



SPOTLIGHT REPORT

The 5 Key Trends in Payments



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Payments: One of the Most Dynamic Markets?

The Past Five years.... in payments have been transformative. A long-heralded move to digital payments, only compounded over the last 18 months by a global pandemic, has seen the rapid emergence of a new generation of agile start-ups compete alongside both legacy and FinTech providers. As a result, this has meant that the payments industry has attracted colossal investment from private equity and venture capital, which in turn has meant fierce competition, increasing deal volumes and growing valuations.

For the past two decades, we have supported major banking and payments platforms, but over the last five years this vertical has grown with unprecedented speed, reflecting its value across a range of industries. So, as we take stock of the current market's landscape, it's only natural to consider what's next for the industries touched by payments.

The Next Five years show a horizon full of:

- Major players completing mergers and integrations.
- The world's largest digital platforms moving into the sector, combining the digital consumer experience and the physical one.
- New niche players emerging, specialising in specific verticals and growing from there.

Our partnerships with some of the largest payments businesses in the world give us a unique perspective across the landscape and allows us to look across a wide range of macro trends.

This report sets out our view of Five Key Trends that will take place over the next five years. It will show you the areas that your business will want to focus on and the impact these will have, helping you build a solid foundation for success. As leaders in the industry, we work across a wide range of industries, which is why we're so well placed to advise you on yours.

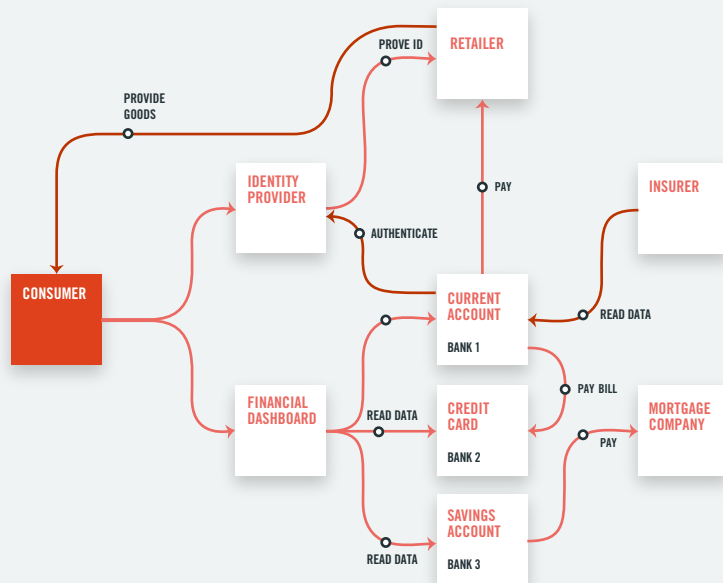
Open Banking - Real Time Payments

Networks of ecosystems will continue to emerge, linked through data-rich APIs like ISO 20022, and delivered through a new marketplace of trusted providers that give consumers 'FinLife' super-apps. These will deliver highly personalised financial and lifestyle experiences that are built on consumers' past behaviour and transaction patterns.

At the same time, traditional payments-cards volumes will be put under pressure by bank-to-bank transactions made by consumers through their 'FinLife' apps. Banks may begin to question whether the core strength of cards, currently providing consumer protection via chargebacks, is enough to defend their market position.



OPEN BANKING
ENABLES COMPLEX
DATA-DRIVEN
ECOSYSTEM OF
PAYMENTS &
INSIGHTS





What's next?

- Continued modernisation of infrastructure, integrations with payment players, and widespread adoption of rich structured data interfaces built on ISO 20022.
- The emergence of a small handful of network providers for open banking across the globe.



What's the impact?

- An ecosystem of financial dashboards and products to manage across their financial lives. Do you have the technology in place to connect?
- Increased control and transparency over the use of their data with lower cost instant-payments, but reduced consumer protection, given the no built-in chargeback mechanism in open banking. A win for businesses, but perhaps less so for consumers?

