esynergy™

The future of digital payments

March 2023

Introduction

As bank cards disappear and user experience takes centre stage, how should businesses respond to the new customer-driven payments landscape?

The way people pay for goods and services has changed dramatically in recent years.

The Covid pandemic compounded a move from cashless to card-less, with consumers expecting transactions to be simple, fast and secure. Social distancing accelerated consumers' growing ease with card-less payment tools such as Apple Pay, and businesses saw new revenue streams emerge as a result.

We asked leading decision-makers in financial services and banking for their thoughts on current trends in digital payments, and where these trends may lead in future.

How should businesses respond to these trends by adopting services, adapting products and, if necessary, evolving their infrastructure?

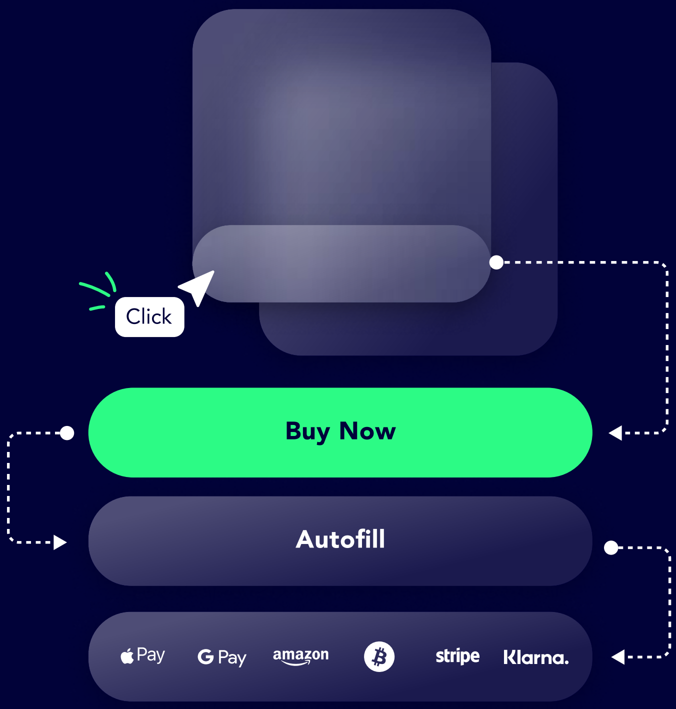
Contents

In this white-paper we share these insights and predictions, and explore how companies should prepare for them.

A faster, simpler payment journey

If a shopper from 2013 were to teleport into 2023, the biggest change they'd notice would be the lack of clicks.

No more clicking through multiple steps to find, buy, pay for, or even borrow money to pay for an item; no more typing in their card number, expiry date and security code. Today's shopper doesn't even have to go looking for the next thing to buy, because merchants are now so in tune with their customers' individual needs and desires that they know what to offer them next.



The Buy Now button is the clearest and most widespread example of today's condensed payment journey.

Amazon led the way more than 20 years ago with its one-click technology, which combines purchase and payment using API and token-based authentication technology, and dramatically reduces friction for the customer. One-click options to pay via gateways such as PayPal, or 'buy now pay later' (BNPL) providers such as Klarna, have quickly become commonplace.

For businesses, one-click purchase delivers clear benefit by dramatically reducing cart abandonment rates and helping to drive conversions

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If I like a T-shirt on Zara, I click Buy Now rather than adding it to a basket and rethinking it later,

says Deepti Akkali, Head of Gateway Commercialisation at Elavon, whose payment processing platform handles more than five billion transactions every year. "This is key for user experience, and it's the reason Amazon shot up."

Buy Now buttons can now be embedded into SaaS platforms by businesses of all shapes and sizes, allowing them to process transactions natively and make payment a seamless part of the customer's online experience.

"You don't go to an app to make a payment anymore," Felipe Penacoba Martinez, CIO of global banking fintech Revolut, tells esynergy.

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You go to an app to buy a TV or to book your next holiday. Payment is so seamlessly integrated into that wider customer experience that you hardly even realise it's happening.

The secure cardless future

Customers' demand for a quicker, easier payment experience is the biggest force driving change in digital payment, according to the business leaders and esynergy associates we spoke to for this whitepaper.

But the Covid pandemic hastened and compounded the trends, especially the move from cashless to cardless. People favoured contactless payments and mobile wallets for reasons of hygiene and distancing, and stuck with them for reasons of convenience.

