5 BIG BETS
IN RETAIL PAYMENTS
IN NORTH AMERICA
The payments industry in North America is on a roll.

The volume and value of transactions is growing due to the proliferation of cards and higher digital payments penetration. Payments revenue grew at 6% CAGR between 2015 and 2018. And the majority of incumbent banks expect to continue playing a central role in the retail payments industry in the next three years.
BUT ALL IS NOT WHAT IT SEEMS

Despite strong confidence, the ground around incumbents is increasingly unstable. Payments revenue growth is projected to slow to 4% CAGR between 2019 and 2025 (Figure 1), with incumbents expecting to capture less of this diminishing revenue. A majority of retail payments executives in the top 20 US and top five Canadian banks commonly believe they will lose 11 to 15% of their revenue pool in the next three years to non-banks, fintech, Big Tech, challenger banks and other incumbents.

Figure 1: The evolution of retail payments revenue in North America, 2015-2025

The reality is that the transactional aspects of payments are increasingly becoming a commodity. So much so that customer experience is the new driver of brand value and competitiveness in retail payments. Executives view it as a key driver of customer disintermediation. With new entrants introducing instant and invisible payment options combined with pricing compression, the future of materially free payments is taking shape today.
In this environment, banks’ confidence in their future position is a false hope. If they do not evolve, the competition will close in, and the resulting economics could become untenable. Some banks risk being relegated to a utility position providing back-end transactional services while others provide data-powered business models.

Imagine banks as mere funding sources, not as primary, customer-facing retail payments players. This possibility makes a compelling business case for incumbent banks to evolve the retail payments customer experience. Now, not later. Incremental changes in pockets of the business are not enough. Without truly transformational change, banks are looking at a future of revenue loss and vanishing relevancy.

PLACE THESE 5 BIG BETS

1. Reinvent Revenue
2. Jettison Legacy Tech
3. Run with the Unicorns
4. Spin Data into Gold
5. Treasure Trust
BIG BET 1
REINVENT REVENUE

Escape the big squeeze on revenue by delivering new value

Disruptive market forces are shifting leverage in retail payments away from incumbent banks, making long-stable sources of revenue less certain and revenue diversification more important.

The biggest driver of potential revenue loss is the radical reconfiguration of the customer value proposition from transactions to experiences. Bank executives are still coming to terms with this influential force. Only 32% consider evolving customer demand a top-three challenge in their business today.6 Yet customers want anywhere, anytime payments safe and secure. They demand value beyond payment facilitation through the Four Rs of customer-centricity—Recognize consumers, Remember their interactions, Recommend products and services, and Reward them as valued customers.

Unfortunately for banks, non-banks and digital disruptors excel in customer experience. This leaves incumbents playing catch-up and exposes revenue and relationships. Executives know these experience-savvy competitors are breathing down their necks. Thirty-eight percent cite competition from Big Tech as the primary challenge to the business, while 34% point to competition from fintech.7
By 2025, nearly 15% of retail payments revenue will be at risk from card displacement by real-time payments, competition from non-banks and digital disruptors, and pricing compression.

Source: Accenture Research Global Payments Revenue Model

If that was not enough, fee compression is further eroding retail payments revenue. Between 2015 and 2018, revenue per transaction dropped from $0.34 to $0.29 for debit cards and from $1.21 to $1.07 for credit cards with merchants and regulators looking to lower interchange fees. There is also the impact of consumer frenzy for rewards. Spending in loyalty and rewards among the top five US issuers jumped from $11 billion in 2010 to $31 billion in 2018. This battleground for rewards is offsetting revenue from interchange fees, eroding the economics of the card transaction and making banks more dependent on interest income.

Banks cannot sustain the status quo and expect to protect and grow revenue. New market realities demand replacement revenue in the form of value-added services and experiences to drive economic performance. Bank executives identify next-generation reward schemes, data monetization, and embedded payments capabilities as among their priorities for generating new payments revenue.

Developing the right strategy for new revenue creation is complex. Banks will need to determine which services they will (and can) charge for—how much—and whether potential new revenue sources will be direct or indirect. All of this is essential to create the next generation of payment revenue streams.
Once upon a time, monolithic technology stacks dominated, and established payments players dominated too. But times have changed.

