A First Data White Paper

Cards & Payments: Seeing Past the Hi-Tech Hype

Digital Solutions that Benefit Issuers and Cardholders Today

Introduction

Without a doubt, consumers have adopted technologies that change how they research and shop for goods and services; how they manage and engage with their money, and how they make payments. These changes have implications for everyone in the marketplace, from consumers and retailers, to the banks that issue payment cards and process the transactions.

Payments in Transition

Today, customers are immersing themselves in the digital world and the information, convenience, mobility, and personalisation it provides. Consumers have embraced online and mobile innovations to empower themselves and enrich their choices, whether they're shopping for a car, looking for a dentist, or searching for a restaurant. When consumers are managing their money, they expect the same enhanced experience. They want their banking needs met with fast and seamless products and services that are always available, reliable and secure. In many ways, banks are balancing speed and security to provide just that, with mobile apps that offer constant, real-time access to balances, transfers, remote deposits, and even spending trend insight.

However, consumers want more. They understand how rapidly technology changes, and they see the potential it offers. They leverage the vast amount of available information to find the best deals on everything, including financial products and services. Gone are the days when a customer needed to contact a set of banks to compare interest rates or even visit a branch to deposit a cheque. At the same time, demographics are shifting. By 2020, not even six years away, the majority of consumers will be tech-savvy "digital natives," who grew up online and on their smartphones. All these changes mean that, in order to remain competitive and profitable, card issuing banks need to harness technological advancements to create a compelling customer experience that can increase loyalty. And they need to do all that while improving their own operational performance. Technology offers numerous gleaming innovations that promise to achieve these goals, yet technological adoption and business results often lag behind expectations and predictions.

By 2020, not even six years away, the majority of consumers will be tech-savvy "digital natives."

Some innovations have not yet caught on because the infrastructure they require has not spread as widely as necessary. For example, for contactless payments to become the standard, contactless cards and other contactless payment devices (such as smartphones) must be in the hands of consumers, and contactless readers must be in place at the point of sale.

With 80% of Visa cards issued in Europe still not contactless, it's no wonder contactless transactions made in the continent last year were not even one percent of all transactions.

Whilst there are local pockets of success that are showing signs of growth, such as in the UK and Poland, the ubiquitous ecosystem necessary for contactless to expand and become a mainstream payment method across the region is not yet in place. This is partly because creating that ecosystem is challenging, and also because consumers have not adopted the technology and created demand as rapidly as forecast. Naturally, people will change their habits when they are rewarded for doing so, but the current forms of some innovations offer consumers limited additional benefits. In many use cases, digital wallets and mobile payment apps may force users to worry about acceptance and learn new behaviours that, in return, deliver only small incremental value. With a low perceived benefit, and a lack of ubiquity changing consumer behaviour has taken longer than envisaged.

Certainly, digital wallets, custom apps, contactless payments, and other innovations show promise and will likely have a big impact on banking—eventually. Perhaps one of them will be the game-changing, revolutionary innovation banks think customers are waiting for. But, in all our focus on and excitement about the next big thing, what are we overlooking?

One answer to that question: opportunities readily available today. Rather than placing too much emphasis on the future and waiting for transformation or the 'next killer app,' banks can benefit by broadening their focus and applying a portfolio approach to change that includes leveraging many readily available and evolving technologies. No, these incremental innovations may not be as exciting as wearable contactless payment suits, injectable chip technology, or retinal scan authentication, but they do offer banks near-term payoffs and a competitive edge as the digital age marches on.

The flood of innovations and advancements also means technologies often debut and then go in search of a problem to solve. Taking this approach can be risky. It can lead to investing time and energy in lofty visions that never materialise, at the expense of optimising customer service and internal operations in the here and now.

By no means is it time to forget about the future, but implementing truly useful, readily available technologies can help banks reduce costs, increase revenues, and improve the customer experience.

[1] Source: Visa Europe

Technology's Evolution in Banking and Payments

42 percent of Britons believe they'll no longer need a wallet or purse by 2025.

