InFocus
Payments trends 2019
Individual, near-term payments industry trends are becoming increasingly clear: the proliferation of exponential technologies, payments infrastructure modernization, collaboration between incumbents and financial technology (FinTech) firms, and targeted M&A to add capabilities and/or scale. What’s often more difficult—and more important—is to discern what implications these trends, collectively, may have for payments companies over the next year or two.

We expect to see trends-driven product commoditization and convergence, which should encourage payments companies to consider: 1) where they are in the industry today; and 2) which of four business model archetypes will get them where they want to be. Options include scale player, “white label” supplier, experience provider, and arbiter.

Payments players should determine how to effectively organize around, operate within, and benefit from these industry trends, and which business model(s) to adopt, to help reach their desired future state.
The payments industry, already one of the most dynamic sectors in financial services, continues to evolve, propelled by technological and operational innovations from established players and FinTech firms.

A number of individual, near-term trends are disrupting and reshaping the payments landscape. They include differentiated services or experiences; technology- and data-driven options for how to pay and receive payment; infrastructure modernization; incumbent-FinTech collaborations; targeted M&A; and workforce evolution. What’s often more difficult—and more important—is to discern what implications these trends, collectively, may have for payments companies over the next year or two.

One outcome we expect to see is trends-driven product commoditization and convergence, which should encourage payments companies and FinTechs to consider where they are in the industry today and how they can get where they want to be. Specifically, organizations need to determine how to effectively organize around, operate within, and benefit from six industry trends, and which business model(s) to adopt, to help reach their desired future state.

Where are you today?
In our view, four business model archetypes capture how the majority of payments providers play today. Depending on their capabilities and market positioning, they may be one or more of the following:

• **Scale player**—Basically, do it all. Consolidate and survive based on massive scale. Grow revenues by emphasizing transaction volume, cutting costs, and performing functions on behalf of smaller, less-well-funded players. They provide lower-margin features to retain customers as well as emphasizing ubiquity and a common, consistent experience. Many universal banks and large credit card providers will serve as scale players.

• **White label supplier**—An institution that provides scaled capabilities in a critical function like servicing, underwriting, or processing. These capabilities are delivered as a service or an overall platform with predefined integration points and an “out of the box” servicing model. Another entity can design its own front end, branding, or experience that uses this service.

• **Experience provider**—An institution that would offer its customers the ability to send/receive money and pay bills but has effectively outsourced the processing, authorization, and settlement. They create the front end, managing the overall buying experience, presentation of offers, and the ability to onboard or enroll a customer and then use APIs or other interfaces to send information to another entity (i.e., a white label supplier) to handle operations. These entities focus on rapid application development and frequent rollouts of updates to the customer experience.

• **Arbiter**—Arbiters provide “trusted” services that support the entire ecosystem, enabling more efficient and less risky processing. Arbiters may develop and enforce standards in areas such as messaging, integration, allocation of risk, identity, and authentication. Their presence in a payments transaction enables other institutions (traditional and FinTechs) to participate more easily within the payments ecosystem and allows consumers to have greater control over how their identity and data is shared. An arbiter usually provides these services at scale with defined integration points.
Focusing on and responding to the payments trends

How can payments companies move from where they are to where they want to be? How can they use their response to market trends to select the appropriate business model and build capabilities to help them achieve their desired future state? Consider the following actions to industry trends:

1. **Shifting from a product to service focus.** The greater prevalence of exponential technologies—distributed ledger technology (DLT) and cryptocurrencies, Internet of Things (IoT) as point of sale (POS), wallets, tokenization, and more—will expand consumers’ and merchants’ options for how to pay and receive payment. Further, as the value of traditional competitive differentiators decreases (e.g., transaction processing speed, convenience, and access), streams of traditional product revenue will likely become commoditized, resulting in decreased payment processing fees. Future revenue, therefore, will need to come from other means; likely differentiated services or experiences. Delivering on this change demands a digitally savvy workforce aligned to a common goal: to be able to deliver a frictionless user experience and interface that is both convenient and accessible.

2. **Unlocking the full value of data.** Payments providers will need to bring together disparate data across multiple functions and systems to create new services, as well as use big data and analytics to help improve the customer experience. Insights in payments industry data represent how consumers and businesses spend their capital and contain significant indications of various micro- and macroeconomic factors. Key industry players that process large chunks of payments hold the key to most of the data and insights and are building analytics capabilities to harness them. Payments analytics architectures are increasingly evolving toward integration between mission-critical payments systems and analytical applications. Advanced analytics techniques are key to better understanding the customers and to help drive growth and assess financial risk (see figure 1).

