WHAT 'IIF' PAYMENTS BECOME INSTANT, INVISIBLE & FREE?

ALAN MCINTYRE AT THE 2019 PAYMENTS CANADA SUMMIT

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ALAN MCINTYRE: Well, good afternoon, everyone. And first, let me thank Payments Canada for having me as a returning speaker this year. Frankly, I was a little surprised I got invited back after last year because I felt I was a little bit of a buzzkill last year on this stage because I asked the question, "What IIF?" What if all retail and commercial payments end up being instant, they end up being invisible and they end up being free? So, if you look at the pressures around the industry, we see this happening.

So, if you were to summarize my presentation last year, it looked a little something like this: that there's plenty in the payments industry to get excited about—and you've been hearing a lot about that in the last couple of days—but there's also plenty to be concerned about as traditionally reliable income streams start to dry up a little bit.

So, for those of you who were here last year, think about this as part two. For those of you who weren't here last year, I understand that part one is still on YouTube somewhere. So, I want to pick up the story. And I want to start by sort of calibrating a little where we are on that journey between instant, invisible and free because last year it was a good tagline. This year I wanted to put a little bit of meat behind it and say: "Where are we? Where are we in this journey?"

There is plenty of anecdotal evidence that we're heading in that direction. This is Yves Mersch from the ECB putting the European card industry on notice that instant and "close to free" is something that they're going to be pushing in combination with regulations like PSD2. We also recently saw Visa and Mastercard reduce interchange fees for non-EU accounts in the EU by 40 percent as a result of regulations. But today I wanted to go beyond the anecdotal and show you a little bit of data. We did a major survey in the last six months and we added corporates and we added banks to it and we asked, "Do you agree that payments are becoming more instant?" And not surprisingly—yes, with Europe, surprisingly, maybe the least convinced. We then asked about the time frame. And we were surprised how quickly both banks and corporates thought that "instant" would become the default, with really not a lot of variance in there.

We then asked about payments becoming embedded and about payments becoming invisible—and again a very high degree of agreement that that is where we're heading, with Europe again marginally more skeptical. On timing—again it's faster than we thought, you know—and the indication that you should be thinking about invisible and embedded be something that you're planning for right now.

And then finally for "free", a little bit more variance here, with APAC materially more worried that free is where we're heading and maybe North America a little bit more skeptical. And on timing, again very little variance and it's coming relatively quickly. So, it turns out when you look at the data I wasn't being Cassandra last year. Instant, invisible and free is a set of short-term issues to be dealt with by the industry.

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ALAN MCINTYRE: Over the last few months, we've also looked to the macroeconomics of payments and it confirms another one of my conclusions from last year, [which] was that even though we have margin compression, the margin versus volume trade-off is still working in favor of the industry at this point.

So, this is a projection that payments revenue in totality is going to grow about five percent a year, to reach 2.5 trillion by 2025. There is some regional variation behind this, with Europe growing the slowest and APAC growing the quickest, but what you also see is a mix shift. You see a mix shift in here from consumer to commercial as a result of both regulation and competitive pressures. And that mix shift away from consumer is not really surprising when you consider what's happening in a market like China.

So, last year the Chinese population did $20 trillion of digital mobile payments—up from zero in 2013. And China now accounts for two-thirds of all the digital mobile payments in the world. And the combination of Alipay and Tencent accounts for 90 percent of that volume—and these are essentially free payments. You compare that to America... we spent a measly $200 billion in digital mobile payments last year... so a hundred times the volume in China. And what's more important—China is still growing at a far more rapid pace than the US. Some projections are, in three years, that Chinese consumers will have $50 trillion of digital mobile payments—and it's not just a Chinese phenomenon.

You take a market like Thailand. It's only a few years ago that 90 percent of all transactions in Thailand were cash transactions. Seventy percent of the population did not have a bank account. In fact, the QR code system for digital mobile was only introduced in 2016 and was only standardized in 2017—so a blink of an eye. Yet a couple of weeks ago, the Bank of Thailand announced that they hoped to move to a cashless society within the next three to four years. So, incredible pace of change, incredible pace of change driven by this type of technology for consumer payments.

Same story in India, by a huge scale, through Paytm, WhatsApp, other digital wallets. India is now seeing over a billion mobile digital payments transactions a month, and they're growing at 25 percent a month at this point. But the important thing here is that it's enabling that transaction volume, so that margin volume trade-off that you see has been driven by people being brought into the payments world. And for the moment, that is working in the favor of the payments industry.

However, the other thing that we're seeing is the internalization of payments, and that's also compressing revenue. So here you get Starbucks and Apple Pay—at essentially the same level of penetration in the US—but what's really interesting about this is every time you make a payment on Apple Pay, someone in the financial services ecosystem makes some money. Whereas for Starbucks, you only make money when you reload that card on an episodic basis.

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ALAN MCINTYRE: While the penetration here is broadly similar, the economics are completely different for the industry. We're seeing that internalization across the board. You look at what an Uber, a Wal-Mart or an Amazon are doing: They're trying to take control of payments and bring it into their organization. They're providing incentives for you to use the prepay accounts. So, at some point that volume value trade-off for the industry is not going to work, and we're probably not that far away from it.

So it's pretty clear, I think, that what we're going to have to do is not rely on the payments transaction itself. The way I would ask you to think about the payments transaction is as a carrier wave—that the movement of money, the actual in and out of the accounts is something that's just going to be always on in the background. With the advent of 5G technology—whether it's an Amazon Go type store, whether it's "pay by facial recognition" from Alipay, whether it's having a chip embedded in your hand—the ability for you to pay is always going to be there, but if your favorite radio station was just this carrier wave, it wouldn't be worth listening to.