A recent Samsung study found that nearly two-thirds (62%) of UK shoppers now prefer to pay via their mobile wallet rather than physical card, double the figure from a year previously.

- UK shoppers now prefer to pay via their mobile wallet rather than physical card
- Would be happy to never receive another plastic card from their bank
- Found it inconvenient to carry multiple physical cards
- As 2022 began, 89% of people surveyed by Samsung said we're nearly at the point where neither cards nor cash will be used to pay for things.

Improved security has been a key benefit of the move away from plastic.

The widespread deployment of token-based authentication technology means the customer no longer has to take the security risk of entering their card number (or even the CVC) for every single transaction. Instead, identity and funds are verified automatically using a combination of customer data and emerging technology such as artificial intelligence (AI).

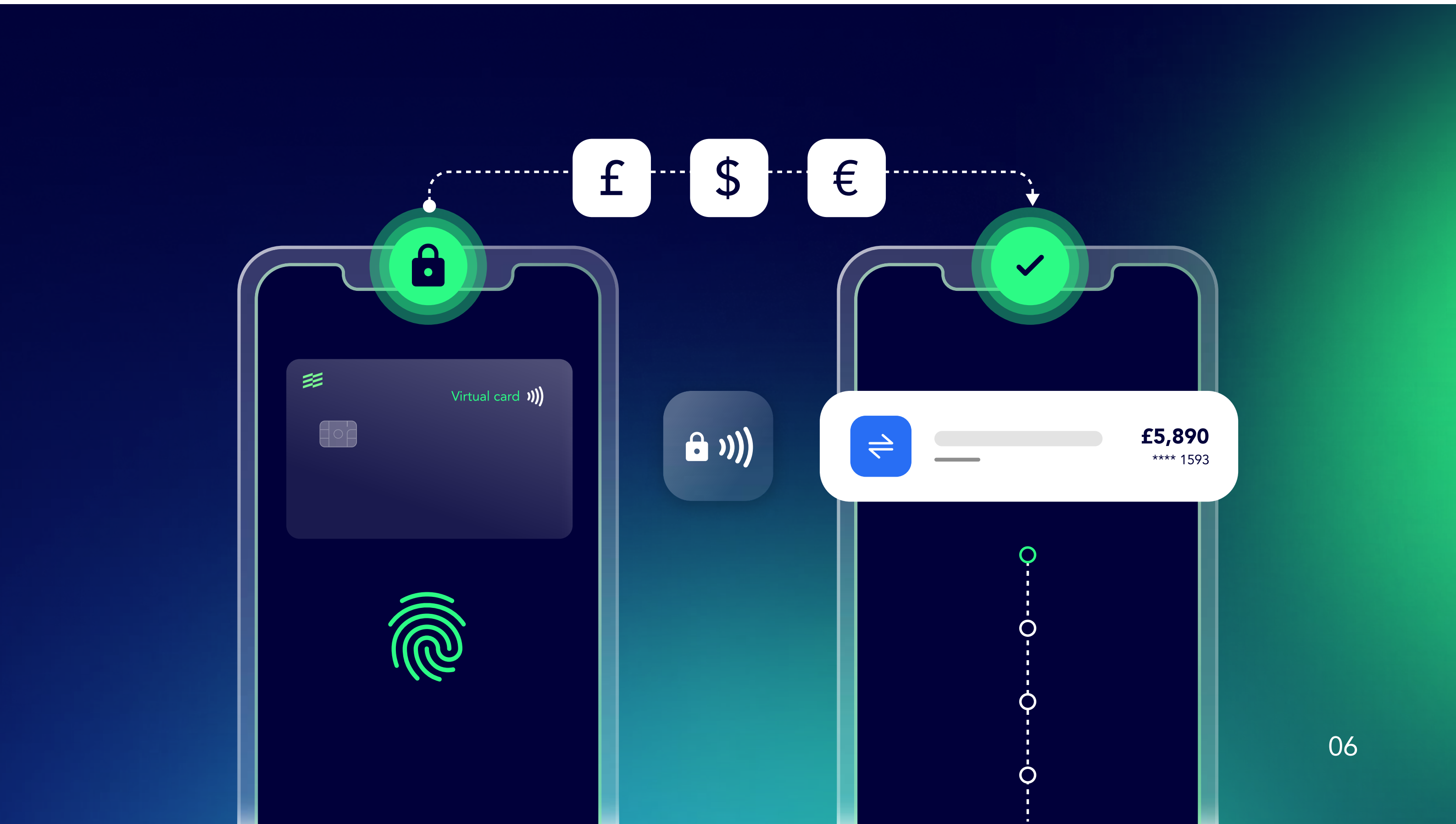
"It's safer in that sense that I have a papertrail, I have auditing, and I have the ability to query - as pre, during and post flight checks - at any stage of the payment lifecycle". ... "Naturally, where there is money there will be risk. But the ecosystem isn't exclusively financial - it's being treated as software that needs to be safe and secure, and as we know, software has eaten the world. I can verify a payment in milliseconds. Try doing that with a dusty, fifty pound note."