For decades, the core technology and infrastructure on which the financial services industry is based has remained largely unchanged, particularly in the longer established and larger financial institutions. The last fifteen years, however, have re-formed that foundation, with everything from online account access to mobile deposit capture. It's no wonder so much excitement and promise surround each innovation. Not only has the industry sampled the advantages of change, but its customers have too, leading to lofty expectations about the future. In just one example, 42 percent of Britons believe they'll no longer need a wallet or purse by 2025, and 51 percent believe fingerprint scans will then be a common payment method. Yet, a major U.K. mobile wallet that launched in 2012 recently ceased operating. Despite the widespread belief that mobile and digital will very soon be as popular as online banking and e-commerce, implementation remains slow.

As technology evolution accelerates, perhaps a more pragmatic perspective is called for. Rather than seeing the path to a mature digital banking industry as brief revolutionary experience, it may make more sense to see it as an evolution with three stages of digital banking maturity: automation, channel integration, and advanced personalisation.

In stage one, automation largely replicates processes and the customer experience. Examples include online banking, electronic bill pay, and digital—rather than paper— statements. These technologies give customers real choice and value. Imagine the reaction from customers if a bank took away their online account access or bill pay features. It might border on revolt.

In stage two, customers are offered an integrated digital experience that seeks to improve on the offline experience and add value. That doesn't mean just offering a full view of all accounts in one place.It extends to possibilities such as digital fraud protection, which improves the accuracy of fraud detection and intelligent customer routing to provide a seamless customer experience across multiple channels based on card usage and outbound communications. For example, if a bank has recently sent a customer an offer, the system would assume the customer is calling in response to the offer and present it as the first menu option.

Mobile Payments – Is it game over?

For the last decade, Near Field Communication (NFC)-based contactless payment has been heralded as the future of mobile commerce. However, given slower than forecasted NFC adoption, and the advent of alternative solutions (e.g. QR codes, beacon technology, etc.) some began to question whether NFC would ever thrive. Now, with the recent launch of Apple Pay, and following Visa / MasterCard's announcement last year that they would support Host Card Emulation (HCE), a variety of alternative options for the delivery of NFC on other operating platforms is available. As a result, these exciting, new developments indicate that NFC has finally taken a significant step forward in the quest to bring mobile payments to the masses.

However, it's important to point out that whilst the usability benefits of contactless are clear from the first transactions, there have been concerns about security and practicality (with a transaction limit of £20). But, the introduction of increased security via tokenisation and biometrics, as seen in Apple Pay, has the ability to quash these issues and pave the way for increased adoption.

At this point in time, however, the reality is that true mobile payments still remain a small drop in the ocean of total transactions and the future for mobile payment solutions continues to be complex with a diverse range of solutions and a degree of uncertainty in many respects.

For one, the launch of Apple Pay is initially just in the U.S. where Apple has a higher market share as opposed to other countries with much lower penetration, for example just 20% in Europe. Also, regardless of operating system, it will obviously take time for customers to upgrade their mobile phones to the latest version with NFC capability.

Secondly, the variety of approaches for supporting NFC means that there is not yet a consistent approach to the customer experience agreed upon across all operating systems.

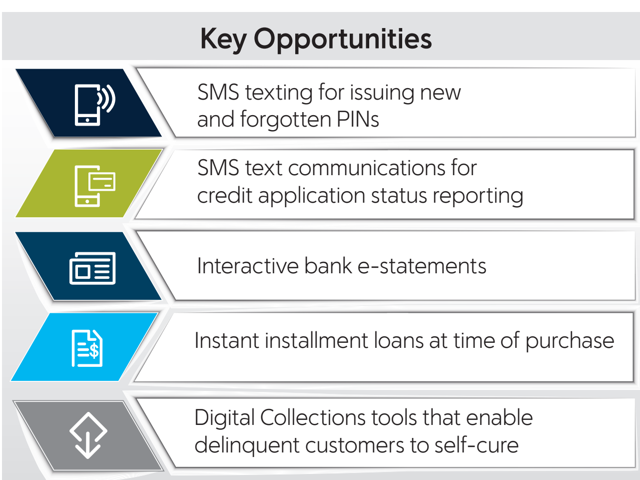
Meanwhile, alternative technologies have started to gain momentum. Starbucks has had great success using barcodes, whilst PayPal and other retailers have been testing beacons that have the potential to merge a personalised shopping experience with payment, utilising simple Bluetooth technology.