So instead, as a payments industry, what we need to think about is what the signal is that sits on that carrier wave. What is the information content that you're going to need to have? And I'm going to extend my physics analogy a little bit here and get quantum on you. This is Schrodinger's cat. I don't know what Schrodinger's cat actually looked like, but this was a cat in a box, so it was fine.
What you get with payments is you don't get probabilistic. You actually can see whether money has moved or not—it's not social media chatter, it's not web browsing history, it's not geolocation data. There is a point of certainty where a payment is made. So, you know whether the cat is dead or not. You're just not looking at the probabilities. And that certainty—that crystallization event—is very important. So, in physics terms, the sort of probabilistic waveform of the payment collapses and you know what's happened.

And if the payment has actually been made, you know something about it. You've bought Blue Jays tickets. And you bought them at the box office at Rogers Stadium. And you bought them using a debit card. All that's relatively straightforward, but we now know so much more—or potentially know so much more. We know how you got to those tickets. Did you click through in a schedule? Were you incented to make that purchase? We also know what else you bought at the stadium. We also know are you a long-suffering Blue Jays fan or are you just coming to it late in life? We also know who you went with and whether there was a transaction involved in that. And we also know whether you were drowning your sorrows or celebrating afterwards—and you don't even have to have used the same payment mechanism. We can often use other data to triangulate what was happening to you that day. So, we know a lot about what's happening to you, and we can do stuff with that.

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ALAN MCINTYRE: We can think about the payment mechanisms. Should you use that card or this card? Are those rewards actually worth something? Could they be used to buy Blue Jays tickets? If maybe the Blue Jays ever get into the playoffs again and you want to buy those field level seats, maybe you need a loan to do that. Maybe you need some protection on that purchase because you're not really confident they're going to make it through the playoffs. This is all about what that signal is, which is on top of the carrier wave of making that transaction. And like me, you might actually be a Yankees fan, which, if somebody's buying Blue Jays tickets, you would really like to know about that. So, there is a fraud protection opportunity as well.

And I first started coming to Toronto when it was the SkyDome rather than the Rogers Centre—and it's 30 years old now, so it's a little behind the times. We've been working with the Golden State Warriors on the new Chase Stadium in San Francisco, which will be the most digitally enabled stadium in the world. And I can tell you that seamless payment transactions is an absolutely foundational point for the customer experience in this stadium. And that's going to be something where you put a huge amount around those transactions of buying tickets, going to the concession. I can tell you that the information stream is also what's behind this recent announcement. Using the power of data to create advisory revenue streams that sit on top of the payments transaction, but I want you to think bigger than this. I want you to think about the payments information as a critical raw material for building truly intimate relationships with your customers.

Now you can't move in the UK at the moment without bumping into a challenger bank—and in this case it's Monzo. So, let me show you how payments plus contextual information can create a truly compelling experience. So, you sign up for your Monzo account—really straightforward. You use it to buy your commuter rail ticket. You do it every day. If you bought a travelcard, you would save £400 a year, but, of course, you can't afford that. You're living paycheck to paycheck and you can't actually afford the travelcard. So what Monzo does is, it takes the commuter rail APIs—it takes your transaction data and it creates a very specific offer for you with a click-through to buy that ticket. What do you think? "This bank's on my side. They're trying to help me." What does that create? It creates the viral marketing moments that everyone is after. It is using payments data to create a truly intimate and compelling customer experience. And that's what I mean by putting this signal onto the carrier wave. It's about understanding the contextual information.

And the good news is that financial institutions are perfectly placed to do this. This is consumer survey work that we've done recently. Canadians trust banks. Canadians trust payments companies to look after your data. You also trust them to look after your long-term financial planning—maybe less so for the payments companies—and that preference is increasing.

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ALAN MCINTYRE: So, this is how it's changed in the last 12 months. And as you can see, the banks and the payments companies are up. Not surprisingly, the social media companies are down. So that's a lot of good news.

But I'm going to go back into buzzkill mode a little bit here and talk about what this might actually mean for Canada—because one of the other things that we did with this data was create consumer personas. Twenty-three percent of the typical target Monzo customer—they want a digital bank. They want a relationship. They want engagement. They want advice. They'll tell people about it. But 33 percent are skeptics. Gen Xers don't trust their bank—born by the financial crisis, don't really want that level of engagement. But now 23 percent are pragmatists. They're digital, but they want tools. They want alerts. They don't want advice. Twenty-one percent are traditionalists. So that's global in nature—but you look at it for Canada—it looks very different. Canadians are conservative. There's only 11 percent pioneers in this market versus a market like India—over 50 percent pioneers.

So, in a future where you're using payments data to help drive a data economy and an advice stream, you also have to be careful not to over rotate and to overestimate where the market is, because if you dig a bit deeper, what you see is Canadians are not quite ready for what the rest of the world is saying they want. Alerts about upcoming payments? Fifteen percent lower. Perks and offers when shopping? Ten percent lower. Savings tips? Ten percent lower. Cashflow management tips? Fifteen percent lower. Personalized product recommendations? Lower. You get the idea.

So, you do need to be preparing for the world of "What IIF" cause instant, invisible and free is coming and it's coming relatively quickly. And as you prepare for that world, you need to think about what the signal is that's sitting on the carrier wave. Cause ultimately the carrier wave is going to make no one any money going forward—but the signal can be the absolute key to building those personalized compelling customer experiences that continue to put the payments industry at the heart of financial services and the heart of the broader commercial world, but that is only going to happen if we as an industry figure out what that signal is and how to take advantage of it. Thank you very much.