Revolut CIO Felipe Penacoba Martinez gives the example of a customer wishing to pay for a service using their iPhone. "The system understands you are using the iPhone that you've used several times before, and you're in your usual geolocation. We could get to a place where you don't even need to press 'Pay', perhaps just select the payment method from the different methods you've set up previously."

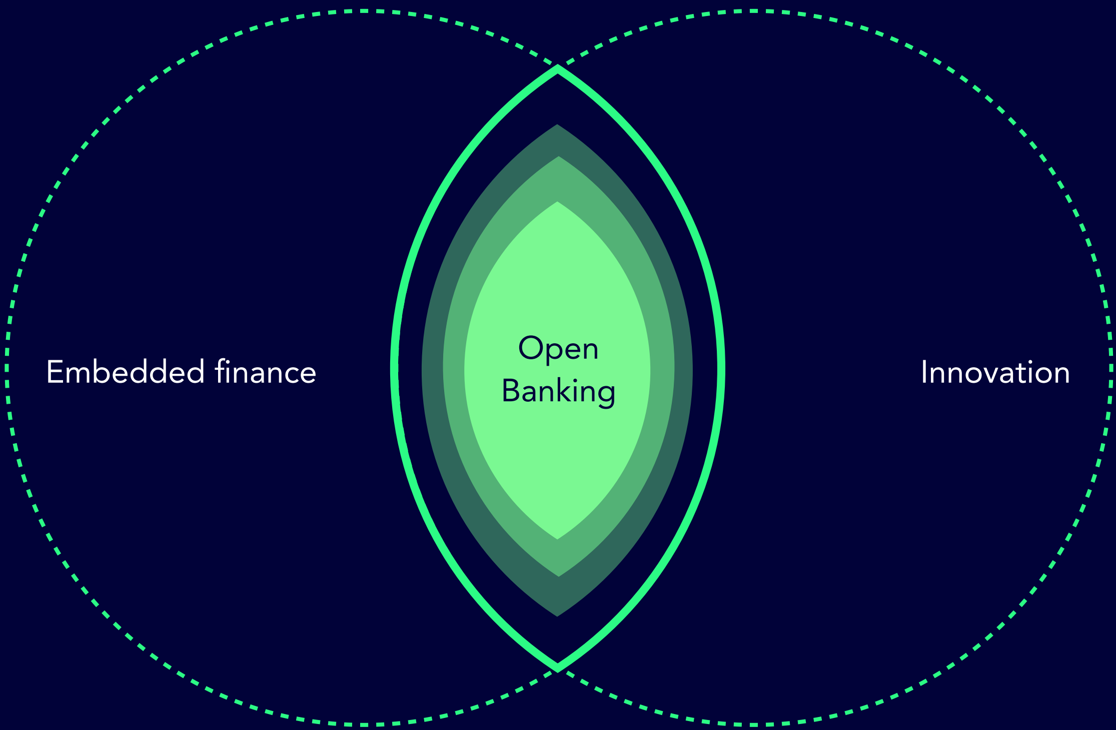
As well as the transaction being secure, it's also crucial that the customer feels secure, says Penacoba. "If you travel to an unusual location, say Vietnam, and then you want to make a payment, we'll ask you: this is your first time in Vietnam, is this a genuine transaction? Just to double check. And you will feel secure."

Biometrics technology has enabled providers to add layers of security which, again, go hand in hand with speed and ease.

