

Whitepaper

Why payment cards should be at the center
of the digital banking transformation

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PAYMENT CARDS

Everyone in financial services is talking about digital transformation. But too often, the focus is on core systems for mobile banking instead of where change will matter most to customers: payment cards.

In this white paper, we'll take a look at why payments are the most pivotal area for improving digital customer experience, and differentiating to stay competitive.

The biggest source of interaction

Payments are the most frequent interaction customers have with their bank or credit union.

“The average customer interacts with their bank at least twice a day for payments-related matters... making payments a beachhead for cross-selling other financial services.”⁽¹⁾

No other banking activity involves multiple interactions a day.

This “beachhead” is substantial. 80% of banking interactions focus around payments.⁽¹⁾ Activating a card and requesting a PIN. Making purchases and paying bills. Reporting and replacing a lost card. 11 of the top 12 reasons for customer service calls are card-related.⁽²⁾ That underscores the importance of cards, but it also signals high support costs for financial institutions – and consumer pain points that can be solved with the right digital controls.

Mobile and online payments are amplifying card interactions. In fact, the global mobile payment market size is expected to triple by 2024, topping \$3 billion.⁽³⁾ That’s good news for FIs – IF they can offer frictionless ways for customers to manage cards digitally. If not, they may be left behind. Consumer demand for digital convenience and control is becoming table stakes: 43% say managing their card digitally is their number one driver of card choice.⁽⁴⁾

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THE POWER OF THE DIGITAL WALLET

Mobile banking has become the norm. 88% of consumer-bank interactions will happen through smartphones by 2022.⁽⁵⁾ A significant part of that is payments – and the pandemic has driven a massive shift toward virtual card use. In 2020, the number of digital wallet users has doubled worldwide.⁽⁶⁾

That's a wakeup call for banks and credit unions to optimize their digital card experience.

To stay competitive, their card must be in the consumer's digital wallet, and be top of wallet. Beyond one-off purchases, think about the potential impact of not being the card of choice for frequent in-app purchases like coffee, parking, and online shopping, or recurring payments such as subscriptions and autopay. If it's not the first card people go to, it can equate to a substantial loss in transaction revenue.

And those losses may pile up. The pandemic-driven migration to contactless payments is expected to see explosive growth. Nearly one-third of American consumers became first-time users of contactless payments in 2020. Within four years, these virtual card payments are projected to increase eight

times.⁽⁸⁾

This rapid acceleration in mobile wallet adoption is creating a business imperative for digital banking. Innovation needs to focus on making it simple and seamless for customers to manage payment cards. Experts at The Financial Brand make the point:

"Now is the perfect time for financial institutions of all sizes to leverage new technologies, encourage digital payments, and partner with fintech firms that can assist with all of these transformations."⁽⁹⁾

\$1.2b

has been loaded on Starbucks cards and app in the U.S., more than deposits held by Customers Bank (\$780 million) and Green Dot Corporation (\$560 million) combined⁽⁷⁾.

DIGITAL WALLET USERS DOUBLED

That's a wakeup call for banks and credit unions...



THE RISE OF TECH CHALLENGERS FOR CONTACTLESS PAYMENTS

The financial services industry has entered a new era of digital-first competition. Simple and seamless is where consumers are headed, and tech giants like Apple, Google and Samsung are ready. Extending the easy, intuitive digital experiences they've mastered with their mobile devices, these companies are becoming a go-to for consumers in the payment card space.

- **APPLE** led the charge with Apple Pay and the Apple Card. By 2019, Apple Pay had 441 million users worldwide, and ranked as the most popular mobile payment option in the U.S.⁽¹⁰⁾ With this majority market share and a credit card available in a few taps, the company is well positioned to funnel revenue away from traditional card issuers.
- **GOOGLE** is also making significant strides in financial services. They could have offered a loan, mortgage or savings product – but they recognize the value of delivering frictionless payment experiences. In 2021, Google is launching a checking account focused on a



digital card, with accounts backed by multiple financial institution partners (including Citibank).⁽¹¹⁾ While the FIs will benefit, Google will own the customer experience and the relationship, positioning them as a dominant player in financial services – especially in consumers' minds.

