



MICHAEL ABBOTT AT THE PAYMENTS CANADA SUMMIT 2021

AUDIO TRANSCRIPT

Over the past year, we've talked to hundreds of clients, thousands of consumers and too many FinTechs to count, and what we've learned is that below the placid surface we see today, there are turbulent forces reshaping the industry. The good news is we've seen this movie before, and as an industry we can write the ending, but the decisions we make over the next few years will determine what the 20-30 payments Canada keynote will be all about.

The question is. Will banks continue to drive the incredible innovation that has fueled the payments industry? Or are we about to become credits at the end of the show? The choice is ours. It's back to the future. Let's dive in.

There is no doubt the pandemic has changed payments forever. Tap and pay has exploded. Digital adoption has gone through the roof for all age groups. 2025 is happening right now.

And what we're seeing is the convergence of two super cycles that are quietly influencing every aspect of financial services. The first super cycle is a neo-normal—the convergence attack in banking. We are all playing in an increasingly crowded space, and differentiation is hard. In North America, nearly every mobile banking app is rated 4.8 or higher. It's a sea of sameness. Digital is no longer a differentiator and consumers are spending more and more time on non-banking marketplaces and platforms that are making payments invisible. We all know who they are, the Amazons, the Ubers, the DoorDashes of the world. As my wife told me the other day "Buying is fun: Paying is not." Whether

we like it or not, we are entering the age of post-digital banking.

The second super cycle, and perhaps the most important one, is the battle for experiences between banking and payments. For years we've heard that data is the Holy Grail for FinTechs. It's worth a fortune we were told.

Well, I have an inconvenient truth to tell you today. On the open market, consumer banking data is close to worthless.

Well, it's not exactly worthless, but today we buy consumer card transaction data for our retail partners for around \$0.10—that's right, per person. Card transaction data is worth about a dime. That's all your data is worth and if we think about it, it's not surprising. Just ask yourself—is Facebook data worth anything without Facebook itself?

I argue it's not. It's the ability to change experiences using data that creates value, not the data itself. By owning the experience, you own the value. The good news is we've been here before as an industry, and we've risen to the occasion. It was the 1950s and payments were about to change forever with the birth of the credit card.

But before we go there, let's step back even further. During the depression in the 1930s, merchants began extending credit to consumers to drive sales. It was a simple close-ended system. Today we call it private label, and the digital equivalent in our market today is our banking app—it's a closed-end application.

Eventually though someone asked, why carry all



those cards? Why carry all those apps? Couldn't one do it? And in the 1950s, Diners and American Express appeared on the scene. They were the first open-loop products, but banks were worried that they owned the deposits. They owned the branches and take up was slow. Today that's Google and Apple Pay.

Eventually banks realized they had a problem and they started innovating. Of course, initially by building their own closed networks like Bank of America card, but eventually they figured out that payments is a network game, better played as a team sport, so they got together, collaborated and created Visa and MasterCard. The challenge is today there's no digital wallet analogy for Visa and MasterCard.

And there are big differences this time around. Technology has changed everything. We no longer have decades to innovate. At best we're going to have years. Digital payments are now everywhere. Today consumers spend over \$35 trillion globally on cards, so we need to ask ourselves a simple question. What would we pay to influence \$35 trillion of spend? That is the battle for experiences.

Innovation happens in years, not decades. When Neo banks enter banking, they almost always attack via payments. Take N26 in its partnership with TransferWise as an example. They let you move money cheaply and with ease anywhere in the world. My son, who happens to live in Germany right now, needed to move money locally. He got an N26 account in a matter of minutes, linked it up with TransferWise to his US Bank account and now he never plans to move to a major bank. He's happy with what he has today. Chime is another example. Over the last year, during the pandemic, they added 8 million users. Their value proposition is simple.

Get your paycheck a couple days earlier? Who would not want to get paid earlier? These are product innovations, first and foremost built around the payments ecosystem, and everyone is becoming a terminal, whether it's Square, Interact, WePay, AliPay. It won't be long before

we can simply flip our phone over and let someone tap and pay. We're all becoming terminals.

And our phone is becoming our wallet. Really everything we have in our wallet is now on our phone. Our payment apps of course, our passports, loyalty cards, health apps, driver's license. The only thing missing is cash, and that's about to change with the emergence of central bank digital currencies.

Think currencies can't exist outside of the loonie? I still remember the day when Sandy McTyres could buy a beer in a bar. Maybe it was the original crypto. Nothing is truly new; it is back to the future.

Let's talk about how TAC is changing the experience. First, we should all understand and be very clear—the next gold rush is for experience, and Google, Apple, PayPal, AliPay, WePay are all looking to do one thing. They want to own the payments experience so they can influence purchase behavior. If you own your own digital advertising. If you own the wallet, you own commerce and if you own commerce you can influence \$35 trillion of global spend.

And banking and payments are quietly converging. Just imagine if every time you pulled out your debit card, your balance was printed right on the front of that card. And when you tapped and paid with it, it instantly updated. Would you ever want to let that go? The answer is no. Why? Because it puts us in control. There is a reason why 90% of bank app usage is simply checking your balance. We want to know where we stand. It's that simple.

From a technology perspective, banks are one API away from shifting 90% of mobile banking app usage to the wallet. Think about that. One API could wipe out 90% of reported mobile banking app usage. That's the power and the risk of technology. It's a Cold War for experiences and the ultimate goal is a super app, the one app where you can shop, pay, save and importantly bank. Everyone is after it. Take



a look at Google Plex and their next generation wallet. Payments, Banking, Offers, Loyalty. We're getting there and we're getting there faster than most of us think so.

What's a bank to do? And more importantly, what's the banking industry to do? Well, first and foremost, we need to think beyond the payment. Think about how you can bring offers into the payment process. Why shouldn't every card offer promotional financing? Why shouldn't billing move with payments, not around payments? The ad market is worth billions, yet banking experiences today are functionally correct and emotionally devoid. They do little to help me beyond the basics. We have to think about bringing payments to life and thinking beyond the payment.

And we have to innovate and it's easier than you think. Apple wasn't the first to create the smartphone, but they did it right. They copied, improved and repeated the formula. Why can't banks offer to provide a paycheck a couple of days early? Integrate simple money transfers into our apps, add crypto to my savings account, provide offers in my banking app. The best defense is an offense. Understand that the battleground is shifting focus to the mobile wallet. Here's a simple question for everyone listening today. If you are a banker, why can't I tap and pay with your mobile banking app? It's clear that with just a handful of APIs, Google and Apple can absorb nearly all mobile banking app usage into their wallets. Just look at the Apple card and Google Plex. They are coming, so why can't I tap and pay with your mobile banking app?

And think about how to bring your cards to life. Why not print the balance in the front of the card?

Show you're open to buy your rewards balance. Bring experiences to your customers, not customers to your experiences, and again ask and answer the question why can't I tap and pay with my mobile banking app?

60 years ago, pioneers in the banking industry got together and they changed the history of

payments. They realized there was power in numbers and standards. Today is no different. We must collaborate to win. Other banks are not the competition. The competition is for the experience. We need to create the standards for services beyond payments—the delivery of offers, billing, loyalty. And we need to make them open and available to everyone. We need to demand a level playing field for payments and force an answer to the question why can't I tap and pay with my mobile banking app? Own the experience, set the standards, compete on the product and let's together write the ending of the next chapter in the payments movie.

And I'm confident we will, very confident we will again write the next story of payments. Thank you. I hope to see everyone again in person in 2022. Thank you very much.

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