This doesn't mean that bank cards are becoming as irrelevant as cash, however. Token-based authentication still relies on the possession of a card; it simply adds security and removes friction. "Cards aren't going anywhere, it's just that the usage of cards will differ significantly," says Elavon's Deepti Akkali. "Revolut is a good example where they don't have card numbers anymore. Card theft will be of no value at all, because you don't have the token."



How open banking helped deliver an easy payment experience



Innovations in embedded finance and digital payments wouldn't be possible without key technological and regulatory advances – notably open banking and modern APIs.

Open banking, which stems largely from the introduction of PDS2 (Payment Services Directive) in 2018, has transformed the once strictly-regulated payments industry. Businesses are now free to link and augment their products using data-driven APIs, and banks now have real-time access to data from an entire market of customers.

The resulting partnerships and insights have given customers easier control over their finances.

Financial providers now allow customers to see and manage accounts from multiple providers in one dashboard, a feature that has quickly become standard in online banking.

Customers and merchants have seen their payment options greatly enhanced by open banking partnerships and technologies, with Apple's click-to-pay service 'Tap to Pay' now added to payment processors including Elavon and Square. Established brands, too, are taking advantage of open banking to forge fruitful partnerships, with Visa completed its acquisition of Swedish open banking platform Tink in March 2022.

Open banking hasn't just made the payment experience easier for customers, it's also made applications much easier for business teams to add to their products. The more a company focuses on ease of onboarding when developing their apps and APIs, the greater the uptake of those apps is likely to be. It's no coincidence that Stripe, which provides online payment processing tools for businesses of all sizes, is one of the biggest success stories in today's digital payments landscape. Stripe has assured its role as a market leader by prioritising easy onboarding.

"When building APIs, most especially in any B2C and B2B, the ease of use, adoption, documentation and frictionless ability onboard is axiomatic. Developers are the new kingmakers. Never, ever forget this fundamental truth."

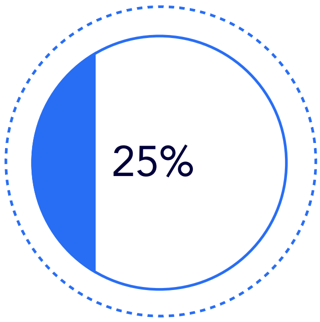
“Other organisations can learn from this approach.” The more flexible, supportive and collaborative a digital payments provider can be, and the easier its products are to use, the happier its customers will be, says Deepti Akkali. "Companies need the right skillset around APIs and microservices. If a client comes in and says 'I only want onboarding and authorisation', I should be able to give them those services."

How customer data grows business partnerships

Digital payments have become quicker and easier but much richer.

The experience has expanded to include functions that have delighted customers and opened up new revenue streams for businesses. Innovations in technology have enabled businesses to embed features such as wish lists, likes, user ratings, VIP schemes and social sharing, which encourage customer loyalty and deliver highly valuable customer data. Thanks to regulatory changes amid the open banking revolution, businesses can now access and analyse data from other businesses, too.

This increasingly smooth and rich payment experience is so attractive that customers' brand loyalty actually rose during the pandemic, contrary to predictions. A study of 1,000 UK shoppers across multiple demographics found that brand loyalty increased since before lockdown, with 25% saying they'd become more loyal to brands since 2019. In 2020, more than two thirds (67.3%) said they would join a brand's loyalty or VIP programme, up nearly 10% from 2019. A 2022 global study found that 76% of consumers consider themselves loyal to one or more brands, an increase of 13% from 67% in 2021.



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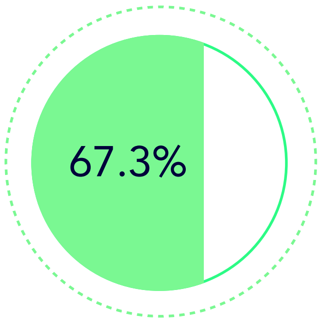
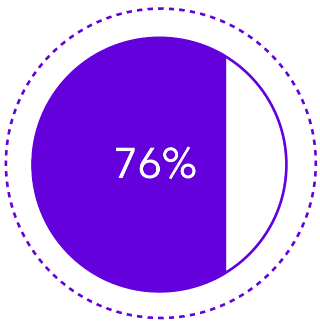


- they would join a brand's loyalty or VIP programme



- consider themselves loyal to one or more brands

Open banking has also opened the door to neobanks that offer seamless integration of e-commerce, authentication and payment within an ecosystem of partnerships.