Finally, there are many stakeholders accross the ecosystem who will of course want to own the relationship with the customer and need to make mobile payments work for them from a commercial point of view. So, whilst the future of mobile payments has begun to come into focus, there is still a long way to go before the game is officially over.

[2] Source: Payments Council survey conducted in 2012

In stage three, personalised product and service offerings engage customers digitally so well that deeper relationships can develop. Customer data and analytic capabilities help predict customer needs and make customised offers. For example, if the data suggested a customer was about to buy a new car or plane tickets for a holiday, the bank could dispatch information on personalised financing or loan offers.

In this stage, technology can also ease the transition to new products. For customers switching to a digital wallet, the need to manually enter card information can be eliminated, through virtual issuance of card details directly into the digital wallet. A combination of capabilities that add more and more value, such as this added convenience, could substantially increase the uptake and usage of these wallets, especially by consumers who aren't typically early adopters. The possibilities are compelling, and it's easy to become absorbed with what could happen in a few years. Realistically, though, the banking and payments industry essentially remains in stage one. At first glance, that assessment may seem disheartening. Upon further reflection, however, a set of valuable opportunities emerges. Near-term gains are available to those institutions willing to look for and invest in them. Some of these opportunities offer the added benefit of laying the foundation for new technologies that are still maturing.



That Deliver Business Value Now

The first step to achieving near-term gains from technology is a willingness to explore the possibilities. What follows is just a sample of the opportunities that can pay off for banks in the next few years.

Innovations that Offer Substantial Benefits Today

Automating and streamlining customer service processes are prime candidates for almost immediate payoffs. Many banks continue to mail PINs to new customers, a process that adds both cost and delay to a process that can easily be accomplished via SMS text messaging. Now, even customers who forget their PINs can request a new one be sent via SMS. In both cases, banks save on printing and mailing costs, and customers can begin, or resume, using their accounts as soon as possible. In addition, customers enjoy the convenience they've come to expect in the digital age.

Electronic communication could also vastly improve the customer experience for new credit card applicants. Rather than waiting and wondering about the status of their application or when their new card will arrive, customers can receive updates via SMS or other digital channels. Updates that indicate the card is in production and then when it's been mailed help create a sense of customer anticipation and assure customers that their bank understands their concerns and provides them with timely information. For some customers, the card application process may be the first experience they have with a new financial institution, and these simple updates can set that institution apart from its competitors.

Plus, the physical production of cards can be significantly improved by offering an "instant issuance" service enabling credit or debit cards to be produced in-branch and provided to customers within a matter of minutes. And, with the advent of digital wallets, the potential to instantly issue "virtual cards" that allow customers to shop both online and in the real world using NFC-enabled mobile phones is close to becoming a reality, along with a better overall customer experience for those who have lost or have had their cards stolen.

The interactive possibilities that electronic communications offer can also enrich the customer experience. Many customers may feel frustrated that interacting with their banks often involves multiple channels, when one streamlined experience would be faster, easier, and more efficient. They can already view their statements online, so certainly many customers would appreciate receiving eLetters rather than paper communications. This switch would simplify customers' lives and save banks money. Online statements and eLetters offer the added advantage of interactivity. Dynamic, enhanced statements can give customers the option to view useful information about each transaction. Purchases can link to maps with the location of the merchant or the merchant's website. The statement could include a suspected fraud button that triggers the fraud reporting process and prevents customers from having to switch channels to report the issue by telephone.

