

PAYMENTS AT THE CORE OF CUSTOMER EXPERIENCE

WHERE DO YOU STAND?

The evolution in customer uses
and value of payments around the world



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PAYMENTS TO SERVE THE CUSTOMER RELATIONSHIP: WHERE DO YOU STAND ?

Payments are an integral part of every customer's broader purchasing journey. Right now, they are going through a significant transformation, mainly due to the rise of new customer uses across all industries.

Driven by the business opportunities of these new habits, new payment solutions are gaining momentum—many led by players whose core business is not necessarily payments.

The pace of transformation is constantly accelerating, exceeding the capacities of any single category of actors to embrace the whole.

This new world of payments—more open, more interdependent and more complex—has gained traction and is here to stay. More than ever, if payments players want to capture value in payments, they need to build relationships with their customers on a daily basis that are based on trust.

The scope of the study covers all markets, all channels and all means of payment except cash.

- Europe, America, Asia
- B2C and C2C payments: transfers, mass direct debits, cards, checks, new means of payment (wallets, etc.)
- Payments in local currencies, domestic or international

B2B payments, in cash and in local currencies, are excluded from the scope.

NEXTCONTINENT CONDUCTED A STUDY ON THE TRANSFORMATION OF THE PAYMENTS WORLD AND ITS USES

03

The technical and regulatory challenges of payment methods (e.g., with PSD2 in Europe) have been widely addressed, but the impacts of new payment habits on customer experience and relationships with financial institutions have yet to be clarified.

The objectives of the study:

- Identify the evolution of customer behavior in the selected countries and how it impacts the relationships between customers and financial institutions.
- Define the major trends in customer experience (as an answer to the evolution of customer behavior).
- Identify the main sources of value in payments and the distribution of this value between traditional players (banks) and new players (fintech, retailers, etc.).

WHAT ARE THE INDUSTRY CHALLENGES? WE INTERVIEWED AND SURVEYED PAYMENTS STAKEHOLDERS—BOTH HISTORIC AND NEW PLAYERS—FROM DIFFERENT MARKETS TO GET THEIR PERSPECTIVE:



BANKS AND
NEO-BANKS



PAYMENTS
SERVICES



PAYMENTS
OPERATORS



PAYMENTS
FINTECHS



DISTRIBUTION
AND SERVICES



TELCO
PROVIDER

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1//SHIFT OF THE PAYMENTS VALUE TO THE CUSTOMER

/05



NEW ACTORS ARE ENTERING THE PAYMENTS INDUSTRY



« Suddenly, payments became a sexy profession »
Bank | France

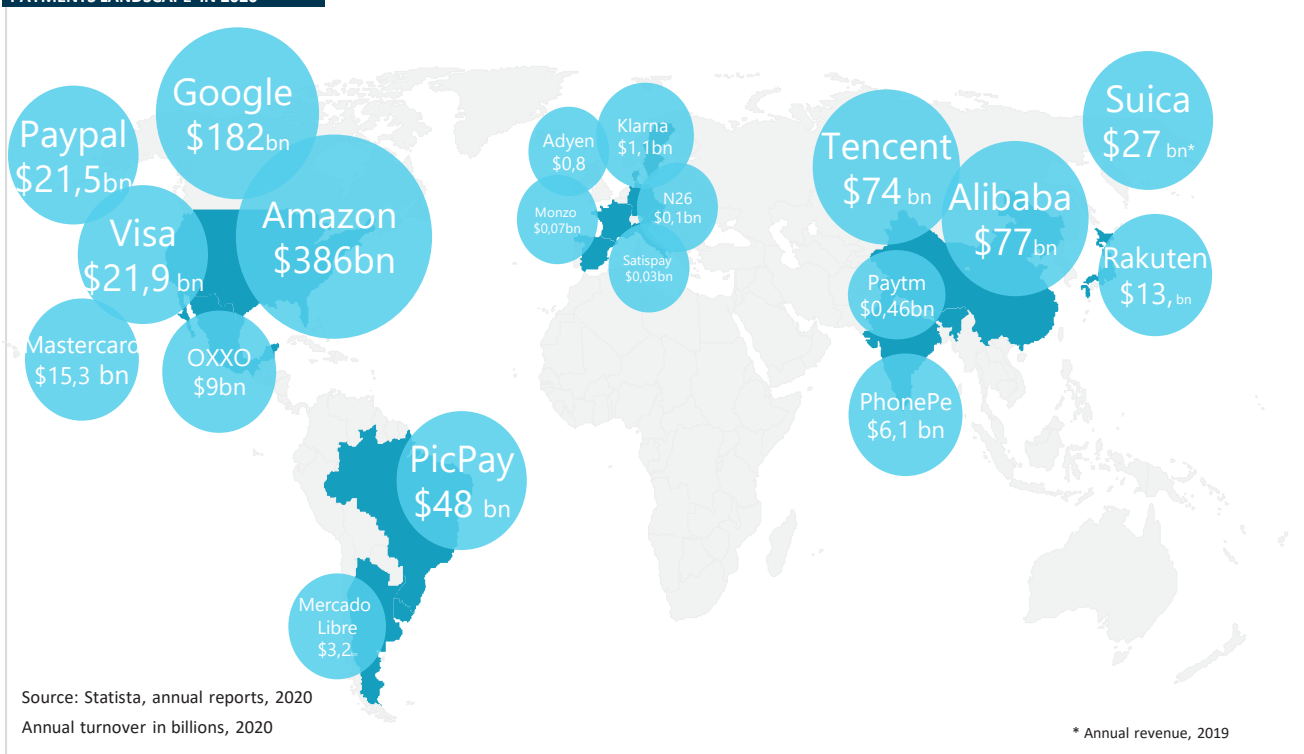
After a long period of consolidation, the world of payments has entered a new era.

Long considered a steady activity that is less profitable and dynamic than other banking professions, payments are entering an era of rapid change. The payments market is opening and fluid due to new regulations and the rise of new entrants.

A first wave of players (Paypal, Alipay, Klarna, Adyen, Amazon Pay, etc.) emerged in the 2000s, which disrupted the traditional market for banks and payments companies.

Other players from the digital space and various sectors (including retail and even the public sector) continue to emerge. Their influence will play a role in shaping the payments landscape in the 2020s.

PAYMENTS LANDSCAPE IN 2020



NUMBER OF USERS PER PLAYER (in millions)



Source: Statista, annual reports, 2020

American and Asian technology leaders are consolidating their **prevailing position** in payments. Around the globe, **consumers** are **confident** to use payments solutions issued by companies that initially operated in another industry. Companies that provide technology solutions even have a **competitive advantage** compared to a less technologically advanced industry.

THE END OF THE FOUR CORNER MODEL? A VALUE CHAIN IS SHAKEN UP

The traditional value chain of payments (banks, payment networks) is shaken up

The traditional value of payments is in the trading of commissions and bank fees.

