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DISAPPEARING PAYMENTS: HOW TO NAVIGATE THE FUTURE



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INTRODUCTION

The future of payments won't be about payments, it'll be about data. Specifically the contextual data that travels with payment, rather than the payment message itself. Payment will cease to be the most visible part. In time it may even disappear.

We examine how disappearing payments will create a long-tail of disruption for consumers, merchants, payment industry incumbents and brands. This will encompass new business models, new partnerships and ways to create and articulate value.

When payments disappear, it will give rise to a quest for new value(s), namely value-add in a commoditised market but also values that guide purpose. Businesses will put data to work harder for them and their customers. We examine how this will bring about a cultural shift in the data value system for individuals, businesses and society. your business to take advantage of future opportunities.

disappear 1. to cease to be visible; vanish 2. to go away or become lost, especially without explanation 3. to cease to

THE FUTURE IS HERE, JUST NOT EVENLY DISTRIBUTED

Pockets of the future exist in the present – but also in the past. The future of payments won't be about payments, it'll be about data. Specifically the contextual data that travels with payment, rather than the payment message itself. Payment will cease to be the most visible part. In time it may even disappear.

A TECHNOLOGICAL CONSTRUCT?

The future is already here. The poster child of disappearing payments is Uber with its non-payment payment experience. At the end of an Uber journey, the passenger just gets out of the cab. Payment happens in the background. It's not only seamless and frictionless, it's invisible. The passenger's last memory of Uber is the ultimate ease and convenience of the experience.

Amazon have brought disappearing payments to the physical world with their Amazon Go store. Customers load up their baskets at this self-service store in Seattle. A mixture of technologies, including computer vision and machine learning, automatically detects when products are taken from or returned to the shelves. When they have finished shopping, the customer just leaves the store. Amazon charges their account and sends a receipt.

In truth, the future has been here for a while. Invisible payments pre-date the smartphone age. Direct debit, giro and recurring payments on cards are common ways to make low-involvement, regular payments. For example, utility bills, cable subscription and insurance. Ease and convenience have always been the selling points. Consumers get hassle-free, uninterrupted service or coverage. Merchants get automatic repeat or renewal revenue with reduced back-office costs.

A SOCIAL CONSTRUCT?

Disappearing payments are as much a social as a technological construct. In centuries past, households would run accounts with local tradespeople, who would deliver meat, fish, vegetable, coal and so on to the door. No payment would change hands. Tradespeople would extend credit and households would settle their bills monthly.

Tradespeople of yore collected data on their customers as modern merchants do today. They used past behaviour as indicators to predict the future. They modelled 'normal' so they could note deviations from the norm and mitigate their risk exposure. The principles remain the same. In the case of tradespeople of centuries ago, this is an elaborate way of saying they stopped extending credit to households that did not settle with them promptly.

People have been transacting for centuries and payments is a critical part of the exchange. However, the degree to which payment disappears depends on the shopping and payments process. Merchants and consumers are continually constructing, deconstructing and re-constructing the 'path to purchase'. There is no one-size-fits-all solution. There are perhaps almost as many 'paths to purchase' as there are transactors to make these purchases.

"Often payments can happen seamlessly. They can also happen at (m)any stages during the process. The optimum payment moment is one that allows merchants to capture the most value, and monetise their efforts in attracting the customer thus far." Radi El Haj, CEO, RS2.

THE IMPLICATIONS OF DISAPPEARING PAYMENTS

Disappearing payments will create a long-tail of disruption for consumers, merchants, payment industry incumbents and brands. This will encompass new business models, new partnerships and ways to create and articulate value.

DISAPPEARING CUSTOMERS

In the increasingly interconnected future, customers may disappear. Networked devices will communicate with each other machine-to-machine. This will automate certain elements of traditional shopping, obviating the need for customers to visit stores, select goods, check out and so on.

Merchants may also disappear. This is already happening in the online space as individual sellers disappear under the umbrella of a marketplace brand. Furthermore, as the internet ecosystem matures, returns and profit margins are becoming consolidated among fewer, larger players. 11 of the top 15 US websites visited by users in 2009 were still among the top 15 in 2015, according to a study by A.T. Kearney.

The major internet companies have secured their leadership positions and continue to expand their footprint across the value chain through acquisitions. For example, Facebook's purchase of WhatsApp and Instagram, and Google's investment in Uber. Established and profitable core businesses can support the growth of nascent ones, which may act as a barrier to entry and scale for newer companies.

DISAPPEARING INCUMBENTS

Some financial services incumbents may be so disrupted or disintermediated by new entrants that they disappear. This is a worst case scenario which will play out over the coming decade. Two main battlegrounds

are emerging: the front-office engagement with the customer and the back-office payment utility.

Any party who can give the best customer experience, and be the most creative around engagement and loyalty is going to win at front-office engagement. The back-office battleground is avoiding a commoditised, utility play with slowing growth and falling prices. The threat from the technology giants is looming, as Apple, Google and Facebook are close to disrupting both the customer engagement and payment utility sides.

