THE FUTURE OF PAYMENTS: WHO IS POSITIONED FOR ADVANTAGE?
What happens when the sale can be anywhere, at any time?

In business, perhaps nothing seems more prosaic, and less strategic, than payments and the processes that support them. But our current model of settling accounts is coming under increasing pressure. Merchants feel the squeeze on their profit margins, regulators challenge the complexity and scope of current fees, and banks fear the short shrift in revenues and brand. Most importantly, regulators favor processes that support consumer interest. Current technologies have destabilized the retail landscape; with mobile devices and the vast reach of the web, consumers expect the point of sale to be made on their turf, at any place they desire, at any time they find convenient. When it comes to payments, they want processes that are fast, simple and easy.

Today, new technologies have emerged that will disrupt — and are, in fact, now actively disrupting — the complex network of relationships involved in most retail transactions. The vast “middle” of payment processes, once an absolute necessity to banks and merchants, is no longer so vital.

Change is in the wind. Players like PayPal and Apple Pay straddle existing systems while offering a more consistent, more streamlined experience to consumers. Individual merchants like Target and Starbucks are using proprietary credit and pre-purchase cards, empowered with discounts and reward incentives, to reinforce their brands. You might be tempted to regard these changes as new form factors with little consequence to core business, whether you’re a banker or a merchant.

But you would be wrong.

Truth is, changing payment systems means deep changes to what banks and merchants fundamentally are to consumers, how and why these consumers shop and what they expect, and what brands and revenue streams will be — or can be — to banks and merchants in the future.

This paper serves as both an exploration of the changing landscape and a call to action. In it, we will review the current payments ecosystem (and reveal its instability), define the key features of the emerging payment systems landscape and articulate the strategic consequences of this new payments world. Early movers will secure key advantages; by making yourself better informed, you make yourself better prepared to take charge of your own future.

And merchants, despite the fees imposed by card transactions, welcome their customers’ cards. According to The Nilson Report (February 2013 and February 2018), between 2012 and 2017, Visa Debit purchase volume for general purpose brands grew 37%, from $1,494B to $2,053B. Over the same period, Visa Credit grew 79%, from $1,025B to $1,833B. Mastercard Debit rose 38%, from $605B to $833B; its credit card activity expanded 39%, growing from $562B to $780B.
Contemporary technology has not just multiplied the number of physical locations at which sales can be made, but introduced new players, such as Apple and PayPal, who have added new layers of customer interaction over the old rails of the current payments system. This dissolution of the point of sale can open inconsistencies in the brand experience and lead to merchant loss of control — an unacceptable state in a world where the consumer’s attention and money are constantly under siege by competitors.

In the card payments model that prevails today, a great share of the profits goes to the players in the middle. As long as payments remain complex, the model may be justified. But today, new technologies call the model into question: as practical processes evolve that reduce or eliminate the volume of intermediary transactions, value will shift away from the tactical “nuts and bolts” of transactional processing and toward the strategic rewards of understanding and meeting consumer needs.

When technology emerges that removes the longstanding rationale for the existence of so many costly intermediaries, the question that’s asked is no longer “why?” but “when?” And the answer is: now.

Today, the technology exists to facilitate any-to-any, real-time payments. At the tactical level, this is what these technologies can contribute:

**SPEED:** Under the old (and currently dominant model), payments require two exchanges of messages: the first to validate identification and verify ability to pay, placing a “hold” on a set amount of money; the second to confirm the final amount of the actual transaction. Today, applications exist that can authorize and settle transactions in a single message. Real-time payments, in which funds are immediately transferred from one account to another, closes other delays. Customers accustomed to tracking their bank accounts digitally, often by mobile app, will instantly see an accurate account balance reflecting their most recent debit card and/or check activity.
Once the middlemen are removed, payments are no longer just about “payments” but about customer communications, customer insights and customer relationships. Without intermediaries who impose interference, customers assume their rightful place at the center of any retail transaction.

Consider the strategic implications of any-to-any, real-time payments processing:

**BRANDING:** Everyone has heard of Visa, Mastercard and American Express, and every transaction with one of their cards reinforces their brands. Disintermediation means banks and merchants can shift attention to their own brands, rather than carry luggage for the cards.

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CUSTOMER LOYALTY: One of the big deals about big data is the ability to drive better loyalty programs. Real-time transactional data can be applied to real-time rewards, encouraging more frequent customer activity.

SECURITY: Every security breach, especially when it receives media attention, can become a black mark on the brand. Direct, single-message transactions reduce the “surface area” available to hacker attack, increasing security and increasing confidence in the brand.

Any-to-any, real-time payments may sound promising, but are they practical? For a long time, implementation has been the obstacle to advancement. Invested in vast legacy systems supported with a complex network of data centers and intricate software applications, many otherwise interested players faced an implementation rollout that could be measured not in months but in years. But payments software has advanced enormously over the previous decade, removing the last impediments to progress. Moving forward, the industry can take advantage of new developments that improve access to sophisticated technology, reduce installation and management costs, and accelerate the transition to any-to-any, real-time payments:

BETTER INTEGRATION: No longer confined to stand-alone solutions, contemporary payment applications can work seamlessly with installed digital platforms. Many of the biggest banks and merchants can take advantage of sophisticated payment solutions that integrate with their current systems with minimal or no disruption.

SaaS OPTIONS: For banks and merchants without the sufficient architecture to host a payments system, nor the business case for building one, the cloud is the natural vehicle for delivering the power of any-to-any payments through SaaS solutions.

ARE YOU READY FOR THE FUTURE?

Through Universal Payments®, ACI offers a complete payments software solution that eliminates the messy middle, reduces transaction costs and builds lightning fast connections between players — while building new opportunities for reinforcing loyalty with customers.

Is your organization prepared for the future of payments? Where are you now? What do you need to move forward? How can you leverage any-to-any payments for strategic advantage? An informed consultation with a payments system expert will help you answer these questions, giving you the customized insights you need to prepare for the future and open a new channel for strengthening customer relationships.

1 Source: St. Louis Federal Reserve Bank
ACI Worldwide®, the Universal Payments® (UP®) company, powers electronic payments for more than 5,100 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries, as well as thousands of global merchants, rely on ACI® to execute $14 trillion each day in payments and securities. In addition, myriad organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software solutions delivered on customers’ premises or through ACI’s private cloud, we provide real-time, immediate payments capabilities and enable the industry’s most complete omni-channel payments experience.