Although volumes are increasing and reserves of value remain (with the conversion of cash and check transactions to digital means of payment), the transactional model is challenged by three main trends:

- As with many transactional activities (telephony, Internet, etc.), customers (individuals or merchants) reject “pay-as-you-go” invoicing and are seeking sources of additional value.
- Regulatory and political authorities put pressure on commissions and, more generally, on bank fees. This is gradually eroding bank fees, even if they do not disappear completely.

- Finally, new emerging players are targeting important stages in value chains. For example, supermarkets have stepped up initiatives around payments, both to gain customer loyalty and reduce transaction costs (see the graphic below).

In response to these changes, players have promoted industrialization and concentration of volumes. But some have lost market share to more agile players.

Many players aim to capture a larger part of the value chain by encroaching on the role of banks in particular—even targeting a completely disintermediated “flat” model.

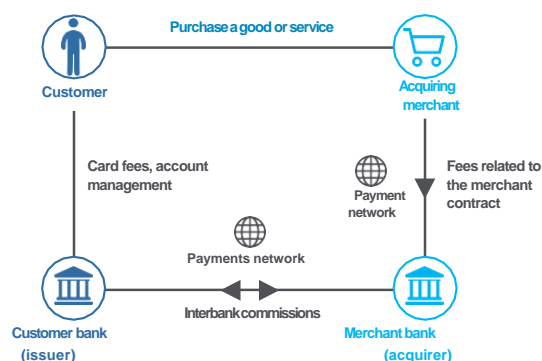


“Partnerships with Fintechs are necessary for banks to survive ...”
Bank | Italy

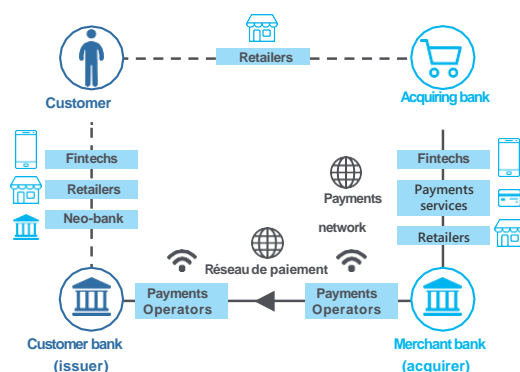
07

VALUE CHAIN EVOLUTION

Yesterday:
4 corners “traditional” model (card payment)



Today :
New players are joining the payment value chain



Tomorrow, “flat models”? Examples of Wallets in Asia



WHERE IS THE VALUE OF PAYMENTS IN 2021?



« Payment was a commodity. It is now seen as a real lever for conversion »

Bank | France

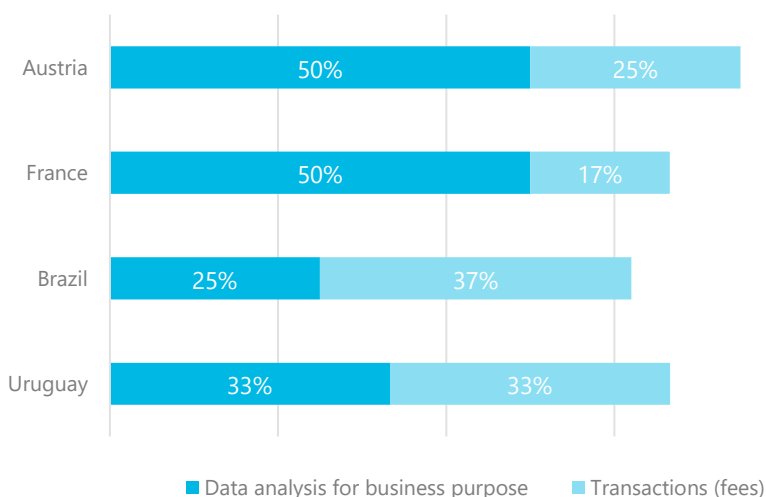
While payments businesses continue to operate with low margins, why are so many players interested in payments?



To generate value, payments must evolve from a transactional model to a complete customer experience.

	Global market trends	Impact on customer	
Transactional fees			As with other "commodities" (e.g., telecommunications), customers are less and less willing to pay per transaction, and regulations set growing limits (reduction of interbank commissions).
Other banking fees			Banks seek to increase bank charges such as card fees, while new players think about monetizing their offers. However, these fees are very unpopular with customers.
Added value services			In order to create value in payments, added services are increasingly expected—with a tangible benefit for the customer. However, it is still necessary to identify the right use cases relevant to the customer in both B2C and B2B.
... and data?			Payments data is the richest material for financial services players to use to understand customer behavior. Although the use of data is a strong lever for growth, it is still not well applied or managed yet to create more value for companies. Plus, sharing data with partners raises questions about ethics / privacy / business (e.g. with "trusted third party")

SURVEY INSIGHTS



In developed countries, the main source of value in payments remains data analysis for business purposes, especially in Austria (50%) and France (50%).

In emerging countries, findings are less clear-cut, as transactions remain significant mainly in Brazil (37%) and Uruguay (33%).

CUSTOMER DATA IS A MAJOR SOURCE OF VALUE, BUT IT'S DIFFICULT FOR A TRUSTED THIRD PARTY TO USE.

Although underused, payments remain a major source of data on customers and their financial and related habits. The key is to choose reliable use cases to monetize data and that reflect the positioning of trusted third parties.

/ « WE ARE SITTING ON A MOUNTAIN OF GOLD » : IS CUSTOMER DATA THE BLACK GOLD OF FINANCIAL SERVICES?

Banking data, especially payments data, represents a unique source of knowledge of daily customer behavior. Along with other data (PoS data, geolocation, etc.), banking data theoretically makes it possible to track customers' purchasing behavior from end to end.



Many players mention this power among their reasons for developing their payment activities: cross-selling for insurers, risk scoring for credit institutions, increased turnover for retailers, etc.



« Insurers are envious of the data available to banks and dream of having the same level of information on their customers. »

Retailer | France

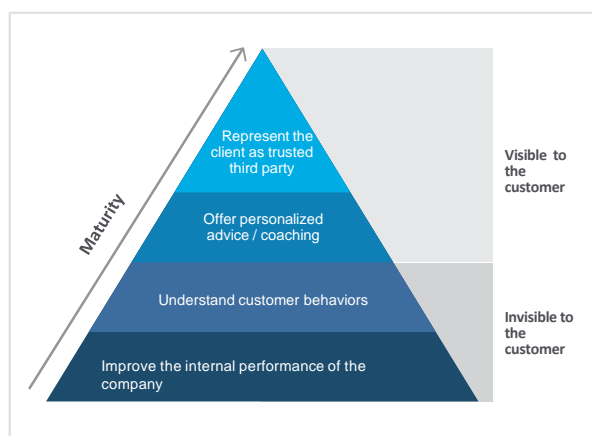
However, customers are not ready to hand over control of their sensitive banking data for just any use. It is difficult to earn the position of a trusted third party—and easy to lose it.