For the consumer, it's an easy, seamless retail journey. For the business partners, it's an opportunity to expand their revenue streams and better understand their customers. Within their online banking app, customers can search, book, and pay for a variety of things, including hotels and flights.

It feels seamless to the customer as they glide through booking, payment, authentication, related purchases and recommended services with barely a blink, but this experience incorporates multiple stages involving different partners, networks of open banking APIs, and token-based authentication technology. That creates a hugely valuable source of customer data.

Personalised digital experiences become particularly commercially powerful when they're enhanced by richer data such as preferences, context, location and activity history, which the user can enable or disable. The availability of third-party customer data means banks can now offer personalisation at scale, and via API-enabled links with business partners who complement their own services. And with companies of all sizes able to embed data-analysis technology based on AI and machine learning, the ability to collect and analyse customer data has never been greater.

"Online businesses have had the advantage of making metric based business decisions for decades. Now, even a pop-up food truck can use portable payment systems like Square and have rich data and metrics, not only about their sales, but also their customers' buying behaviour."

Banks are advised to adopt this customer data-driven approach or risk failing to deliver the all-in-one payment experience that customers increasingly want and expect, says Felipe Penacoba Martinez. "Traditional banks, they keep on pushing 'this is my best mortgage, this is our best deal'... come on, guys. Think of that person," says Penacoba. "Do you know they are getting married, so they might be thinking of buying a house? Come to them offering to help with the options."

The future of digital payments is within a seamless process that doesn't sell things for the sake of selling things, but because the customer wants to enrich their lives.

The companies who get this right will discover a rich seam of customer data that helps them grow and innovate.

Cryptocurrency and BNPL: cutting the cost of payment

Along with simplicity and security, another key customer need – reduced cost – is shaping the future of digital payments.

"New fintechs have taken down the cost of cross-border payments quite significantly," says Sanjay Sharma, COO of NewDay, which provides responsible credit solutions to businesses. "Some products don't charge foreign exchange fees or interchange fees. When you're spending a few thousand pounds on holiday, that's a substantial amount of money."

Cryptocurrency is cited by some as the logical next step in slashing the cost of cross-border transactions, but our interviewees are unconvinced.

In June 2022, PayPal announced that its platform would support payment via crypto assets such as Bitcoin, but Sharma doesn't see this as a sign that crypto is going mainstream.

> There's a lot of hype about it. Maybe a proven business model will come out of crypto, but so far, I haven't seen anything.

Buy Now Pay Later (BNPL), on the other hand, is seen by all our interviewees as a huge and growing trend in the digital payments space. By slashing the cost of a purchase upfront, BNPL has been embraced by customers – and in turn by companies. NewDay, for example, offers BNPL on revolving credit. Customers get flexible credit, and NewDay's partner merchants such as AO.com get the chance to add their promotions. It also allows easy repeat spend without having to apply for the credit again.

Regulation is central to the success of innovations like BNPL. Both Sharma and Penacoba voice some concern about the presence of unregulated actors in the sector, and welcome evolved regulation as an essential guardrail. "As an industry we provide important services to people and businesses, and we must have regulation," says Penacoba. " Regulation may make it more difficult to create products, but it must be considered right away, just like functional or usability criteria. But I wouldn't call regulation a challenge, it's there because we need it."

How your business can lead the future of digital payments

Answering the call for easy, secure and inexpensive digital payment methods is an enduring goal for the finance industry.

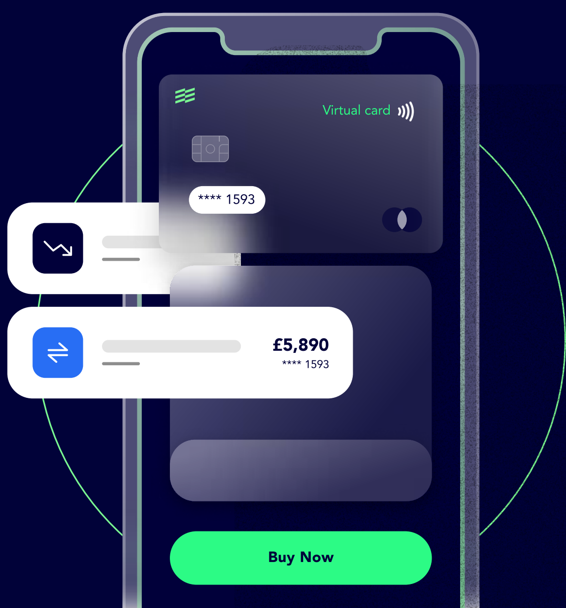
Smart data-driven technologies and business partnerships enabled by open banking are continuing to drive the innovations that help to achieve it, and the pace of change is speeding up.