- **SAMSUNG** has also gained traction in digital wallets, as the company's smartphones have become a close competitor to the iPhone. Recently, they launched Samsung Money, a no-fee, interest-bearing debit card account and “cash management” account. Samsung Pay users can access this

new capability in a few taps. An added enticement is “exclusive discounts” on Samsung products.⁽¹²⁾

Tech industry disruptors now pose a genuine threat to banks and credit unions. In the digital age, consumers are seeing less need for traditional banking, as long as they have instant mobile access to payments and money management. Tech giants like Apple and Google are gearing their approaches to set the standard for digital-first cards. To remain relevant, financial institutions need to shift priorities toward offering equally compelling virtual payment experiences.



“As non-banks continue to build capabilities which embed payments into the day-to-day activities of consumers and businesses via mobile products, [it will] eventually box-out smaller traditional banking institutions.”⁽¹³⁾

4 components of a digital first card



Payment cards are often the lynchpin in the financial services relationship.

Yet too often, the overall card experience is scattered across channels, which can be confusing or frustrating for customers. Rather than “digital-first” it’s really a “digital plus” experience. Customers receive and pay with plastic or virtually, and can track their account online or in an app. If problems arise, people typically have to contact a call center or go to a branch.

But consumers demand better, easier, faster. Tech companies are capitalizing on that fact, taking the lead to define best-of-breed “digital-first” card experiences.

What does that look like? Consider four key components:

1. Quick to get and use

Apple Card set the new standard. In just a few taps in the Wallet app on their iPhone or iPad, consumers can apply, get approved and start using their new card. “With digital-first, customers can use the digital representation of the card at the point of sale within minutes of getting approved,” notes Linda Kirkpatrick, EVP at Mastercard.^[14]

2. Easy to track spending

Consumers want simple ways to monitor and manage their spending, all in one place. A digital-first card app should give users real-time transaction activity and budgeting tools at their fingertips. For example, with transactions organized into categories that calculate averages over time, customers can see where they may be spending more than usual.

3. Seamless self-service card management

A digital-first card needs digital-first convenience. That means 24/7 self-service controls for everyday needs and moments that matter. For instance, on/off switches in case a card is lost, stolen, or nearing a credit limit. Lock controls for certain transaction types help ensure a card can only be used when and where the customer specifies. And the card app

can provide peace of mind by generating a dynamic CVC code for more secure online purchases.

4. Engaging on-the-go perks

Digital convenience isn't enough. A compelling experience includes offering incentives and rewards that make the customer's life easier or more enjoyable. A digital-first card app uses data analytics and machine learning to track user behaviors, and proactively engage customers with relevant offers, recommendations, or financial guidance.

THE NEW BAR FOR DIGITAL TRANSFORMATION

Mastercard helped spearhead the digital-first experience as the issuer behind the Apple Card. In partnership with Apple and Goldman Sachs, they launched the first of its kind, a payment card issued instantly to a digital wallet. No plastic required. And it leverages TouchID and FaceID authentication for tap-and-go payments in seconds. Combining the best of seamless simplicity and contactless payments, it sets the bar for the next-gen card experience.

This level of excellence isn't only attainable by megabanks. Financial institutions of any size can deliver winning digital-first card experiences—and do it faster—by partnering with the right fintech company.

“Modernizing a card portfolio doesn't require retrofitting an entire offering set. Fintech providers like Ondot can build a digital layer on top of an FI's existing portfolio—allowing them to build and roll out card services in six weeks instead of six months. And FIs already have something that big tech firms find hard to emulate—the consumer's trust.”^[15]

Sources:

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