/ USE OF DATA BY A TRUSTED THIRD PARTY RAISES ETHICS CONSIDERATIONS

Payment data breaches have occurred in a number of organizations using third-party data providers. The data breach at P&N Bank in Australia is one example.

Even though trusted third parties are common when it comes to payments, both the volume and nature of consumer data captured is quite new.

/ THE USE OF DATA BY A TRUSTED THRID PARTY IS POSSIBLE AS LONG AS THE REASON IS MORE THAN PURELY COMMERCIAL



Several types of data use are possible by companies in a trusted third-party position, as long the customer sees that their interests are taken into account and protected.

Depending on a company's maturity, the transition from use cases that are invisible to the customer to use cases that are visible to the customer requires precautions—especially regarding personal data compliance (data privacy).

The ability to offer useful use cases to the customer ("to become their own lawyer") is key, rather than trying to enhance each interaction ("think only of cross-selling").



"Big tech companies are interested in customer data to better understand the customer lifecycle value."

Neobank | Spain

THE CREATION OF CUSTOMER VALUE RELIES ON SERVICE STRATEGY AROUND PAYMENTS

To go beyond a “commoditized” image of payments and justify their pricing, all players develop strategies that include payments in an extended service offering.



« Stripe is not free, but they brought us our first customers through their partner program; we don't forget that.”

Financial Services | France

Many solutions and value propositions have emerged, but there is no convergence yet.

/ PACKAGING PAYMENTS IN AN OFFER THAT EXPANDS THE CUSTOMER EXPERIENCE



N26, the German financial start-up, offers a Premium package tailored to the needs of its customers who often travel abroad, particularly executives. The offer includes free travel and exclusive guarantees abroad, such as access to premium airport lounges. Other successful offers such as Revolut and Ultim (Boursorama) have made the customer experience abroad their focus.

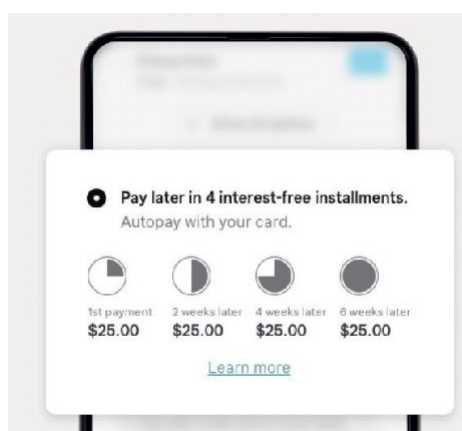
/ INTEGRATING PAYMENTS WITHIN AN ECOSYSTEM



Apple built a payments ecosystem with a set of key products to provide a unique family credit card (Apple Card), card storage (Apple Wallet), text message payments (Apple Cash), and mobile payments (Apple Pay). This fully integrated payments ecosystem is accessible only from Apple devices, enabling the California giant to secure its core hardware business.

Payments providers go beyond financial services. For example, cashback programs and partnerships offer car rentals, travel, and hotel booking.

/ ASSOCIATING PAYMENTS WITH FINANCING SOLUTIONS



Swedish start-up Klarna offers customers of online platforms a “Pay later” button. This option allows customers to pay later or in installments, thanks to a simplified scoring which takes only a few seconds (assisted by machine learning). This “installation” logic is very popular with customers, including in physical retail. The use of an app avoids the stigma of having to request a deferral of payment at checkout. Carrefour has also developed “post-purchase” payment: customers receive a text that offers the option of splitting the total payment into 3, 5 or 10 payments.

/ ASSOCIATING PAYMENTS WITH LOYALTY OR CASHBACK PROGRAMS

Especially in retail, various players have tried to combine payments and loyalty programs. On the buyer's side, a PoS solution that integrates a turnkey loyalty program is seeing growth.



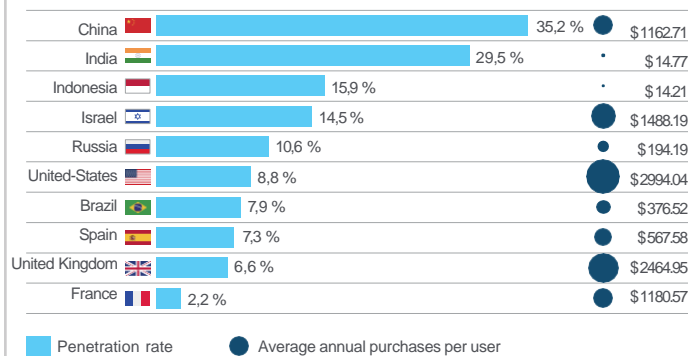
Already very popular in the United States and Asia (sometimes associated with “cashback” programs), these approaches are finding their place in Europe. For instance, an increasing number of players are launching additional “cashback” programs such as Société Générale in France or Revolut, which has partnered with various retailers and service providers. In Italy, the “Christmas Cashback” program was launched in 2020 to support struggling businesses and counter tax evasion.

DOES THE FUTURE OF PAYMENTS LIE IN ASIA?

THE "GREAT LEAP FORWARD" OF MOBILE PAYMENT IN CHINA IS OFTEN SHOWN AS THE MOST DISRUPTIVE MODEL FOR EXISTING PLAYERS. WILL EUROPEAN AND AMERICAN PAYMENTS ECOSYSTEMS GET A CHANCE TO EVOLVE TOWARD A CHINESE-STYLE DISINTERMEDIATED MODEL?

Mobile payments remains very marginal in Europe

Mobile payments penetration rate in selected countries in 2019*.



* Provisional figures. They include transactions via mPOS terminals and mobile wallets (e-wallets).
Conversion as of 7 May 2019: 1 EUR = 1.186 USD
Source: Statista Digital Market Outlook

SURVEY INSIGHTS



88%

of Uruguayan respondents consider **MOBILE PAYMENTS** as seeing the biggest growth.



78%

of Italian respondents consider **MOBILE PAYMENTS** as seeing the biggest growth.



72%

of Argentina respondents consider **MOBILE PAYMENTS** as seeing the biggest growth.



50%

of Spanish respondents consider **MOBILE PAYMENTS** as seeing the biggest growth.