Buy Now, Pay Later

Demographics are playing a key role in the emergence of a new generation of buy now pay later products. Younger consumers are turning away from traditional credit card products, whilst valuing high quality high-cost products. This is fuelling a desire for credit that is being met by providers that give great user experience - companies like Klarna, Affirm, Afterpay, Laybuy - and create relationships with consumers to provide ongoing credit on an item-by-item basis

These same providers create a challenge for retailers, who guard their relationships with their own customers carefully and are looking on with increasing concern to see credit providers making shopping at competitors fast and easy.

Meanwhile, incumbent providers like Visa and Mastercard, Square and Google, are seeing growth in the sector, and moving in with lending at the point-of-sale products.

As a result, we are seeing some retailers create their own Buy Now, Pay Later (BNPL) experiences to retain and protect and deepen their relationships with customers.

At the same time, regulatory oversight has grown, with authorities looking at the BNPL sector with great attention to ensure that consumers are getting the same protections that they would expect from more traditional sources of credit.



What's next?

- Bigger retailers look to take consumer credit in house.
- Fierce competition between emerging and incumbent payment providers creates a new frontier in the battle to be front of wallet.



What's the impact?

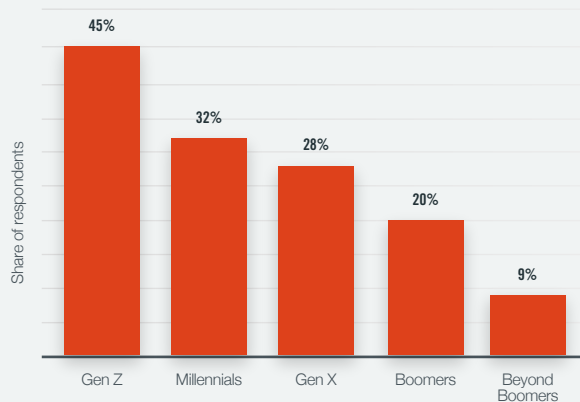
- Boom in availability of credit with amazing low-friction user experiences. Is your UX up to the challenge?
- Potential for steep rise in indebtedness in the Gen Z, bringing heavy regulatory oversight. How will you make sure that you are treating your customers fairly?

Consumer Payment Technology

The next five years will see a continued trend of consumers making payments contactless via everyday consumer technology, centered around mobile devices.

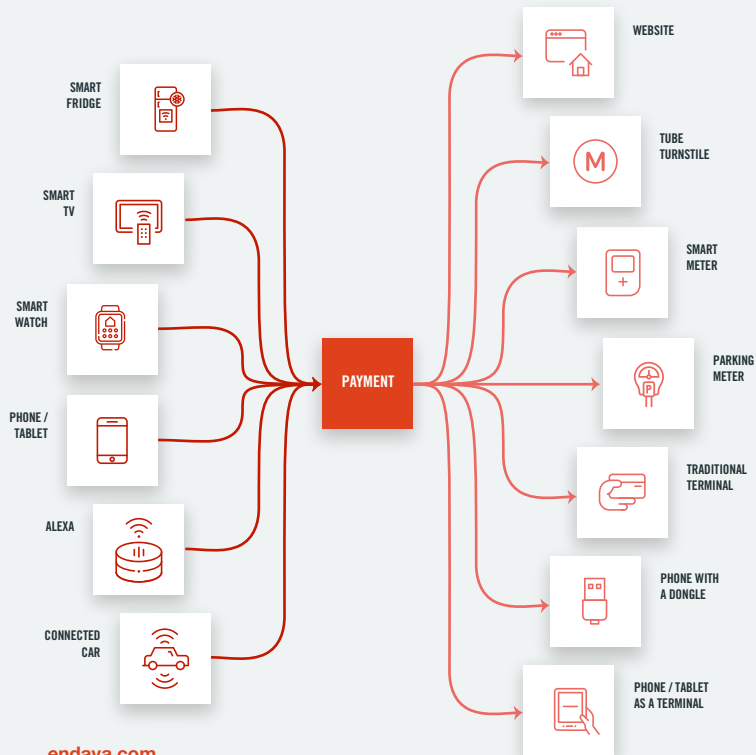
The focus will be on making payments available in more consumer technology products like wearables, cars, home assistants, fridges, etc. while also making the interaction more natural, using voice and user gestures.

