Looking to the future of payments





This independent payments consultant takes us through some of the new payment technologies we can expect to see in a few years time.

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etailers have become used to consumers purchasing goods and services with their credit and debit plastic bankcards. The convenience of this payment method has meant that is has become their preferred choice and the norm for paying.

As part of this move to plastic cards, transactions have shifted from paper to electronic format and retail payment systems have become geared around processing 16 digit Visa and MasterCard card numbers. Criminals though recognised the value obtainable from stealing card numbers and thus the many high profile data breaches we have seen.

TOKENS TO REPLACE CARD NUMBERS

So in the future we can expect to see transactions being initiated by token identifiers rather than the actual 16 digit card numbers. This removes the value and hence the reason to steal them.

Tokens are starting to be used and form the basis for many mobile payment solutions such as Apple Pay and Android Pay. This transition to tokens will take many years to complete. Indeed we have multiple types of organisations offering to provide and manage the tokens, including: technology companies, payment service providers, and more recently the international payment card brands. Retailers should be formulating their plans to use tokens and decide who to work with.

NEW FORM FACTORS

We will no longer be tied to the traditional rectangular card shape. A whole range of acceptable form factors will appear. Smart wristbands, watches and rings have already started appearing and offer benefits for specialised environments like festivals, fitness activities and closed user environments. The smartphone is though expected to become the most widely used form factor for payments by the end of the decade.

The contactless payments chip can be built into a wide variety of devices with experiments taking place within items of clothing and accessories. One form factor that has been successfully demonstrated I remain skeptical about, this concerns how many people will start using false fingernails that include their payment credentials. However, we implant microchips into dogs today for verification purposes and so it is not impossible that the day will come for this to happen with humans, so far this remains a use case to feature only in sci-fi films.

ALTERNATIVE TO VISA AND MASTERCARD

The vast majority of bankcard transactions seen by UK retailers are badged either Visa or MasterCard. This means that they will be processed using the Visa/ MasterCard networks, according to their rules and subject to their commercial rates. No practical alternatives existed until now which is why they have had so much power. However as a result of the investment made by the banking sector in building a real-time processing network, which is called Faster Payments, things are changing. These high-speed real-time transaction rails, although initially targeted at carrying payment transfers for consumers and businesses, will shortly be available to merchants with the launch of Zapp the Pay by Bank App.

Near instantaneous payment transfers from one bank account directly into another bank account offers many advantages and a great consumer experience. This will bring retailers greater choice and may help rebalance the negotiating position between retailers and banks.

OMNICHANNEL THE NORM

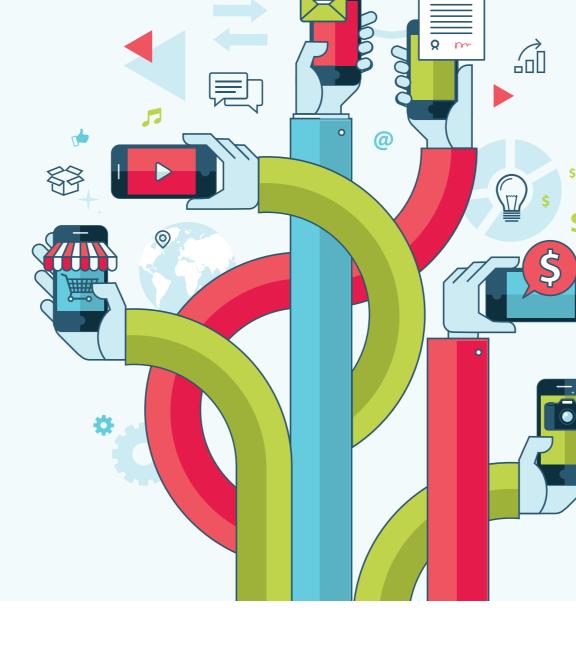
With customers increasingly mixing and matching their shopping activity across a variety of sales channels we can expect over the next 10 years that retailers will remove the sales channel silos that currently exist. Having a single customer proposition and sales platform, which works across all channels, will also have significant impact on payments acceptance and transaction processing.

We can expect to see a shift between payment methods to those that offer improved user experience, heightened security and lower cost. Payment suppliers who fail to recognise this shift and readjust their proposition accordingly will be the losers.

CARDLESS TRANSACTIONS

Current payment systems have relied on consumers inserting their card into the reader at the payment point or entering their card details when they checkout online. Processes and technologies have all been about trying to protect these credentials and transactions. In the future we can expect to see the consumers payment details stored securely for them, this may be within a digital wallet, within the consumers account file or in an App. 'Card on file' or 'InApp' enables a faster and improved transaction experience.

Cash withdrawals at ATMs can take place today without a card ever being used so why not also within



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Payments are increasing complex and the subject of growing regulatory demands, so any new payments strategy needs to be carefully thought through. a store? One click checkouts as offered by large corporations such as Amazon will be replicated by smaller sized merchants. InApp purchases will also become a standard way to make a purchase. Uber, who have been creating a revolution in the taxi industry, have taken this one step further, with the consumer paying for a ride without ever showing a card or making a single click. Payment simply happens automatically when the journey concludes. This is the 'zero click' payment transaction.

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BIOMETRICS TO THE RESCUE

Passwords have seen their day. They are no longer a secure and practical way to verify a genuine user

when making a purchase. I maintain that they are simply no longer fit for purpose. Although PINs remain secure today, with the ever-increasing computing power and ingenuity of fraudsters, we should be planning for a replacement so that we are ready ahead of time. This is likely to see the increased adoption of biometric methods of verifying consumers.

There is a wide choice of biometric options now available including fingerprint, finger-vein, voice patterns and iris recognition to name but a few. These technologies are rapidly maturing; error rates are coming into acceptable ranges and the costs of adoption reducing. My personal prediction is that we will see a combination of verification methods used simultaneously and that biometrics will have much greater usage.

GLOBAL MARKETS GROW IN IMPORTANCE

Retailing is increasingly becoming a global business thanks not least to the ability to serve consumers wherever they live from e-commerce websites. This growth in international sales will continue to be a priority for many merchants.

The opening up of the Asian markets and the increased wealth redistribution globally mean that retailers must offer new payment acceptance methods that are acceptable to these consumer groups. As an example UnionPay has far higher usage in South East Asia than Visa or MasterCard.

Today only a small percentage of UK retailers can accept alternative payment methods like UnionPay and this needs to change if they are not to miss out on large sales opportunities. Retailers have to ensure that they can support the payment methods preferred by their enlarged consumer prospects.

PREDICTING THE FUTURE

It is not easy for any retailer to accurately predict the future, but what all can do is recognise that today's payment options, systems and suppliers will need to change. Payments are increasing complex and the subject of growing regulatory demands, so any new payments strategy needs to be carefully thought through. It is critical to plan for increased flexibility and choice. A review of suppliers is a helpful starting point to ascertain whom you feel will be best placed to guide you through these changing times and offer what is going to be needed.