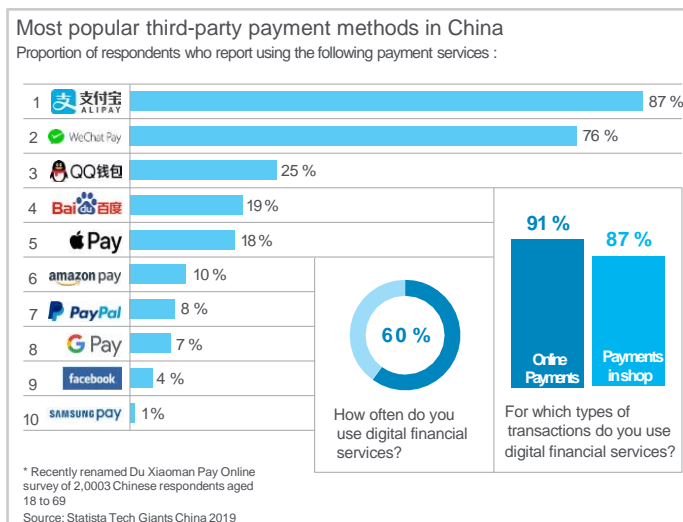
34%

of French respondents consider **MOBILE PAYMENTS** as seeing biggest growth.

Q. What payments method is seeing the biggest growth in your country?

USE CASE

IS MOBILE LEADING THE WAY IN PAYMENT METHODS?



China has experienced a rapid transition from cash to mobile payment. Chinese customers and their leading brands are now the world's most active in mobile payment (Ali Pay, Wechat Pay, QQ Wallet), with strong links to digital services and social networks.

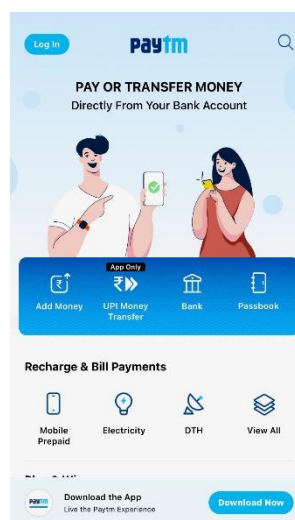
As a mature market dominated by cards, Europe does not offer the same scope for developing new mobile payment uses. Its evolution will be more gradual and nuanced.

However, the coming of age of the "smartphone generation" (92% of millennials say they will be ready to pay with their mobile phone in 2020) will be a major factor in the development of mobile payments (study of Visa Digital Payments run in 2017).

In India, mobile payments are also very trendy. PayTM, for instance, is the most popular mobile payment app in India. Launched in 2010, the app lets customers easily load money into their PayTM mobile wallet and pay merchants using a QR code. PayTM also allows customers to process mobile payments in small businesses.

The rise of cultural exchanges (3 million Chinese tourists visited Europe in H1 2019, up 7.4% year-on-year) means that mobile payment will find its place in the landscape of diversified and complementary payment methods emerging in Europe. This will encourage players to plan for it going forward.

In France, new players are offering integrated mobile experiences, such as Lyf Pay, which allows users to take advantage of discount coupons, "deposit" savings, or make transfers via a single application.



USE CASE

2//PAYMENTS: A KEY MILESTONE IN CUSTOMER EXPERIENCE

/13

NEW PLAYERS INNOVATE AROUND PAYMENTS TO IMPROVE THE CUSTOMER JOURNEY ON & OFFLINE



“Customers avoid unpleasant experience when paying. So everything that makes payments disappear during the check-out process will promote sales.”

Fintech | Austria

New players based on consumer-centric business models are thriving. To implement their models, they are reviewing the customer journey, in which payments and their “disappearance” are key to offering the most seamless experience. A smooth customer payment journey is the key to limiting shopping basket abandonment, converting prospects, building customer loyalty, and more.

Amazon makes the online shopping experience more fluid to maximize conversion

In Stock.

Qty: 1

Add to Cart

Buy Now

Secure transaction

Amazon has developed its **own payment system: the “one-click”** removes all of the steps in the purchase journey (e.g., adding to the cart, viewing and confirming the cart).

Users can also **pay directly online on other merchant sites, thanks to a button**. Since the patent expired in 2017, more companies have adopted this solution.

Uber makes the payment invisible



Uber, the VTC company, has made the money transfer seamless between customer and driver.

Once the card is registered in the application, **payment is made transparently for each trip**, with a fare communicated in advance and reconfirmed at the end of the trip.

Uber is even thinking about new payment solutions to instantly pay drivers for their rides.

Festivals use smart objects or cell phones to avoid handling cash and to reduce queues



Some festivals have developed a **“cashless” wristband, which then becomes the only way to pay for purchases throughout the entire event.**

Customers can credit their wristbands from home and at any time during the festival. They can also use mobile applications. Beyond the fun side of the wristband, mobile payment allows festival organizers to improve operational aspects (flow processing, crowd management, etc.) as well as customer knowledge (via the collection of anonymized data for each payment).

Alipay makes in-store checkouts easier and faster with its “Smile to Pay” technology.



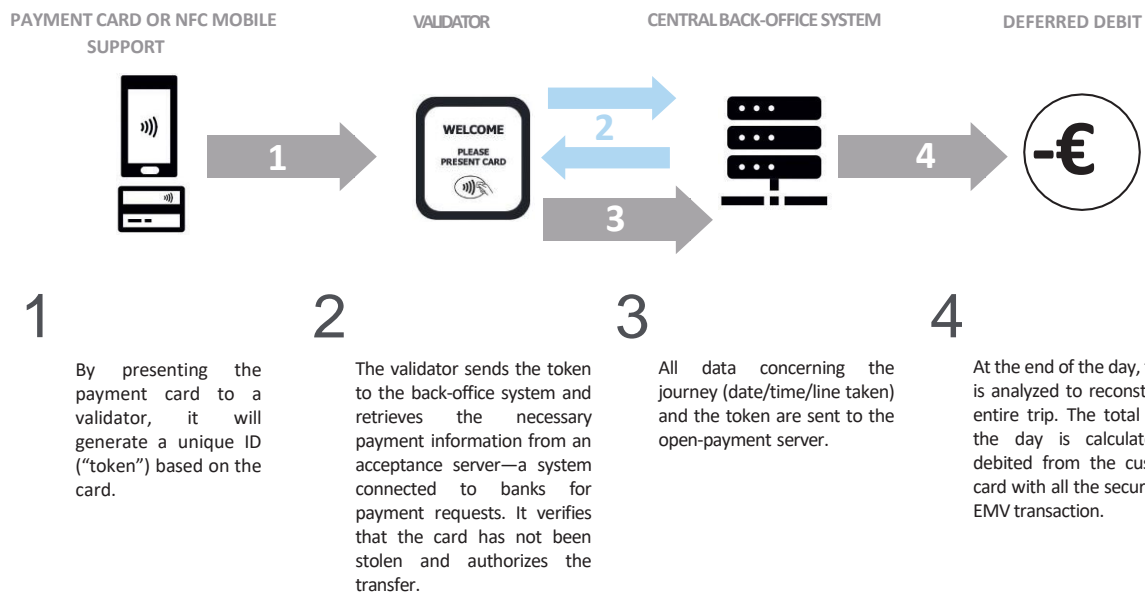
Alipay has developed “Smile to Pay,” a **facial recognition payment service used in physical stores** in more than 300 cities across China.

