential opportunities for payments organizations and should be incorporated in choices including product development, operations redesign, and technology modernization.

Trend 5. The future of payments organizations and talent implications

As payments organizations continue to transform the way they operate and deliver services, leaders are faced with multiple issues to stay ahead of the curve. First, payments companies—like many of their financial services industry peers—are engaged in an escalating competition for talent, and it's challenging many firms as they search for the right mix of professionals to fill key roles. A payments organization's ability to source, hire, develop, and retain individuals with desirable skills remains critical, especially among decision makers, to maintain a core and proprietary knowledge base in house.

A cohesive payments function may also require a reboot of the old, siloed way of thinking about the customer's payment experience. Traditional organizations—many of which exist today—are built around product ownership, effectively constructing siloes around the components that deliver on the customer experience. These organizational siloes have led to a fragmented product that likely has too many responsible stakeholders, which may further slow product launches. Recognizing this, some incumbents have begun reorganizing longstanding business structures to capture the value of a streamlined customer approach.[8] These providers are to be at the forefront of the industry by building bespoke payments organizations that drive true market differentiation. However, creating and enabling new capabilities likely require investing in a workforce skilled to activate the technology, as well as streamlined governance and leadership to drive a customer-focused, end-to-end organizational structure. Digitally enabling these structures around customer needs may result in more cross-functional collaboration and require new agility in the form of reporting structures, teaming, and knowledge sharing.

Considerations and potential next steps

What implications could these five trends, collectively, have for payments companies over the next year? And what new stakeholder strategies and actions might be taken in response?

As organizations develop strategies around their 2020 "big bets," we expect that forward-thinking organizations will also maintain focus on the fundamentals necessary to survive and thrive in the increasingly competitive payments industry:

- Designing (or redesigning) organizations, processes, and technology around an aligned payments strategy and customer experience; continuing to plan, budget for, and build out their physical and digital infrastructure; maintaining compliance with standards and regulations; and driving greater processing simplification and improved customer engagement.
- We also see new and incumbent players launching products and services that attract customers to their platforms through creative experiences and competitive pricing. To begin, they may need to make strategic positioning choices on where to compete, what products/services to offer, and how to design their growth models to meet customers' ever-increasing appetite for innovative payments solutions.
- Financial inclusion may emerge as one of the drivers behind these strategies, especially as payments providers expand their efforts to service the needs of many and provide a customer experience that delivers ahead of the curve.

For additional insights on how 2020's trends may influence payments companies' strategies to enter or expand in the industry, please contact one of the individuals listed below.

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Endnotes

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