Even the most ingenious customer-focused innovations are nothing without strong foundations, so any company wanting to be part of this revolution must ensure their operational resiliency. Financial institutions and fintechs have to deliver a seamless service consistently and securely, supported by a payment infrastructure that's resilient, scalable and compliant.

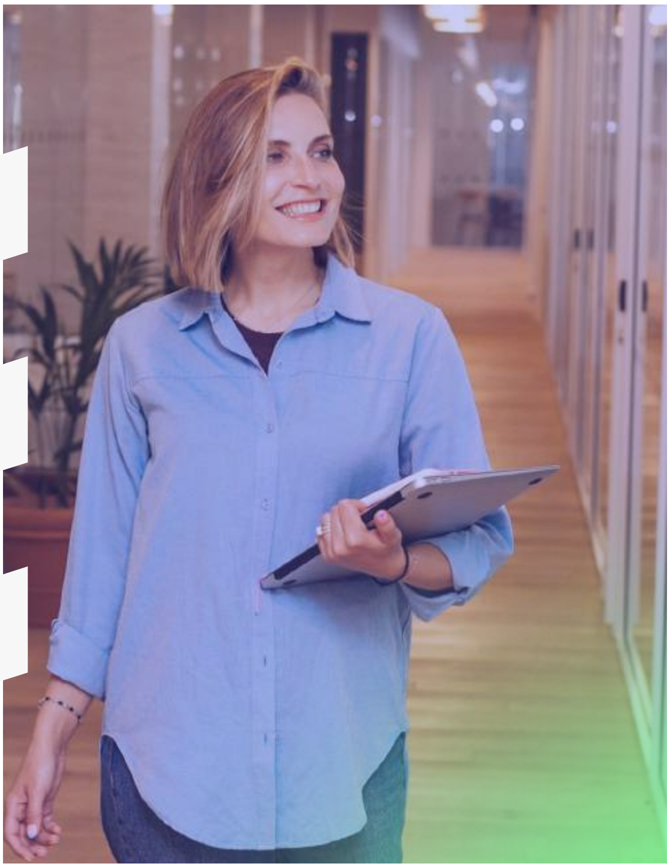
Our interviewees agree that younger fintechs find it easier to adopt the technological and cultural approaches of the new digital payments landscape. "Look at the nimbler fintechs in the direct debit space," says Sanjay Sharma. "They are looking at the slice of the value chain and saying: how can I play a significant role in that slice, whether it's faster payments or direct debits or debit cards? That's where you place like big players like Wise, even a number of smaller players like Form3."

The outdated working culture of large, long-established organisations – which still dominate banking and finance – is somewhat less compatible with current changes, and even risks holding back innovation in the payments sector, says Revolut's Felipe Penacoba Martinez. "Changing their mindset and culture is crucial if you really want true transformation, and that's very hard for some people." Legacy systems don't help, Penacoba adds. "The technology often creates silos, and products that don't place customer needs at the centre."

Companies moving to the front of this fast-changing sector embrace customer-focused products, collaboration, and agile ways of working. "Talent is not only 'Can you build an application in iOS?', talent is also 'Can you think flexibly? Are you not afraid of failing?" says Penacoba. "'Done' is much, much better than 'perfect'. If you wait for something to be perfect, then you will never have the right time. The main challenge now is the need for that cultural transformation."



About esynergy



esynergy is a technology consultancy that accelerates business value for its clients.

Working with enterprises and scale-ups in highly regulated industries, we build scalable platforms, products, and services.

Our delivery teams are small and highly functional, formed by a vetted ecosystem of associates, luminaries and partners. We choose technologies that are the right fit for our clients' needs and are not opinionated around specific tech stacks and service offerings.

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esynergy Practices

In order to drive the right impact for our clients, we need to design technology solutions that are the right fit for their business objective and not the other way round.

Our practices cover most of our clients' pressing technology needs whilst allowing for a custom approach for maximum impact and value.

Our practices encompass:
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- Data,
- Business Agility and
- Technical Agility

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