> As customers experience the gains of sharing information with their banks ... they are likely to become more willing to do so.

When interactive communications are well designed and thoughtfully introduced, the switch from paper-based documents is smoother. Along with their first electronic statement, one major telecom company sends customers a customised explanatory video that answers common questions. This practice helps customers feel that their needs have been anticipated and reduces customer service calls and costs.

Integrating other customer service and communication processes can also boost revenues. Customers buying large-ticket items, such as televisions, have plenty of financing options. They can get credit from the store where they purchase the TV. They can pay with a credit card and pay the TV off over the course of a few months. Or, they can get an installment loan from their card issuer that offers better terms and more convenience. The problem with the installment loan—in its current form—is that customers have to call the bank ahead of time and apply. If, instead, they could set up an installment loan after they've made the purchase with just a few clicks, through a mobile app or online banking, the chances they would finance the purchase through their bank substantially increase. This simple shift benefits consumers, who don't have to bother applying for financing at the store, and banks, which capture additional revenue-generating loans.

Customers already trust their banks to provide digital solutions, and many people expect their banks to know and understand their needs. As customers experience the gains of sharing information with their banks, be it online reporting of suspected fraud or the intention to make a large purchase, they are likely to become more willing to do so. As a result, banks get to better know their customers and can progress towards offering the advanced personalisation that the future promises. At the same time, customers enjoy more convenience and a greater sense of connection with their financial institutions. All of these elements are necessary to lay the foundation for the future of digital banking.

Technology is Available Now to Improve Payments Security

Key Opportunities

- Customer-initiated digital notifications that they are about to make a large purchase with a payment card
- Customer fraud reporting over one integrated digital channel
- Automated digital fraud investigation status reporting
- Using scannable QR codes displayed on mobile devices as payment tokens to secure mobile payments

Understanding the customer lies at the heart of fraud prevention, and inaccurate fraud detection can cause customers considerable pain. That pain persists whether the bank has misidentified a genuine transaction as fraudulent or failed to identify a fraudulent transaction as such. Customers expect better, yet banks are overlooking ways to do better.

Digital fraud protection helps reduce the chance a genuine transaction is declined by allowing customers to inform their bank (digitally, of course) they're about to make a large purchase or travel overseas. It can also utilise mobile phone geo-location to determine where the cardholder's phone is. If the phone is in the same place as the transaction, the transaction is likely genuine, not fraudulent. Such a service could substantially reduce the number of genuine transactions misidentified as fraudulent, incidents that frustrate both customers and merchants and may lower bank revenues. Blocking one genuine transaction in error could be enough to prevent a card from being used for the first time, or to drive a customer to switch permanently to another payment card.

Simply streamlining and digitising the fraud reporting process, which currently spans multiple channels, can also increase security. Today, customers typically view their statements online, call the bank to report the fraud, and then receive documents to sign in the mail, which they then have to mail back. When customers call to check on the status of a case, they may have to repeat explanations they'd previously given to other bank employees. With an integrated system, customers report fraud online, perhaps through an enhanced statement, and that report goes directly to the fraud department for investigation. Necessary follow-up communication is done via web chat, thereby reducing the number of channels the customer has to use and improving the customer experience. Software tracks the progress of the fraud report and displays the relevant information to any authorised bank employee, saving the customer from repetitious conversations.

Digitising the fraud reporting and investigation process also creates the opportunity to keep customers informed of their claim's progress through the process. Banks could send messages via SMS or other digital channels. This simple step can reduce the calls customers need to make to inquire about the status of their case, which saves them time and inconvenience and lowers banks' costs.

Another readily available technology, Quick Response (QR) codes, also known as 2D barcodes, make the payment transaction itself more secure by replacing customer card data with a token. The same mobile apps that facilitate payments with QR codes can provide discount offers, loyalty rewards, and even the option to order ahead. These codes function with most smartphones and don't require NFC or other special hardware. Merchants can even use the barcode scanners they already have to process transactions. Perhaps the best example of this innovation's implementation is at an internationally known coffee chain, which has reduced its payments processing costs while saving its customers time.

