ISSUING AND ACQUIRING TRENDS: GETTING BACK TO NORMAL

By Howard Rees

As we (hopefully) exit the worst of the global pandemic here in the UK, the significant shifts we have seen in consumers' spending and payments habits are expected to have lasting effects. How should issuers and acquirers respond? How are they already responding? This is our view of five key trends that will shape issuing and acquiring post-COVID.

ISSUING TRENDS

The card is still the go-to form factor for consumer payments, both online and in-store. Whilst that will not change fast, there are a number of technological innovations that will abstract away the concept of the card and make the consumer experience all the more seamless.

1. **Cards-as-a-Service enables non-financial institutions to offer payments** – A third of Gen Z want to share payments through online platforms like social media, compared to only 3% of Baby Boomers[1]. CaaS fintechs like Marqeta[2] will enable both new fintechs and non-financial institutions to enter the payments domain. New competition is coming.

2. **Socially conscious payments cards are riding the wave of ethical consumerism** – Half of FTSE 100 companies link executive pay to ESG targets. Eco-focused card propositions are already live in the market. Starling[3], Santander[4], HSBC[5], and others are moving in this direction with recycled cards, but issuers will need to enhance the whole payments proposition, not just the card's materials.

3. **Virtual cards and wallets enable more control and new payment use cases** – Virtual cards will enable over $1 trillion in spend by 2025[6]. So far, card tokenisation has been used to secure the existing card experience. Getting to the huge volumes predicted by 2025 will be achieved by unlocking new use cases with tokenisation that physical cards could never address.

4. **Biometrics and QR codes are improving the payments experience** – Data privacy and security are important to creating consumer trust in digital payments, but also introduce friction into the customer journey. Complying with PCI, GDPR, and SCA can create a worse payment experience for customers. New technologies for identifying customers, such as Keyless' biometric security SDK[7], help improve the payments experience while maintaining security and compliance.

5. **The reinvention of loyalty, powered by card data** – 75% of consumers say they favour companies that offer rewards[8]. However, expectations around what rewards

1. https://thepaypers.com/online-payments/younger-generations-drive-uk-alternative-payment-methods-adoption-ppro-reveals--1244055
2. https://www.marqeta.com/uk
3. https://sifted.eu/articles/starling-recycled-debit-card/
4. https://www.santander.com/en/press-room/press-releases/2021/03/santander-accelerates-the-rollout-of-eco-friendly-cards-in-europe-to-support-the-banks-green-transition
5. https://www.finextra.com/newsarticle/37910/hsbc-to-introduce-recycled-plastic-payment-cards-globally
6. https://www.thefastmode.com/mobile-data-services-trends/17452-virtual-card-transactions-value-to-reach-over-5-trillion-by-2025-says-juniper-research
7. https://docs.keyless.io/consumer/
8. https://www.realwire.com/releases/75-percent-of-British-Adults-Admit-Purchase-Decisions-Changed-by-Rewards

look like is changing. Cashback is no longer cost-effective, and leading brands like Starbucks are creating a loyalty ecosystem to further increase share of wallet.[9]

6. Corporate payroll solutions blur the line between B2B and consumer payments – Fintechs like Hi55 are attacking B2B payments with consumer propositions, such as linking a debit card to payroll for real-time salary earning[10]. This builds on the salary cards offered in countries like Saudi Arabia[11]. For commercial banks, this could be an opportunity to deepen relationships, offer working capital solutions, and acquire additional consumer payments volume.

ACQUIRING TRENDS

Capturing scale and being the 'one stop shop' continue to be the top priorities for acquirers. Ecommerce has come more into focus, as have new ways to make (Buy Now Pay Later) and accept (SoftPOS) payments.

1. **Ecommerce fintechs continue to expand across the value chain** – 84% of consumers shopped online during the pandemic. Ecommerce reached an all-time high of 16.4% of total global retail sales.[12] Fintechs such as Stripe and Square are continuing to innovative and capture more of their customer's payment flows. Stripe is now worth more than its global banking partner, Citi.[13]

2. **SoftPOS will enable the next one million merchants** – While cards are everywhere, card terminals are not. iZettle and Square identified the 'bottom of the market' opportunity with micro-terminals[14], but even those do not capture the whole market. SoftPOS could turn the billions of mobile devices already in merchants' hands into secure card payments terminals, removing any barrier to accepting card payments.

3. **Buy Now Pay Later (BNPL) has become a must-have offering for acquirers** – The success of Afterpay, Klarna, and others have shown that BNPL is here to stay. Set up correctly, it's a win-win for consumers and retailers. Acquirers must build this capability into their offerings, or risk losing merchants as they seek out their share of the £2.7 billion BNPL market[15].

4. **Cloud-based acquiring will continue to erode the value in processing** – The core capability of acquirers, processing payments, has been under threat for some time. Fintechs such as GPS, and scaled global players such as FIS Worldpay, provide breadth and depth of capability that smaller players will fail to match. This is being accelerated by the move to the cloud, where the ability to process at scale becomes even less of a competitive edge.

5. **Acquirers are becoming universal payments gateways** – In response to a proliferation of new consumer payment types, acquirers must expand their offerings beyond card payments to be as comprehensive as possible. This includes digital wallets, Paypal, BNPL, crypto, QR codes, Open Banking, and more.

6. **Shopping paradigms are changing, and payment modes are adapting to match** – New payments modalities, such as continuous payment authorities and BNPL, are moving from merely facilitating payments and into creating new shopping experiences. Klarna started by embedding their capability in partners' checkout flows, but are now embedding merchants offers into their experience, taking ownership of the customer relationship.[16]

9. https://www.starbucks.co.uk/rewards
10. https://www.hi55.uk/
11. https://www.zawya.com/mena/en/legal/story/Saudi_Arabia_launches_prepaid_salary_cards_for_domestic_workers-SNG_105409668/
12. https://financesonline.com/online-payments-statistics/
13. https://www.wsj.com/articles/fintech-stripe-scores-blockbuster-95-billion-valuation-11615763209
14. https://patents.google.com/patent/US20150287031
15. https://www.cnbc.com/2021/02/02/uk-to-regulate-buy-now-pay-later-bnpl-firms-like-klarna-and-clearpay.html
16. https://www.klarna.com/international/business/adyen/

HOW TO RESPOND

Whether an issuer, acquirer, or both, responding to these trends requires an understanding of the market and customer needs, a strong product capability, and robust technology and data platforms to support the development of new propositions, and enhancement of existing offerings.

Capco's Banking & Payments team help clients lead through change, ensure regulatory compliance, and deliver new propositions to market. We work with clients throughout the product lifecycle, from strategy, customer segmentation and testing, to designing and launching new propositions to meet unique customer needs.

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