

Q&A: The future of payments

Director of [Payments Consultancy Ltd](#), Mark McMurtrie shares with Essential Retail what is happening in the world of consumer payments and how this is expected to impact retailers. McMurtrie chairs the Payments Theatre in association with Barclaycard at [RBTE](#) where many of these topics will be discussed in presentations, case studies and panel discussions.

What is exciting you the most about the payments landscape?

It's an exciting time for payments at the moment. There have never before been so many different ways to pay for goods and services whether that be in-store, online or from a mobile phone. But unlike in the past, new payment methods no longer mandate the death of an old way to pay. Instead they simply increase choice and options. This is great for consumers but brings increased complexity and cost to retailers.

For decades consumer electronic payments have largely meant Visa and Mastercard-branded card-based transactions. This is no longer exclusively the case. We refer collectively to these new options as Alternative Payment Methods. One of the most exciting is direct bank account based payments. These are expected in time to offer a realistic alternative to cards and the potential disintermediation of Visa and Mastercard.

Retailers need to ensure the range of payment options they support provide a good match to the profile of their customer base. Age range, socioeconomic factors and geographic location all influence customer payment preferences.

What is driving this demand?

Consumer expectations are far higher today and price competition is often extreme. Consumers are hopping across multiple sales channels before they decide to purchase. The purchasing user experience has to be great to avoid basket abandonment and ensure repeat sales. Businesses are being forced to

respond to all of these demands or see customers switching to a hungry competitor. However high smartphone and broadband adoption is resulting in the potential for e- and m-Commerce finally being realised. Also, regulation is helping to bring new market entrants, increasing competition and accelerating payments innovation. Of particular interest to retailers it is helping lower the cost of payments acceptance.

Which payment innovations appear to offer the greatest potential?

Retailer investment in contactless card infrastructure is enabling digital payments to take off. ApplePay, AndroidPay (G Pay) and SamsungPay are seizing this opportunity both for in-store and for in-app payments. Thanks to the use of NFC equipped smartphones with their in-built biometric authentication options transaction can (will) be allow purchases above the £30 contactless limit. Amazon Pay is also launching new commercial payment services in the UK for retailers to consider. Social payments (WeChat, Facebook, Apple etc) have proved popular in Asia and North America and so we can expect to see more of them in the UK soon. Also new to the UK market is the ability for consumers to 'Pay Later' after the goods have arrived. This is popular in continental Europe and early adopters are reporting positive results.

Bitcoin is not expected to become a widely accepted retail payment method, not least because of the high price volatility. But the underlying blockchain technology might in due course find a place in corporate and international payments.

How is PSD2 impacting retailers?

The new European PSD2 directive, which came into force last month, will have significant impact and opportunities for retailers. These are starting to become clearer. Retailers can ask for permission to use bank details to initiate an account-to-account transaction. This removes intermediaries from the payments process, lowers costs, ensures immediate settlement and allows a more direct relationship with customers. Access to Accounts (XS2A) requires banks to make customer information available via an API. One early example is that of electronic receipts. Retailers can become (or contract with)

Account Information Service Providers. PSD2 however prohibits card surcharging for consumer cards. One controversial element of PSD2 that will not come into force for a further 18 months is the need to perform strong customer authentication. The details are still being worked out but will require retailers to make changes to their current payment systems.

Where should retailers be investing?

There are many areas where payments investment is likely to prove beneficial. For many omnichannel payments will be high up this priority list as consistency across channels becomes more important for both customers and the business. Having a flexible payments environment will be needed in order to support new alternative payment methods. Criminals continue to target weak payment systems so investment in data security and technologies like point-to-point encryption and tokenisation will continue to be required. Mobile payments represent the future but this covers a multitude of aspects. PSD2 opens up many new options for retailers but this will require investment. You may require expert help to help inform your choices, prioritise projects and pick suppliers.

Mark McMurtrie is an independent consultant specialising in PayTech and FinTech. He provides high level advisory services to retailers, payment service providers, banks and investors. Services offered include: supplier selection, strategy development, market assessments and due diligence. Mark acts as the conference chairman for the [RBTE](#) Payments Theatre and is an ambassador of the Emerging Payments Association.