The Added Benefit of Today's Overlooked Opportunities: Paving the Way for the Future

Key Opportunities

- Mobile payment transition technologies
- Instant payment account issuance and activation
- Reducing operational costs, improving customer service, and increasing revenue go together

Today's overlooked opportunities don't just offer short-term benefits; many also act as stepping-stones to emerging technologies, whilst others will open doors that enable further value-adds to be delivered.

Mobile payments based on QR codes can make the transition to mobile wallets and other more advanced forms of mobile payments easier. Consumers will be accustomed to using their phones to pay for purchases, and they'll know they can trust the security of phone-based payments. Merchants will understand that they don't have to make huge investments in equipment or other systems to accept these payments. Whether phone-based payments are ultimately built on NFC, beacon, or another type of technology, the most important element is human behaviour. If people don't use the technology, it's useful to no one. By habituating consumers and merchants to mobile payments, QR codes can build momentum no matter what mobile payments look like a few years from now.

Today's SMS-based PIN messages could be the basis for nearly instant card issuance in the future. Now, issuing physical cards creates a delay during which the customer cannot use the account, and the bank does not earn revenue. One potential way to shorten or even eliminate the delay is instant virtual card issuance, which could take several forms. Perhaps the simplest is providing customers with a code via SMS that enables them to withdraw cash from an ATM, similar to the Emergency Cash solutions offered by some banks in the UK. Also possible is a funds transfer from the card account into another account through which customers can access the money. Further down the road, a digital version of the card could be delivered to customers' digital wallets, enabling purchases.

The proliferation of integrated digital processes will only emphasize the fragmentary nature of conventional processes that require multiple channels or otherwise disrupt a seamless customer experience. To the extent that customers want convenience—and it's clear many do—a delay in harmonising processes and systems could have negative consequences for financial institutions. Indeed, these institutions' processes will in no way be more difficult; they will simply appear so when compared to highly convenient competitors.

In addition, saving costs and increasing revenues today mean banks have more resources to invest in improved digital capabilities, which can further enhance the customer experience. Rather than hampering banks' long-term progress, investing for some short-term gains creates a virtuous cycle that speeds the way forward.

As these examples make clear, reducing costs, improving the customer experience, and increasing revenue are not mutually exclusive. In fact, many readily available innovations can accomplish two or even all three of these goals simultaneously. Improved fraud protection would reduce costs associated with investigation as well as lost customers, increase revenues through increased customer loyalty, and improve the customer experience. Employing SMS messaging for more functions could also do all three, as could easy access to installment loans. The important thing to remember is that these benefits are available now or in the very near future to banks that make these investments a priority.

The Bottom Line: Benefiting Now from the Digital Evolution

No matter what the future holds, card issuing banks want and need to be prepared. But preparing for five years from now does not preclude taking advantage of existing opportunities. In fact, preparing for five years from now is likely to be easier for banks that take advantage of existing opportunities. That's easy to say, of course, but what should banks do? There are several things prudent financial services providers can do now:

- Begin implementing services that improve customer communications and engagement through mobile devices.
- Implement "single-channel" services where appropriate so that customers are not forced to engage through multiple channels to complete an interaction unnecessarily
- Pay particular attention to single-channel services that add value, improve customer satisfaction, and offer an opportunity to increase revenues and improve margins
- Seek a partner with deep experience in financial services and powering digital and omni-channel capabilities

Such a partner ought to offer the breadth and depth of knowledge and capabilities necessary to execute on today's actual digital solutions as well as a demonstrated track record to support and enable tomorrow's solutions. It should also have a keen understanding of customers' desires and expectations, and it should provide real value based on your digital strategy. Most importantly, it ought to act as a true partner and be ready to work with you, so that your organisation can realise cost benefits, customer satisfaction, and revenue enhancements available today and for many years to come.

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For more information, contact your First Data Business Consultant or visit firstdata.com

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