Pay It Forward: Embracing the Shifting Payments Paradigm

A new payments paradigm is emerging where payment is no longer the final obstacle to obtaining an item purchase. Rather, it's an enabler of a more integrated commerce experience in which customers themselves become part of the payments infrastructure. To stay relevant, banks must drive this shift and adapt commerce experiences accordingly.

Payments are evolving to the point where a new paradigm is emerging. Payments used to be the final obstacle to taking possession of a product or service; now they are becoming an enabler of a seamless, connected commerce experience.

Traditional payment form factors such as cash, check or plastic are becoming obsolete. Payment transactions are increasingly independent of a physical checkout counter or online checkout page, and money is increasingly not the medium of exchange at all—instead, data is becoming the key instrument of trade in a modern barter economy.

In the future, consumers themselves will be the form factor—completing a transaction with the blink of an eye or the touch of a finger, so a payment may occur at almost the same time a purchase is desired. Payment options will be flexible, simple and tailored to the transaction at hand.

Imagine a time when a longstanding relationship with a bank will not be needed to ensure access to financing because the consumer will be in control and able to select the financial institution of their choice on a per transaction basis. Banks are vying for the consumer's attention at point of purchase, but the time and place where payments occur are rapidly shifting, as retailers and brands proactively send products to customers to try out and sample before a payment occurs.

The payments infrastructure will no longer be just a cumbersome conduit for payment authentication. Instead, it will facilitate greater transparency and traceability through a frictionless commerce experience.

If banks are to continue to play a valuable and central role in the payments domain, they should focus on ruthlessly removing all unnecessary friction and automating the mundane and repetitive experiences that waste time and mental bandwidth.

Simultaneously, banks should use data in smart ways to surface insights and knowledge, and partner with the consumer to nudge them into smarter and better spending behaviors that allow them to control and optimize a personalized commerce experience.

Challenge

A seamless and connected commerce experience will be a reality in the near future as digital innovations keep coming, heightening consumers' perceptions around the art of the possible and driving the expectation that all things digital should be seamless and connected.

For now, however, the payments infrastructure largely consists of fragmented legacy systems designed for plastic cards and real-time bank payments, resulting in a lot of friction. Everyday annoyances that have plagued payments for decades are still prevalent, and some of the new innovations introduced have unintended consequences.

Subscription plans with automatic recurring payments provide welcome respite from going through the motions of paying the same bill every month, for example. Yet keeping track of all instances where the card is on file, being aware of how much is actually being spent on recurring payments and making changes—such as cancelling the service—remains an onerous exercise.

No single player in the payments ecosystem—issuing banks, processors, acquirers, networks, wallet providers, payment facilitators and retailers—has been able to leverage and integrate the many new innovations to deliver a holistic solution that enables a connected commerce experience.