Technology used to be an enabler of the payments business. Now, it is a product in itself. With technology innovation in their DNA, digital-native companies have a significant advantage. Their open and flexible architectures help them to react and integrate with ecosystem partners at market speed. Meanwhile, incumbents are mired in the dead weight of closed and inflexible legacy systems (Figure 2).

**Figure 2: The gap between legacy and modern technology stacks**

**WATERFALL.** Legacy stacks are monolithic—established players dominate  
**AGILE / APIs.** Tomorrow, architectures will integrate many innovative vendors

Source: Accenture
Retail payments executives acknowledge that their legacy technology footprint is a significant competitive liability. They identify new technologies as the biggest challenge in the retail payments business. And almost 70% of banks acknowledge that their operations—which include core banking systems—are trapping value in the organization.\footnote{11}

Digital technologies are essential to unlock this value and support innovation and cost efficiency. Executives commonly cite artificial intelligence, robotics and machine learning (52%); innovative payment hubs (48%); distributed ledger technologies (36%); and open APIs (32%) as the priority platform technology capabilities to adapt core systems to high-speed and continuous payment flows.\footnote{12} While banks are working to untether themselves from their legacy burden, it is a daunting undertaking. Shedding legacy baggage by ripping and replacing the entire stack is time-consuming and expensive.

Digital decoupling is a more sensible approach.\footnote{13} It integrates new customer-facing apps in a modular fashion around the legacy infrastructure. It is an incremental process of hollowing out the core and importing functionality to the new architecture until 100% of the core functionality resides there. And with microservice and API-based platforms, banks can tap into fintech innovation and ecosystem offerings to broaden value-added services.

Innovating at market pace also requires an alternative to the sequential waterfall software development lifecycle. With DevOps, incumbents jumpstart agility with continuous development and integration. Banks that embrace this ongoing test-learn-refine process can become more digitally focused. Finally, they will have the agile technology foundation to deliver what customers want—offerings like digital straight-through processing, self-service options and value-added services—faster and at less cost.
RUN WITH THE UNICORNS

Embrace collaboration in a market that innovates faster than any single firm

Incumbent banks continue to ponder whether fintechs are friends or foes in retail payments. In most cases, the answer is both.

Payments fintech is North America’s largest fintech segment. It attracted $10.6 billion across more than 800 deals between 2016 and 2018. With such massive investment, the mythology around payments fintech is not so surprising. It is not far-fetched to expect a unicorn to establish future leadership amid the migration from card-based networks to multi-purpose payments networks. After all, Amazon, Uber and Airbnb reimagined their entire industries with a keen consumer understanding and killer technologies.

But the reality is that no single firm can innovate as fast as the market does. Fintech firms are increasingly less focused on putting incumbents out of business than they are on working with them. The odds of being the last one standing are long, and it takes more time and capital than investors are willing to give. Moreover, fintechs struggle to scale. They need what incumbents have: vast networks, global resources, large customer bases, and strong brand recognition.
Collaboration—running with the unicorns instead of against them—appeals to incumbents too. This is true despite momentum for acquisitions in this space. Banks can access fintech innovation with the right partnerships and an integration layer with APIs. They do not have to invest in overhauling internal R&D capabilities or creating internal incubation engines with cultures and capabilities modeled after fintech start-ups.

This collaboration is just the latest incarnation of the power of the network that built the retail payments industry. Examples abound. MasterCard and Visa were born out of the realization that collaboration was the only path toward scale in card payments. More recently, US banks came together to create Zelle, a P2P offering designed to compete with Venmo and powered with fintech innovation. By white-labeling technology from Mitek Systems, retail banks, brokerages and prepaid card providers have brought millions of consumers the convenience of mobile remote deposit capture capabilities.

Moving forward, incumbents will need to sort out fintech relationships, determining which companies to beat, buy or join. Regardless of their strategies, banks that do not collaborate in some way with fintechs will likely fall behind in customer experience, innovation and speed to market—a deadly trifecta. Yet banks must remember that collaboration is not just about who. It hinges on how data is shared with fintech partners. This data is the crown jewel of future revenue generation and must be protected.
BIG BET 4
SPIN DATA INTO GOLD

Develop new products from the information surrounding transactions

Monetizing data is aspirational for most traditional banks. But this offensive move against revenue migration to new entrants is the wave of the future.