The merchant’s POS machine must be equipped with a camera that has access to Alipay’s facial information database, and the customer needs to upload a photo of their face to the digital payment system beforehand. Once the setting is done, customers can pay in Alipay-equipped stores by choosing facial recognition payment at checkout, scanning their faces, and confirming the payment on the screen.

From online stores to offline experiences : no friction

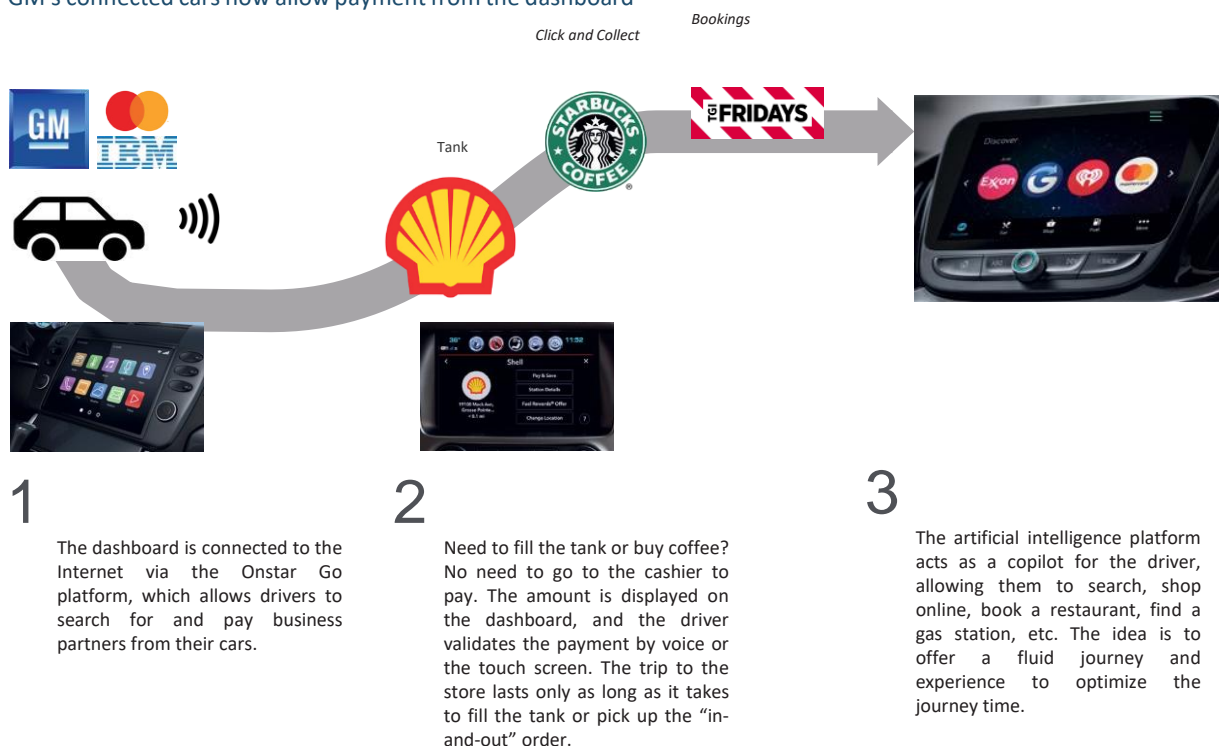
PAYMENTS INNOVATION IS REACHING OTHER INDUSTRIES: PAYMENT IS READY EVERYWHERE—EVEN FROM YOUR CAR

Open payment makes the payment invisible in transport



15

GM's connected cars now allow payment from the dashboard



PAYMENTS : A KEY MILESTONE IN CUSTOMER EXPERIENCE

THE RETAIL INDUSTRY HAS SHIFTED SIGNIFICANTLY TO SUPPORT THE DIGITAL REVOLUTION AND CHANGES IN CONSUMER NEEDS

The evolution of cash and, therefore, payment methods in retail, comes from two factors:

1. The expanding range of technological innovations available and the rise of digital.
2. New consumer habits reinforced by e-commerce but also other aspects—including digital and automation—with less cash in circulation.

The key challenge for these brands is to improve the customer experience via:

- A reduction of pain points in order to smooth and ease the customer journey and “the line for the exit.”
- A “re-enchantment” of the point of sale (events, services, dramatization, etc.).

In line with this evolution, cashing and associated payments will considerably evolve in retail for the next 5 years:

- **Progressive automation** of payment for smooth or invisible payment checkout.
- **An increase in mobile cashing** anywhere in the store, whether at the seller’s cash-out (seller with a tablet) or via the customer’s mobile app.
- **An increase in dematerialized payment**, as customers can pay directly with their smartphones. (So far, this applies to digital native customers.)
- **Checkout reconsideration:** Gradually, checkout as a clearly identified area in the store may disappear. The exit must be the easiest and smoothest possible to avoid any lines at the end of the journey.



“Payments will no longer be a visible part of the shopping experience.”
Fintech | Austria

Some examples of payment solutions from retailers from around the world :



Galeries Lafayette Champs-Élysées: Checkout is performed anywhere in the store by salespeople equipped with a tablet.



Decathlon: Self-service checkout is easy, thanks to RFID chips that let customers put all their products in a tray without having to scan them. This technology brings reliability (no forgotten scans or anti-theft hassles) and a frictionless experience.



JD offline shops:

- Dynamic real-time price tags ensure store prices are aligned with online prices.
- QR codes let customers place orders instantly; robots guide customers through the store and present products.
- To purchase, customers can scan a QR have products delivered to their homes within 24h, or buy in-store and carry home in-stock items.



Mercado Libre: Multiple payment solutions are provided for the online purchaser: cards with or without installment payments, Mercado Pago’s virtual wallet (QR code), or cash. For cash, the customer orders items online, receives a voucher, and pays in one of the many available convenience stores.