The battle for continued relevance will also be in part a battle of the brands. Financial institutions and card schemes have invested heavily for decades in promoting their brands. Amex, Visa and Mastercard are currently ranked #25, #61 and #76 in Interbrand's Best Global Brands 2016 report. However, if it comes down to marketing spend and building brand equity, financial services providers and card schemes may lose out to the technology brands.

For the fourth year in a row, technology brands dominate the ranking. Apple and Google occupy #1 and #2 on the Interbrand ranking, with brands worth an estimated \$178 billion and \$133 billion respectively. Potential disruption for financial institutions and card networks lies close at hand. The above-the-line spend of the technology brands can equal even the largest banks, and their customers are more loyal. The future of consumer marketing belongs to those with the biggest brands. Disappearing brands could well lead to disappearing incumbents, and vice versa.

DISAPPEARING CARDS

Plastic cards are not going to disappear any time soon – in the sense of cease to exist or become lost or extinct. They already have a considerable head-start on other forms of electronic payment. They are a familiar way to pay all around the world and are fit-for-purpose across a range of payment scenarios. Consumers and merchants feel comfortable using and accepting cards.

Additionally, change in payments seldom starts from a greenfield site. There is always a legacy to contend with, whether that is investment in a legacy infrastructure or a legacy mindset. Card acceptance infrastructure and payment habits are deeply ingrained and change is always difficult, unless there is a compelling reason to do so.

However one size does not fit all payment use cases, channels, transaction values and so on. The growth of e-commerce is driving take-up of local alternative payment methods (APMs). There are currently more than 300 such methods worldwide, ranging from real-time bank transfers and e-wallets to direct debits, cash on delivery and e-invoices. According to a Worldpay global payments report, APMs not running on international card scheme networks overtook card payments in 2015, claiming 51 percent of global e-commerce turnover.

Plastic cards will gradually lose ground to other form factors, such as mobile devices and wearables, as well as other forms of payment. However, they are not going to disappear entirely any time soon.

With payments disappearing into the background, becoming the loaded payment method will become even more important. After all, once the payment method has been set up and works, the inertia of human nature suggests that consumers will not change. This may change the balance of power between consumers and merchants.

New propositions may be successful because consumers push to use them. Or because merchants pull their customers in. Or a combination of the two. The battle lines are being redrawn as to who will determine the loaded payment method, and the ultimate success of the proposition. If anything, merchants stand to have a more influential role in the future of disappearing payments. If a particular payment type is not in their interests or those of their customers, they will be unlikely to promote it.

“If payments become less visible, or disappear altogether, the battle will be on to become the embedded payment, which consumers load once and forget about. The future of disappearing payments creates a tremendous opportunity to explore new business models, new partnerships and ways to create and articulate value,” Radi El Haj, CEO, RS2.

THE QUEST FOR VALUE(S)

When payments disappear, it will give rise to a quest for new value(s), namely value-add in a commoditised market but also values that guide purpose. Businesses will put data to work harder for them and their customers. This will bring about a cultural shift in the data value system for individuals, businesses and society.

VALUE-ADD

Payments are a commodity. In a commoditised market, providers can expect slowing growth, falling prices and increased competition. To create sustainable differential advantage, companies need to add value. They can do this by developing high-quality, specialised offerings, which meets the needs of a particular segment overlooked by competitors.

Diversification is another way to add value. By servicing more of the customer's needs, companies can increase incremental revenue and the overall 'stickiness' of the relationship. Innovation is another tried and true method of adding value. This may be through investing in R&D, developing patented products or proprietary methodologies.

Focusing on elements that are not easy to replicate is another way to add value. For example, high levels of service by well-trained staff, fast reaction times, superior implementation and de-bugging, and close relationships with customers. What value to add depends from company to company. It is not a precise science – there is no 'recipe book' answer. Also, value-add is not fixed in time. It changes and will change again, unlike durable values that guide purpose.

DURABLE VALUES

At a corporate level, values are the beliefs that guide behaviour and how the company puts its vision and mission into practice. Values set out how staff

should conduct themselves with those inside and outside the company. Values are also like a time machine. They can take the company into the future and link it back to a collective past. They are the lodestar by which everyone orientates themselves.

Values also equip a company to deal with the future. That is to say, how it maximises opportunities and minimises risks in an uncertain future. Policies, processes and procedures cannot possibly cover every scenario or eventuality of business. It is also debatable whether they are enough. For example, investigations into banking collapses or health and safety lapses have shown that improvement does not come from more procedures and tighter compliance. It comes from addressing leadership, cultural and behavioural issues. The answer is values-based, rather than process-based.

Durable values help companies in their internal dealings with colleagues. But also in their external dealings with customers and partners. Choosing the right partner is also a values-based exercise. It is not just about conducting due diligence on the counterpart's financials, legal and competence to conduct the contracted services, although this is important. Nor is it just about agreeing a scope of work, a robust contract and project plan. Choosing the right partner is increasingly about the fit and chemistry between the partners. Once again, durable values come to the fore.