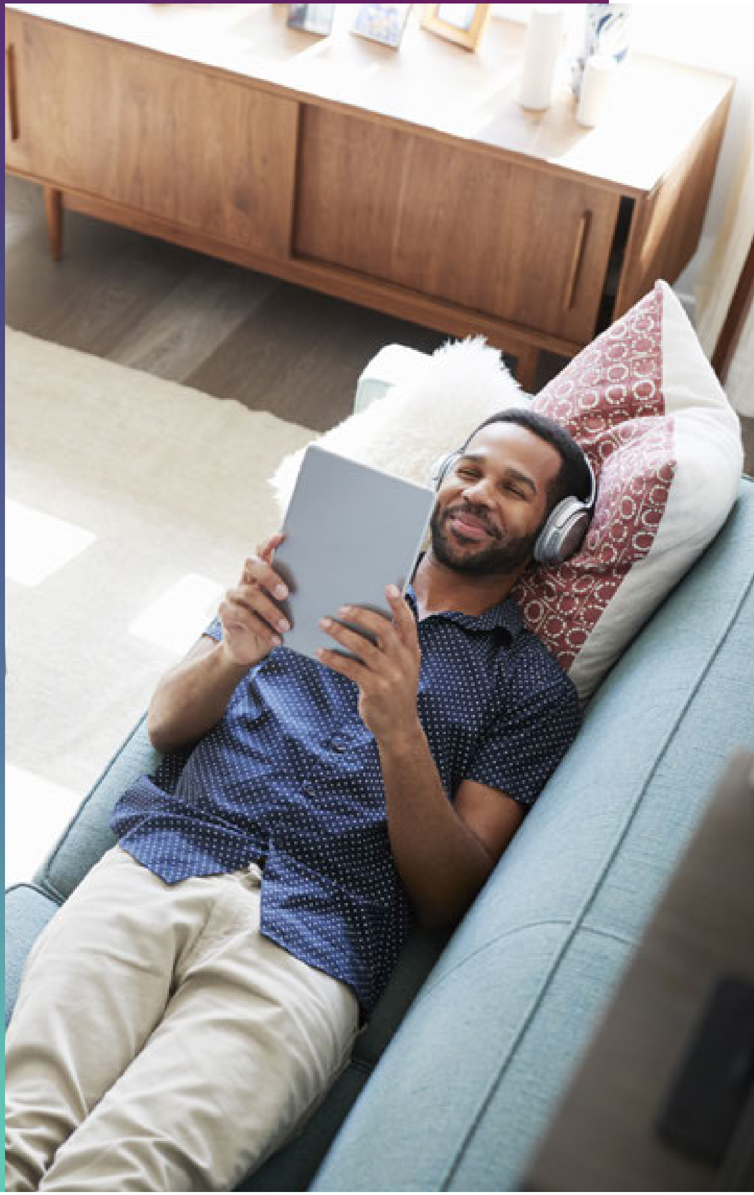
Solution

Consumers are clamoring for a fluid, seamless and connected commerce experience and will gravitate to businesses that enable this future state. New entrants are harnessing technologies to meet this demand, but their advancements are singular, independent solutions that simply lay the foundation.

The opportunity exists for any player in the payments ecosystem to lead the charge in assembling these building blocks into a cohesive, frictionless, integrated commerce experience.

If banks want to be the leaders driving this change, they must step up and embrace the new paradigm. If they don't and do nothing, they will inevitably be pushed aside—forced to watch from the sidelines as non-banks capitalize on what the future has to offer.

There are four enablers to reduce friction and, in turn, create a more fluid, seamless, and connected commerce experience.



1. Liberate Point-of-sale

Typically, point-of-sale is a prescribed moment at the end of the commerce journey. Increasingly, point-of-sale will occur before or during the shopping journey—with or without a store associate and regardless of the device they are using to shop.

A fixed physical checkout area can create long lines and, like a digital checkout, introduces a moment for consumers to leave the store before making their final purchase. Both interrupt the shopping experience by establishing a gate or barrier to taking possession of a product or receiving a service.

Opportunity lies in removing the physical checkout counter or online checkout page by using handheld devices and AI-enabled sensors and simplifying online checkout to one click.

To make the shopping experience more fluid, some retailers provide handheld point-of-sale devices so that shoppers can register their purchases as they fill their basket. Apart from eliminating queueing, this has the advantage of minimizing any time lag between the decision to purchase and the actual payment transaction.

Equipping store associates with point-of-sale devices allows the retailer to further personalize the in-store experience and deepen the relationship with the customer. This reduces the risk of customers leaving a handful of items behind and exiting without making a purchase because the checkout line is too long.

Inspiration:

Gap began to roll out handheld devices to its in-store sales associates in 2018 to better serve customers not just at checkout but with better information, such as price checks and inventory availability.[1]

Where a self-service shopping experience is preferred, some retailers have begun to integrate payments into the entry-point of the store. This has the benefit of giving the retailer an introduction to its customer early in the commerce experience, opening an opportunity to activate loyalty programs or personalized recommendations before the moment of payment.

Some grocery stores have in-aisle scanners that also dispense digital coupons. Other "smart" stores enabled by AI sensors and cameras are combining the payment and the shopping experience to eliminate the need to scan items at the checkout.

Some online retailers have been able to simplify the checkout to a mere one-click process by pushing the payment transaction into the background. In-app purchases are as simple as a fingerprint, relying on auto-fill integrations for the shipping and payment credential information stored on the shopper's phone. Linked devices such as e-readers or connected cards require only a one-time set-up for the first payment.

Banks should consider ways to support retailers, helping to drive the evolution of seamless checkout rather than scrambling to keep up.

Inspiration:

Amazon offers "Just Walk Out Technology" to retailers to enable them to provide the Amazon Go store concept in their own locations. It also provides "Dash Carts" with AI and sensors installed in the shopping cart, to provide the same experience without the retailer needing to modify its store.[2]

Inspiration:

Amazon's Kindle e-reader automatically enables one-click ordering after the payment method and shipping address have been added during the first order. Future orders are then placed merely by clicking "Buy now with 1-Click" on any product page. The order is then automatically charged to the payment method and shipped to the address associated with the initial once-click settings.[3]

2. Provide Diverse and Instantaneous Financing Options

A good place to start connecting the commerce experience is by providing a variety of immediate credit options—installment payments, for example—to consumers when they want and need them, instead of a credit line disassociated from the purchase.

Whether online or in-store, a consumer no longer needs to have a credit card at the ready. Nor do consumers have to apply for credit long before they have a need. A number of retailers, by partnering with fintechs or e-commerce platforms like Shopify are able to extend instant credit to shoppers, even in some instances sending products to customers without first securing full payment.

Developing and offering holistic financing options that go beyond credit and debit cards is a good way for banks to avoid disintermediation.