USE CASE

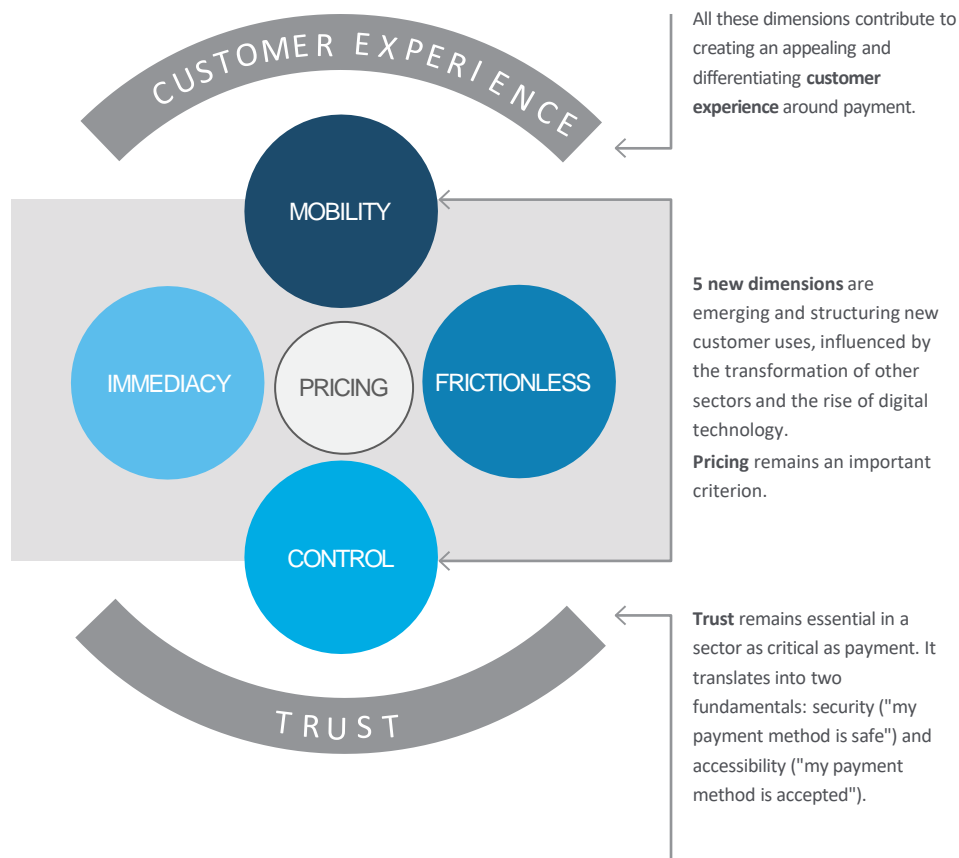
THESE INNOVATIVE JOURNEYS ARE A RESPONSE TO THE PROFOUND CHANGES IN CUSTOMER USES



"After decades of stability, payment uses have profoundly evolved over the last 5 years."

Bank | France

New customer uses structure the customer experience around payment, but trust remains key to legitimize the payment method.



INSIGHTS



80%

of Italian respondents consider **MOBILITY** as the 1st factor influencing customer use.



75%

of Brazilian respondents consider **PRICING** as the 1st factor influencing customer use.



50%

of Spanish respondents consider **FRICTIONLESS** as the 1st factor influencing customer use.

Q. What are the most important factors that influence customer use?

INTEGRATED PAYMENT MODEL VS. CONTEXTUAL PAYMENT MODEL



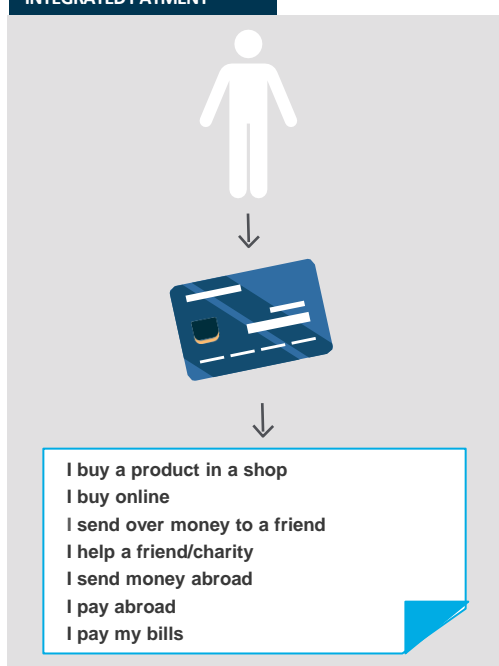
"Customers are more comfortable juggling the new payment methods than we are."

Bank | France

2 main payment models are emerging across the globe:

- **Integrated model:** A unique customer experience for all contexts; the same payment method is used for all use cases.
- **Contextual model:** Diverse customer experiences depending on the context, with a different payment method is used for each use case.

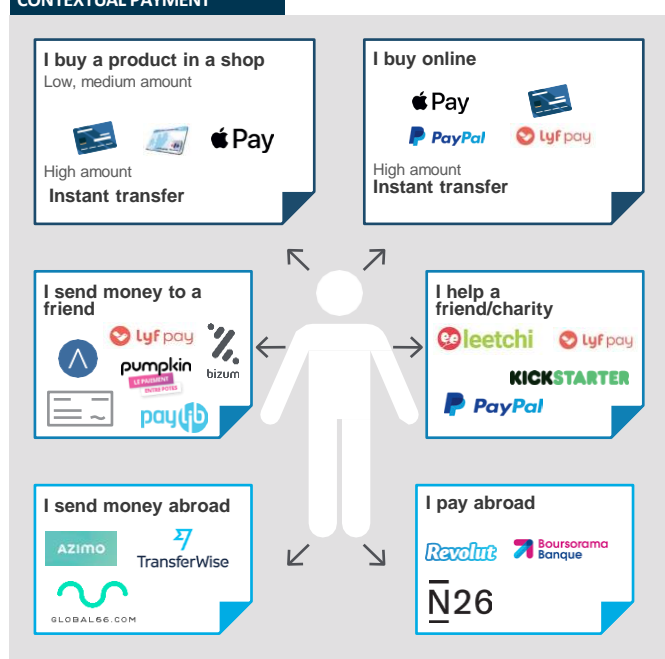
INTEGRATED PAYMENT



The integrated payment model seems more present in Asia, where mega-apps offer a wide range of payment services. For example, in China, WeChat (owned by tech giant Tencent) is an all-in-one app. In addition to letting users chat with family and friends, it enables them to order food, hail cars and pay utility bills through its payment function. No need to switch from one app to another; (almost) everything is available through the same tool, which creates a smoother customer experience.

The adoption of this model depends on various factors, including the maturity of a country's regulations and the customers' propensity to new technologies. It is more present where there are more young people and/or early adopters.

CONTEXTUAL PAYMENT



The contextual payment model is more present in Western countries, where traditional banks are already ensuring some basic payment services. New players emerge to complement their offer and provide specific payment services (fundraising, international transfers, etc.).

The success of new disruptive payment methods (the Uber method, contactless cards, Apple Pay, mobile e-wallets, etc.) shows that customers are changing their practices to choose the payment method best suited to the context. What's more, they have no trouble switching from one method to another, as they do routinely with other digital uses in their lives (email applications, SMS, WhatsApp, Instagram, Facebook, etc.).