THE NEW DATA VALUE SYSTEM

The quest for new value-add together with durable values that guide purpose crystallise in the new data value system. The future will belong to those who can use data more intelligently to benefit their customers and their businesses. And it is in that order: customers first and then businesses. Trust is the killer app in the matter of data use, data protection and privacy. Being customer-centric and putting customers and their needs first will enable commercial benefits to follow. This is the way to build and maintain customer trust in the new data era. It also plays to new notions of the data value exchange.

Customers are happy to exchange their data if they know what will be done with it and what they get in return. For example, the majority of people interviewed for a UK survey conducted on behalf of Accura accepted the use of transactional data to combat fraud, if there were safeguards in place. This overturns old notions of data being a zero-sum gain – that customers have to lose out for businesses to benefit. It is now a positive-sum gain, where both the consumer and the company benefit from the data exchange. This cultural change in how we regard data is reflected in and exacerbated by forthcoming European regulation.

The EU General Data Protection Regulation (EU GDPR) contains enhanced rights for individuals around data. This includes provisions around data portability for individuals as well as the right to be forgotten. Companies also have to obtain more specific consents for the processing and storage of personal data. Companies are now being seen as stewards or custodians of their customers' data. At the same time, customers are more empowered to get more out of their own data. A theme also present in the open banking provisions within PSD2.

“The idea of empowering customers to get more out of their own data will inform many new products, propositions and business models. The payments industry has access to huge amounts of data, although it has in the past suffered from being data-rich but insight-poor. In the era of disappearing payments, the future belongs to those who can mine and refine data for the benefit of their customers,” Radi El Haj, CEO, RS2.

HOW TO NAVIGATE THE FUTURE OF DISAPPEARING PAYMENTS

If your business is looking to build value-added services, here are some of the ways in which RS2 can help you and your merchants navigate the future of disappearing payments.

FRONT-END

PAYMENT METHODS

Convert browsers into buyers wherever they are in the world by accepting a wide range of payment methods. Our APIs make switching on new payment methods pain-free, either at launch or later in the project.

CURRENCIES

Payments is almost international by default. We offer domestic and international clearing and settlement of payments with full multi-currency facilities in more than 120 currencies to power your business internationally.

SALES CHANNELS

End-consumers don't really think of themselves as omni-channel shoppers. Nor do they care to which sales channel the merchant or acquirer books revenue. We help our customers with fuss-free trading across various offline and online channels. Revenue and expenses are booked on the designated accounts for easy reconciliation.

LOCAL KNOW-HOW

Localising the offer via the language, sales channel, device and so on is not an abstract concept. We deliver this in practice to our customers on the ground wherever they are. We have more than 20 years' experience serving the diverse needs of our customers worldwide.

BACK-END

PLATFORM

We have a global acquiring platform to match your global growth ambitions. Irrespective of the country or region, there is only a single version of our platform. This is how we can implement projects 40-50 percent quicker than our competitors.

MODULAR

Take the modules you want, leave the ones you don't. With our parameter-based modular structure, it really is that simple to tailor existing modules and add new ones with minimum time, cost and effort. Define your workflow to simplify and control your business from a service and operational perspective.

AGNOSTIC

No matter what terminal hardware or applications your merchants run, our systems are agnostic. They integrate with everything and everyone for maximum efficiency. This makes it quicker, simpler and cheaper to roll out to new stores, countries and channels.

MANAGED SERVICE

Outsourcing to a trusted partner via a managed service saves all around. We help our customers

SUMMARY

The future of payments won't be about payments, it'll be about data.

Customers and merchants as we know them are disappearing, or changing at the very least. Customers are being replaced by the things that transact on their behalf. Individual sellers are being subsumed under marketplaces or more-well-known brands. Some financial services incumbents may become so disrupted or changed by new entrants that they disappear.

This will give rise to new business models, new partnerships and new ways to create and articulate value. The future will be values-driven as much as data-driven. This will crystallise in a new data value system. The future belongs to those who can mine and refine data for the benefit of their customers.



ABOUT RS2

RS2 Software plc is the publicly-listed company behind the BankWORKS® payment processing software used by major banks, payment service providers and other financial institutions. The company has a head office in Malta and offices in Germany, Jordan, the Philippines and the US.

Established in 1988, RS2 Software plc has continually focused on developing and implementing highly scalable, reliable and flexible card payment processing solutions. As an industry-leading, end-to-end solution provider for card acquiring, card issuing and ATM services, we support all aspects

of authorisation and message switching, transaction routing, domestic and international clearing. Full multi-currency facilities in more than 120 currencies are available for the cross-border clearing and settlement of payments.

BankWORKS® is the transaction processing power behind some of the world's most innovative and fastest growing payment companies. It is deployed by more than 100 banks, payment processors and financial institutions around the world.

For more information visit www.rs2.com