**Figure 1. Analytics allow the payments ecosystem to respond to change**

- **Real-time transaction graph analysis provides insights for merchants to manage cashflow, inventory, and service levels.**
- **Contactless mobile wallets and data partnerships with merchants lead to contextualized offers based on “asking the right question.”**
- **Use digital onboarding to collect KYC data, automate account opening forms, and identify customer needs promptly.**
- **Innovation produces faster rails, international transfer, and B2B solutions to enable cheaper payments and reduce reliance on cash.**
- **A single card becomes “top of wallet,” so include this in behavioral segmentation to target the “moments that matter.”**
- **Issuers use scalable machine learning platforms to generate fraud alerts and mitigate cyber risk.**
- **Consumer Financial Protection Bureau (CFPB) compliance and KYC/AML investments lead to better “voice of customer” measurement and customer experience.**
- **Leveraging compliance investments.**
- **Robotics & process automation.**
- **Digital onboarding.**
- **Faster payments.**
- **Preferred payments.**
- **Personalized customer engagement.**

*InFocus | Payments trends 2019*
3. Modernizing the payments infrastructure. Modernization efforts in the form of new rails to process faster/real-time payments (RTP) continue to gather steam. These are large investments, which not every player will be able to afford. Some will invest across the board and become scale players, boosting capabilities in account management, processing, acquisition, and customer experience. Others will choose to make targeted investments and outsource some functions to the scale players. These operating and service delivery model transformations may have significant impact on payments firms, perhaps requiring reorganization or upskilling to enable teams to work in new ways.

4. Increasing collaboration between incumbents and FinTechs. We expect to see increased levels of collaboration as a way for industry players to manage investments, increase speed to market, and/or use a partner to perform some functions on their behalf. Key issues to resolve will likely center on data sharing; who owns the customer; ease of integration; and data security. New governance models and decision rights will be required to effectively manage these modern collaborations and drive alignment around a shared vision and delivery on that vision. While these partnerships can produce excellent business results, the potential remains for culture clash between flatter, more agile FinTechs and more traditional, hierarchically structured incumbents. Creating a new leadership structure with common accountability for product development and user experience will be critical to the success of these partnerships.

5. Conducting targeted M&A to add capabilities and/or scale. Responding to pressures from nontraditional players, we expect payments industry incumbents to ramp up M&A transactions targeting the peskiest friction areas—such as cross-border payments, multi-payment integration, and business-to-business (B2B) payments. In general, M&A activity would be targeted and used as a method to create scale, provide competitive advantage, or acquire capabilities. In some cases, M&A targets offer the acquirer an opportunity to transform its business model by acquiring the talent and skills necessary to deliver on payments organizations’ digital ambitions and/or fill existing talent gaps.

6. Building the next-generation organization to support the desired business outcomes. While all financial services organizations manage geopolitical, legal, and social forces bearing down on them, it is crucial for payments organizations to reconsider how and whether their workforce can keep pace in an ever-accelerating digital environment. Adding complexity, organizations face mounting pressure from an evolving workforce. Data indicates that 47 percent of current jobs will be gone by 2028 due to advancements like robotics and cognitive capabilities, and 40 percent of the US workforce will consist of contingent workers by 2020.¹ Further, engaging multigenerational employees who may have disparate values and backgrounds creates additional complexity. The 56-million-strong millennial workforce, with native digital capabilities, must work alongside the 41 million Baby Boomers that represented a quarter of all US employees in 2017.² Payments organizations face the compound challenge of rightsizing engagement and employee value propositions in an effort to accommodate diverse demographic needs, while asking more of their employees to help keep pace with digital change. Ignoring these workforce transition needs is not an option. And as a result, some companies may need to restructure their organizations to become more agile by breaking down silos and organizing around customer solutions rather than individual offerings.

The 56-million-strong millennial workforce, with native digital capabilities, must work alongside the 41 million Baby Boomers that represented a quarter of all US employees in 2017.²
What’s next?

To be able to compete and grow in an industry shaped by intense margin pressures, innovative technologies, disruptive entrants, stringent regulations, and changing workforce needs, payments providers can’t just react. They should get in front of emerging trends that may impact their business. Anticipating, analyzing, and modeling how these trends may influence their choice of future business model will better enable payments companies to assemble the most effective mix of capabilities, people, and processes to help them achieve their desired future state.

If you want to learn more about changes taking place in the dynamic payments industry to help capture your share of this growing market, we should talk.

References


Contacts

Brian Shniderman
Principal
Deloitte Consulting Cross-Functional Payments Leader
Deloitte Consulting LLP
bshniderman@deloitte.com

Zachary Aron
Principal
Deloitte Financial Services Payments Leader and Global Co-Lead
Deloitte Consulting LLP
zaron@deloitte.com

Ulrike Guigui
Managing Director
Deloitte Payments Customer and Marketing Leader
Deloitte Consulting LLP
uguigui@deloitte.com

Kristine Obrecht
Partner
Deloitte Payments Audit and Assurance Leader
Deloitte & Touche LLP
kobrecht@deloitte.com

Mike Reichert
Partner
Deloitte Payments Tax Leader
Deloitte Tax LLP
mreichert@deloitte.com

Jade Shopp
Partner
Deloitte Payments Risk and Financial Advisory Leader
Deloitte & Touche LLP
jademshopp@deloitte.com

Omer Sohail
Principal
Deloitte Financial Services Data & Analytics and Payments Analytics Leader
Deloitte Consulting LLP
osohail@deloitte.com