3//DISRUPTION OF REGULATION & TECHNOLOGY IN THE PAYMENTS INDUSTRY

/19

A RECENT BOOM IN PAYMENTS REGULATIONS AIMS TO STRUCTURE THE MARKET AND PROTECT CONSUMERS

Over the last decade, the payments landscape has completely evolved with the emergence of new players (e.g. fintechs, neobanks, retailers, telcos) and the rise of digital use. Regulators are catching up. They are clearly defining the status of these new actors, in comparison to traditional actors such as banks, and offsetting the downside risks of digital (data privacy, money laundering, etc.).

GLOBAL OVERVIEW OF RECENT REGULATIONS ON PAYMENTS



MEXICO | Financial Technology Institutions Law (2018)

Mexico defines two types of FTIs (Financial Technology Institutions): (1) crowdfunding institutions and (2) electronic-payment fund institutions. FTIs must receive authorization to operate from the National Banking and Securities Commission (CNBV) and are only able to operate with virtual assets or currencies authorized by the Central Bank. They also have the obligation to establish APIs that enable the connectivity and access of other interfaces to share information.



ARGENTINA | PSP Regulation (2020)

Argentina defines PSPs (Payment Service Providers) as legal entities that, without being financial institutions or banks, serve at least one function in a “retail payment scheme” within the overall framework of the Argentine payment system, such as offering payment accounts.

Operating requirements:

- Customer funds credited to payment accounts offered by PSPs must be available at all times.
- For transactions on their own account (for instance, payments to suppliers or payments of salaries), PSPs must use an “operational” bank account separate from the bank account in which the PSP customer’s funds are deposited.
- 100% of the customer’s funds must be deposited, at all times, in the customers’ bank account in pesos with an Argentine financial institution or bank.



BRAZIL | Open Banking (2020/2021)

With the consumer’s authorization, financial institutions are able to process data from other organizations, widening the consumer’s access to financial products that fit their needs.



USA | California Consumer Privacy Act (2020)

This act enhances privacy rights and consumer protection for residents of California. Californian residents are able to track personal data collected and request that data be deleted.



SINGAPORE | Payment Services Act (2019)

Singapore’s law defines seven payment services: (1) account issuance; (2) domestic money transfer; (3) cross-border money transfer; (4) merchant acquisition; (5) e-money issuance; (6) digital payment token; and (7) money-changing. Payment services providers can apply for a money-changing license (MC), a standard payment institution (SPI) license, or a major payment institution license (MPI). Licensed and regulated entities must comply with AML/CTF requirements, as well as tech risks requirements. This act also provides regulations on the collection, use and transmission of personal data.



EUROPE | PSD2 (2018)

This law seeks to improve consumer protection, boost competition and innovation, and reinforce security. It allows free access to customer payment account data for two new activities: account information service (aggregation) and payment initiation service.



The key concepts in various regulations on payments include:

- **Compliance and tracking of transactions** for banks and other account services providers—especially for anti corruption or anti-money laundering purposes.
- **Security** of transactions for users’ and merchants’ benefits via necessary payments authorization.
- **Transparency** of transactions on users’ requests, based on data privacy regulations.
- **Open banking** or data sharing among financial players to enhance competition and the emergence of new players.



FOCUS ON EUROPE: PSD2 PROVIDES A NEW FRAMEWORK THAT IMPACTS ALL MARKETS.

PSD2 in a nutshell

The implementation of PSD2 aims to foster innovation, competition and efficiency.

In addition, it modernizes payment services in Europe and benefits both consumers and businesses in order to keep pace with the fast-changing market.



Strong Customer Authentication (SCA) to significantly reduce fraud.



New statuses: Account Information Service Provider (AISP) and Payment Initiation Service Provider (PISP) to encourage competition and innovation.



Open Banking via the API-zation of account and payment services, leading banks and other players to open their information systems and share a significant part of their customer data.

PSD2 opens new opportunities for all players in Europe...

• **Customers** should find an additional guarantee of security (data protection, reinforced authentication) and benefit from more competitive offers.

• **Fintechs and PSPs** benefit from unprecedented access to customers' accounts and payment transactions and have the possibility to launch new disruptive offers.

• **Banks** can also capture new information about their multi-banked customers, including a better understanding of customers who are in secondary banks.

... and worldwide

PSD2 has quite a significant impact on payment processes, leading international companies to review their business models and customer experiences at a global level.

Besides disrupting the customer journey, PSD2's strong customer authentication aims at reducing frauds in Europe, which might generate more frauds in other markets than Europe where a weaker authentication is allowed—as happened when PIN card authentication was required in Europe. The 3DS2 solution, supported by EMVCo, might then aid the transition by integrating mobile-device authentication solutions.

EVOLUTION IN PAYMENTS' REGULATION IN EUROPE OVER THE LAST 10 YEARS

In the last 10 years, the regulation of means of payment has evolved with the implementation of numerous reforms and regulatory standards, including:

- **Anti-Money Laundering Directive:** The prevention of the use of the financial system for money laundering or terrorist financing - 2005.
- **PCI-DSS:** The data-security standard that applies to the various players in the electronic-payment chain; regularly updated.

• **PSD1:** The guarantee of fair and open access to payment markets and the strengthening of consumer protection - 2009.

• **SEPA:** The harmonization of payments (credit transfer and direct debit) in Europe, between the member states - 2014.

• **Secure Pay:** Strong authentication of the payer for the highest-risk payments and the fight against fraud - 2015.

• **MiFID:** The introduction of a single maximum interchange fee limit imposed for domestic and cross-border transactions - 2016.

• **GDPR:** The modernization of the 1995 European directive on the protection of personal data – 2018.

• **PSD2:** In force since January 13, 2018, it allows free access to customer payment account data for two new activities: account information service (aggregation) and payment initiation services.



REGULATIONS AIM TO REDUCE THE BARRIERS TO ENTRY AND PROTECT CUSTOMERS

Overall, regulations have four effects on the payment industry:

- 1 Lower the barriers to entry by leveraging banks' infrastructure for new players.
- 2 Protect customers from fraud.
- 3 Redistribute the roles between traditional players (e.g., banks) and new players.
- 4 Track payment flows for compliance issues (e.g., anti-money laundering).

In Europe, with PSD2, for instance, the payment industry is being deconcentrated by lowering barriers to entry and requiring banks to share their data with fintechs and aggregators.

This regulation creates an incentive for developing competition between players while maintaining the banks in the industry as data collectors and "risk managers." With their strong infrastructure and massive investment capability, banks are offering the necessary KYC (Know Your Customer) background to allow payments and, thereby, correctly manage data. However, this requires an additional and expansionary cost that needs to be balanced by an adapted business model and rise in fees. But is the customer willing to pay for safer transactions ?

/ IN FRANCE, REGULATION COMES TO THE RESCUE OF BANKS

In France, the authorities allow only tech companies that have a banking license to be called "neobanks" to avoid any misunderstanding between payment-solutions providers and banks.