Inspiration:

Affirm provides consumers with immediate, transparent installment loans. This is not a new credit option—loans must be repaid in installments over a set period of time, with all terms outlined and agreed to upfront at the point-of-sale. But by being transparent ahead of the purchase about exactly what customers will pay each month, Affirm has created an experience that has no surprises.[4]

American Express provides an alternative payment option at point-of-sale by allowing customers enrolled in Membership Rewards to use accumulated points to instantly pay for purchases when checking out at participating retailers. To date, Amex has partnered with 14 retailers.[5] On average, the value per point is approximately $0.70, but depends on the arrangement with each retailer.

3. Eliminate the Need to Present Traditional Payment Credentials

The use of on-file payment credentials in-app, online or in-store enhances the commerce experience by making payments seamless after the credentials have been provided for the first time. Specifically, on-file payment credentials help enable recurring payments for subscription services or for buy-now-pay-later financing options.

For consumers, on-file payment credentials allow the payment to fade into the background—an important component of a convenient payment experience. For example, being able to quickly exit a taxi at the airport without having to think about the payment reassures the consumer that nothing will hinder the mad dash to the airport security line. Similarly, eliminating the mundane task of actively paying bills by ensuring monthly payment deadlines are met automatically gives consumers peace of mind.

Devices enabled by the Internet of Things (IoT)—such as smart parking meters, smart refrigerators and voice-activated assistants—extend the capabilities of payment credentials on-file.

A single authenticated on-file payment credential can affect payment to multiple online and brick-and-mortar retailers across different payment channels and to different physical locations. All relevant purchase information is stored in one place and payment happens in the background as a seamless response to the customer's desire to make a purchase.

An unintended consequence of a frictionless experience is invisible or unnoticed fraud. As the number of stored payment credentials increases, security and authentication become ever more important.

To ensure that a seamless payment does not compromise the security of the transaction, banks should spearhead the development of technology that is tied to a consumer's identity—for example, biometric behavioral authorizations, integrations across platforms for single sign on, or gestures. Consumers have come to expect this of their banks.

Inspiration:

Bank of America, through its virtual assistant Erica, can tell customers what subscription services are tied to their cards. They can use its budgeting and spending tools to discover where recurring transactions are taking place and take back control of their expenses.[6]

The **Groceries by Mastercard** app, the first to be integrated into a refrigerator, connects consumers to leading grocers so they can order groceries direct. It learns the family's shopping habits and makes personalized suggestions on items and brands.[7]

4. Make The Digital Wallet Truly Integrated And Flawlessly Operable

The digital wallet—or e-Wallet—is the backbone of the connected commerce experience when truly integrated and flawlessly operable. If the next-generation point-of-sale bypasses the idea of a checkout line, then the integrated wallet is the common denominator between all points of purchase.

Today's e-Wallet is housed in a consumer's mobile phone, with apps from Apple Pay to Google Pay enabling consumers to securely store credit card data and transact.

In the not-too-distant future, AI may be leveraged to automatically optimize a consumer's e-Wallet. It will take into account the maximization of rewards, interest payments, fees and other benefits, like free shipping, to establish a waterfall of preferred payment types that potentially changes with each transaction.

Since e-Wallet apps are agnostic with regard to payment type, banks have an opportunity to vie for the top of the integrated wallet. Providing customers with more targeted rewards that surprise and delight, offering more financing options and, subsequently, creating a more personalized experience at every transaction are all ways they can earn top position.

Inspiration:

Apple Pay offers an easy, secure and private way to pay in-store, online or within apps, using an iPhone, iPad, Apple Watch or Mac rather than a physical card or cash. Any credit, debit or pre-paid card may be uploaded to the e-Wallet. Apple Pay can also be used to send and receive money in the Messages app with Apple Cash. Every transaction requires authentication with Face ID, Touch ID or a passcode.[8]

Capital One Shopping—formerly Wikibuy—is a free browser tool that makes it easy for consumers to save time and money while shopping online. It does this by automatically searching for online coupons, better prices and rewards at over 30,000 online retailers. Capital One purchased the technology so it could better serve its existing customers. By anticipating and solving users' needs before, during and after point-of-purchase, it's building customer loyalty to its checking accounts and cards. It is also gathering rich data on non-customers' shopping behavior—information it can potentially leverage to proactively attract new customers.[9]

A Final Thought

The ambition for payments needs to be to be frictionless and integrated in the broader customer experience. As such, the payment experience should not be divorced from the broader commerce experience and should not just mark the end of a transaction. Also, payments can no longer be specific to just one channel or payments form factor.

There is technology that is helping to evolve the payments infrastructure, yet many of today's innovations are one-off solutions that only set the stage for what is to come.

Fintechs have been at the forefront of technological advancements in the payments space. Yet no player in the ecosystem—issuing banks, processors, acquirers, networks, wallet providers, payment facilitators or retailers—has been able to remove the friction and fully integrate the infrastructure that would support a seamless, connected commerce experience. There is still an opportunity for banks to step up and be the ones who drive this shift in the payments paradigm.

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