Three Reasons You Cannot Postpone Payments Reinvention

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Remember when banking was simple? Your branch network and the friendly people who staffed it were the fundamentals of success. Your business was largely focused on acquiring relationship-driven deposits and making loans, and the other financial institutions serving your community were your competitors.

But here we are today, reinventing the business of banking with technologies not even imagined a few years ago – apps and APIs, machine learning and AI, chatbots, robotic process automation, cloud computing, and others. While there are industry-wide debates about the benefits of these new technologies, practical use cases, and expense justification, there is no debate that financial institutions must fully embrace digital reinvention if they plan to remain relevant in the digital, post-COVID era.

With digital entrenched as the foundation of the new financial services industry and with payments being the most common money moments, digital reinvention means payments reinvention. And there are three important reasons why payments reinvention cannot wait:

- **Fintech and big tech competition**
- **Ubiquitous digital expectations**
- **Changing buying behaviors and payment preferences in the pandemic environment**

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Fintech and Big Tech Competition

A significant number of fintechs and big techs recognized the importance of payments, identified specific opportunities to improve the experience, and developed alternative payment solutions that disenfranchise financial institutions. These innovators are evolving money movement and the payment experience at unprecedented rates and reshaping the industry one payment service at a time. But most consumers and businesses currently trust their primary financial institutions more than the emerging payment providers due to the increased risk of fraud in the digital environment. Banks and credit unions must capitalize on that trust before it erodes – and it will.

The fintech/big tech threat is also intensifying. After initially focusing on consumer payments, many of these innovators are now focused on reinventing business-to-business payments. Some fintechs are also entering the traditional banking space by offering credit cards and meaningful rewards programs, and by securing bank charters with aggressive plans to acquire deposits and originate loans.

Big techs also have some daunting advantages. They already have billions of very engaged users, can easily undercut traditional banking fees, and they are experts at harvesting and using the rich financial data inherent in payments.

Bank giants and neo or challenger banks are also delivering industry-changing digital payment and financial management solutions.

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(Source: Goldman Sachs)

These new, fierce competitors cannot be ignored:

- 25% of all fintechs are focused on digital payments (source: Goldman Sachs)
- It is estimated that fintechs will eventually disrupt up to $4.7 trillion of the revenue historically generated by traditional financial services (source: Goldman Sachs)
- 30% of consumers are currently using a big tech for some payments (source: *The Financial Brand*)
- 50% of consumers are using a challenger bank for some payments (source: *The Financial Brand*)
- 31% of consumers recently adopting contactless cards used a challenger bank's card (source: *The Financial Brand*)

Ubiquitous Digital Expectations

Digital innovators like Amazon, Netflix, and Uber have changed the expectations for every digital interaction and transaction, including payments. In the digital era, consumers and businesses expect:

- To move money in the exact moment of need – the ability to instantly send and receive money has evolved from a competitive distinction into a competitive necessity.
- To send money to anyone, anywhere, at any time using any device – all generations and demographic segments now share the mobile mentality.
- To expedite funds availability and improve cash flow with real-time payments – the pandemic environment has magnified the importance of expediting payments and optimizing cash flow.
- A user experience that is secure, simple, engaging, and always evolving – user experience translates into user adoption.
- Payment solutions with distinct consumer and business functionality – one size does not fit all.

Every financial institution needs to migrate payments from tactical transactions to experience-based interactions. Payments are the most common financial transactions so relying on yesterday's payments capabilities is a glaring deficiency that traditional and non-traditional competitors will aggressively leverage and successfully exploit.

Changing Buying Behaviors and Payment Preferences in the Pandemic Environment

The pandemic has led to seismic and sudden changes in consumer behaviors and generated a cross-generational shift to e-commerce and digital payments.

- E-commerce is growing (source: *The Financial Brand*):
  - Pre-pandemic, 24% of consumers made more than half of their monthly purchases via e-commerce
  - During the pandemic, 47% of consumers are making more than half of their monthly purchases via e-commerce
  - Post-pandemic, 46% of consumers are expected to continue making more than half of their monthly purchases via e-commerce
- COVID is driving new payment habits:
  - 41% of consumers who typical used cash began using contactless cards (source: *The Financial Brand*)
  - 64% of consumers now use contactless cards (source: McKinsey)
  - 35% of consumers have established a digital wallet (source: *The Financial Brand*)
  - 27% of consumers made a QR code payment for the first time (source: *The Financial Brand*)
- If the Girl Scouts accept mobile payments for cookie sales, it is clear the use cases are virtually unlimited (source: Statista):
  - 2018 = $69.8 billion in mobile payments
  - 2019 = $98.8 billion in mobile payments
  - 2020 = $130.3 billion in mobile payments
  - 2021 forecast = $160.4 billion in mobile payments
  - 2022 forecast = $190.9 billion in mobile payments
  - 2023 forecast = 220.0 billion in mobile payments
- Cashless payments will dominate in 2021 with 2.7 trillion transactions expected to move from cash to card and alternative payment channels like person-to-person (P2P) payments and point-of-sale financing (source: Accenture).
- Person-to-person payments, driven by apps like Zelle, Square, Venmo, and PayPal , increased more than 50% in 2020 (source: *The Financial Brand*).
- Digital payments represent a $3.6 trillion opportunity (source: CBInsights).

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With these convenience- and safety-driven trends here to stay, the need to modernize legacy payments platforms to seamlessly support these evolving buying and payments habits is urgent.

The Daunting Task of Reinventing Payments

Based on an Accenture survey, 88% of banking executives believe that transforming their payments platform is a key component of their broader digital transformation and many of the banks surveyed have multi-year plans to modernize payments. With limited budgets, limited payments-savvy resident resources, and limited appetites for both internal and customer-facing change, most financial institutions are selecting a specific strategy to payments reinvention:

- Implement new solutions that modernize existing channels and elevate the payment process and experience, or
- Implement new solutions that enable them to confidently enter and successfully compete in new and emerging payments channels.

With fintechs and big techs relentlessly focused on payments, many more innovations are right around the corner – innovations that will create new payment alternatives, set new standards for user experiences and convenience, and continue to disrupt the business of banking. Innovations like in-aisle checkout, QR code payments, point-of-sale lending (aka, buy now pay later) just to name a few.

Many banks and credit unions are challenged to respond to today's pace of change, the scale of disruption created by alternative payments, pandemic-driven demand for clean payments, and fintech/big tech threats. With $3.6 trillion on the table, how confident are you that your digital payments strategy, technology, and partners will enable you to earn your fair share? It is an important question and one that needs to be objectively answered sooner rather than later for three good reasons.

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Visit **jackhenry.com/payments**, or contact us at **payments@jackhenry.com** for more information or to schedule a demonstration of our payment solutions.