The term "neobank" has been misused in the press and by tech start-ups in their communications to promote the payments solutions and services they provide. This misleading use of "neobank" has affected customer trust in new players when customers found they could not receive the usual services that are available from a bank. For instance, unlike traditional banks, the so-called "neobanks" could not provide state-guaranteed loans during the Covid-19 crisis, leading many new and small businesses to go back to the banks to take out a loan.

Source: ACPR (Banque de France)

From a customer perspective, regulation—despite guarantees of security, privacy, transparency and interoperability between different entities—tends to negatively impact the customer journey and make it less frictionless by increasing security standards. One such example is SCA (Strong Customer Authentication), which is now compulsory within the EU.



"The double authentication requirement can be a problem for some customers, especially for those with several bank accounts since each bank implements it one way. In the end, the customer experience suffers."

Fintech | Spain.



"PSD2 might get in the way of a fluid CX, requiring more creative customer journeys than those currently implemented."

Telco | France



TECHNOLOGY VS. REGULATION: WHICH IS IMPACTING THE MOST CUSTOMER EXPERIENCES ?

E-wallets, instant payment, Artificial Intelligence, biometrics and blockchain are just a few examples of the impact of technology on payments.

Globally, the impact of technology on customer experience is considered to be very high because it is simplifying and diversifying the nature of payments. However, our interviews show two trends :

- In countries where financial inclusion is rather low, technology is the most important factor that impacts the customer experience before the regulation. In the LATAM region, for instance, and more particularly, in Brazil, payment technologies are impacting the customer experience most.
- In countries with high financial inclusion and a strong banking structure, technology is not the most important factor. Regulation and new services are also playing important roles, despite the constraints or the investment they are requiring.

SURVEY INSIGHTS



100%

of Brazilian respondents consider that **TECHNOLOGY** has a **HIGH IMPACT ON CX.**

CRYPTOCURRENCIES come as the **FIRST** DISRUPTIVE PAYMENT TECHNOLOGY in Brazil.



33%

of French respondents consider that **TECHNOLOGY** has a **LOW IMPACT ON CX.**

CRYPTOCURRENCIES come as the **FIFTH** DISRUPTIVE PAYMENT TECHNOLOGY in France.

Q. How would you assess the impact of technology on customer experience ?
Q. Which payment technology is the most disruptive (innovative), in your opinion?

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/ CRYPTOCURRENCIES: THE NEW PAYMENT MODEL?

The rise of bitcoin has helped cryptos take the spotlight in payment technologies. However, at first glance, bitcoin does not necessarily disrupt traditional customer experiences the way blockchain disrupts the payment value chain and its security. Paying with crypto via a credit card seems to be a reality, but it's a traditional reality.

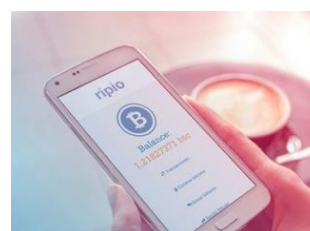
The advantage of cryptocurrencies over other payment methods relies on their numerous uses that are yet to be fully explored: one wallet can be used for everything—trading, yielding, buying NFTs, transferring in faster and cheaper ways than today, building smart contracts, and tokenizing physical assets. There may be even more services in the future to get closer to a “seamless” experience for a cheap price in a trusted location.

The next question: Will this be a solution that meets customer authentication requirements ?

Argentina's Ripio, ex BitPagos, has become a leader in the Latin American crypto market—with more than a million users in Argentina, Brazil, Mexico, Uruguay and Spain.

Ripio helps merchants process international transactions with credit cards or cryptocurrencies and lets users buy cryptocurrencies including Bitcoin, Ethereum, USD Coin, Dai, and Litecoin.

It only take a few steps to start buying: users simply create and activate an account and credit money via transfer, Mercado Pago, in cash.





COVID-19 ACCELERATED DIGITAL ADOPTION—ALONG WITH THE NEED FOR DIGITAL FINANCIAL EDUCATION

The speed of digital adoption in payments would not have been possible without the Covid-19 pandemic. Contactless, mobile payments are considered to be a cleaner means of payment that mitigates virus spread; they became “the new normal.” This is an unprecedented opportunity for companies to provide their own digital payments solution to leverage the rise of mobile penetration combined with the change in consumers’ shopping behavior.

/ DIGITAL PAYMENTS FRAUD

Covid-19 significantly increased digital payments fraud. Hackers and scammers are stealing bank account details and other private information, especially from low-secured online retailers and email scams. Fraudulent emails refer to Covid-19 by offering medical packages and relief payments.



/ LIMITS OF FINANCIAL INCLUSION

Customers have become familiar with using digital devices to pay and access financial services. Fintechs such as Revolut have helped lower the barrier to entry by offering straightforward access to the stock market and cryptocurrencies investments directly on their apps. Covid-19 also accelerated trading activities adoption. Research shows that the number of users who downloaded cryptocurrencies apps in the United States more than doubled in 2020.*



This raises concerns about risk awareness associated with such trading activities. While banks provide long-term support when investing, this is not always the case for other players. The lack of financial education and support from some players can turn against the customer, which can lead to significant loss. Some fintechs do provide reliable advisory support for users to make their first investments. But that might be not enough when communities’ gurus on social networks give the latest word on what to buy or sell without adequate research.

* Statista

The payment industry is entering a new cycle that requires banks to reposition themselves in the market.

New regulations and new technologies are disrupting the payment industry on a global scale, leading to the entry of new players.

Coming from tech, retail and other industries, these new players have chosen one angle to tackle the market —by offering new experiences adapted to the evolution of customer habits. These experiences can be integrated within a closed environment, or they can be contextual when the focus is on value-added service. The competition becomes a pricing war to give customers more for fewer, or lower, fees.

As traditional players in payment, banks tend to adopt a mixed position between keeping and developing their own business models (a “more of the same” strategy) and investing big in new technologies to address new regulations and market trends. But will it be enough? With the rise of blockchain and cryptocurrencies, will banks remain at the top of the financial services market? Is open banking a solution?

Now that central banks in Europe and Asia are building their own digital currency, based on a centralized or decentralized model, the retail business of banks is under pressure to deliver efficient “know your customer” (KYC) processes with the fear of being dispossessed from customers’ deposits and transfers.

Tech companies see the opportunities to leverage their capabilities into payments. They are focused on finding quick answers to customer requirements or new needs that have not yet been addressed. The success of NFTs is one example, as it impacts all content creators from art and everyday life. Facebook is another, as it could be an alternative to states’ currencies.

To sum it up, a triumvirate comprised of traditional players, new tech players, and the state is paving the way to the future of payments. But in each country, the plot is still being written and no one can tell who will benefit most. The key to success relies on customers’ experiences and the relationships built with them. What’s sure is that a mobile, frictionless, instant and safe payment is leading to higher value than a simple transaction in a world where payment becomes a feeling more than a trade.

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