The data monetization evolution in retail payments is slow, but it will ultimately transform the industry. Data today is an “insight” for incumbents. They use it within the bank to create efficiencies and transform service experiences and product offerings. Data will become a “product” whether sold directly to customers or to third parties to drive revenue uplift (Figure 3). This is a profound shift from data as a complementary insight to data as a chargeable product that merchants and customers are willing to pay for.

Banks have been exploring how to monetize information surrounding retail payment transactions for a decade. Even with this interest, just 16% of banking executives say their institution is selling raw data to third parties today. Most are targeting a two or three year horizon to begin data monetization, which is optimistic considering what a departure it is from typical revenue models. Only 12% of executives say their bank has no aspiration at all to monetize data externally.17
The slow burn around monetizing consumer data is understandable considering how complicated it is to do well while protecting consumers’ information. Not surprisingly, executives cite customers’ data protection concerns as the top barrier to monetizing data. Other challenges include lack of analytics capabilities, operational agility, talent and funding. Banks are also limited by legacy IT infrastructures and by their own concerns about the reputational risks involved.18

Even so, there are viable “data as a product” offerings for stakeholders. Data-based decision scoring and fraud detection can increase conversion and decrease fraud losses. By selling affiliate merchant transaction data for a segmented audience, banks can promote co-branded and real-time offers and discounts. In addition, data-based offerings that combine consumer transaction and third-party data can help merchants develop a deeper understanding of shoppers’ behaviors.

As incumbents explore this uncharted territory, they must tread lightly to protect the integrity of customer relationships. This takes a sound data monetization strategy and a business case that distinguishes what merchants and customers expect from what they will actually buy.

Source: Accenture insights from publicly available information from company annual reports
Preserve consumer trust to fuel a new basis of competitiveness

Customer trust is the unsung hero of retail payments. Much of what traditional banks must do to beat back competitors and generate new revenue hinges on whether or not they can protect their customers’ trust.

Trust is the essential foundation of customer experience in retail payments. Drops in trust create reputational risks, which are deeply problematic and put real revenue at risk. Accenture Strategy developed an Index that quantifies the symbiotic relationship between trust and the bottom line. The analysis reveals that even small declines in trust impact companies’ overall competitiveness. This is why managing trust, and making it part of the business strategy, is a must for banks.19

This trust dynamic plays out in technicolor when it comes to the use of customer data in retail payments. Incumbents need data insights to provide value-added, and potentially revenue enhancing, services and experiences to their customers. But doing this starts with customer trust. The good news is that the majority of consumers trust their banks with their data. A strong majority (86%) trust their bank to look after their data. In addition, 80% trust the bank to take care of their financial well-being.20
Even with this enviable trust foundation, incumbents must continually strike the delicate balance between trust and privacy to serve customers well. This is difficult because the line between delighting and disturbing customers when delivering the 4Rs of customer-centricity is different for every person.

Imagine that a bank uses data analytics and machine learning to flag anomalies in payroll deposits to get in front of problems for customers. To be proactive in this scenario, banks have to act on personal information even without customers’ express permission. How will customers react? Some will love this. But some will not.

In addition to using customer data artfully and carefully, banks must also secure personally identifiable information to maintain consumer trust. Retail banking executives take this responsibility seriously. They identify combatting new cyber threats as the greatest challenge to delivering instant payments today. Yet cyber threats are escalating. There has been a 67% increase in security breaches over the last five years and a 72% increase in the cost of cybercrime during this period. Innovation—and criminals’ own ingenuity—are evolving faster than banks can secure against them, which puts consumer trust in jeopardy.
Retail payments leaders realize that big changes are at their doorstep. What many do not realize is that they lack the luxury of time to respond. Their core business is becoming commoditized and new entrants are vying for market share. Now is the time for banks to make transformational changes to deliver the next-level of customer experiences. Or the odds of survival are not in their favor. Bet on it.

**GO BIG OR GO HOME**

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ABOUT THE ACCENTURE 2019 GLOBAL PAYMENTS SURVEY

Accenture conducted an online survey of 240 retail and corporate payments executives globally. The survey was conducted between February 14 and March 10, 2019. The overall margin of error is +/- 1.55 percentage points at the midpoint of the 95% confidence level.

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