SHARE OF CONSUMERS MAKING CONTACTLESS PURCHASES VIA MOBILE IN THE UK (2020), BY GENERATION



Source:

FIS Worldpay Generation Pay Report 2020



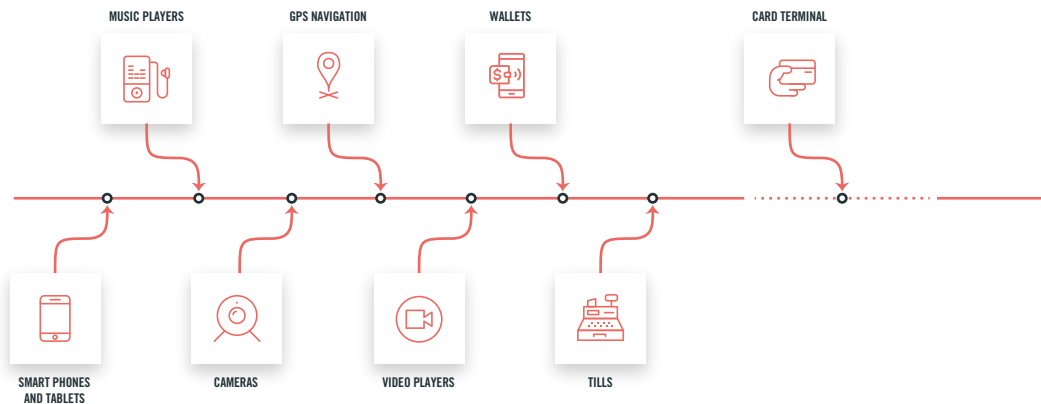
The ability of connected devices to make *and* receive payment will be a key enabler of future user experiences.



CONNECTED DEVICES ENABLE FUTURE PAYMENT EXPERIENCES

This is part of an overarching trend that has seen mobile devices like, phones and tablets, replace specialist hardware through the consumer experience - music players, cameras, GPS units, and wallets - and has in recent years accelerated in the merchant space with apps like Square, coupled with card reading accessories.

The next generation of tablets and phones will be able to accept payments directly onto the device - “tap to phone” or phone as a terminal, a trend confirmed by Apple’s recent acquisition of Mobeewave.¹



**MOBILE DEVICES
REPLACE
SPECIALIST
HARDWARE**



What's next?

- Consumer devices become ever more critical in payment experience.
- Increasing usage of phones and tablets to accept payments in the physical world.



What's the impact?

- Payments everywhere - ubiquitous, frictionless payments will drive “pay as you go” models across verticals. Is your business ready to make the most of this opportunity?
- Significant implications for the financially excluded and the less-tech orientated consumer. How accessible and inclusive are your digital experiences?

Data-driven Identity Services

No longer is a conversation the basis to a payment transaction: now technology forms the foundation of our payment identity provided by the bank, issuer or wallet. The focus is on how we identify and authenticate the participants in a payment - fundamental to our ability to make the payment happen. Banks, processors and issuers have increasingly sophisticated anti-fraud solutions which essentially assess who we say we are, and the riskiness of the transactions as a result.

The next five years will see these anti-fraud and authentication products evolve into sophisticated, personalised payment agents for individual consumers which assess which payment instrument to use; an evolution of wallets built on mobile devices and data-rich APIs.

Merchants and providers are already competing on the quality of decision-making and data models, to balance risk and customer experience as the continued shift to digital occurs. However, the privacy and security risks of this reality are a challenge not everyone will be up for taking it on.

Interestingly, new technologies that build on biometrics and behaviour, combined with innovation in user experience like Secure Payment Confirmation² should mean that consumers have to authenticate themselves in a “high friction” way, for risky or high-value transactions, but remain in control with easy, low friction gestures for safer payments.



What's next?

- More authentication in the short term, built around biometrics and behaviour.
- A race between technology providers to collect the best data and create the best models for understanding risk and identity.



What's the impact?

- Collecting, understanding and curating data from customers is what powers these identity services. How well do you know your customers?
- Sophisticated personalised software deciding on behalf of the consumers how to pay and whether to ask for confirmation. Does your brand enable this level of trust and engagement?

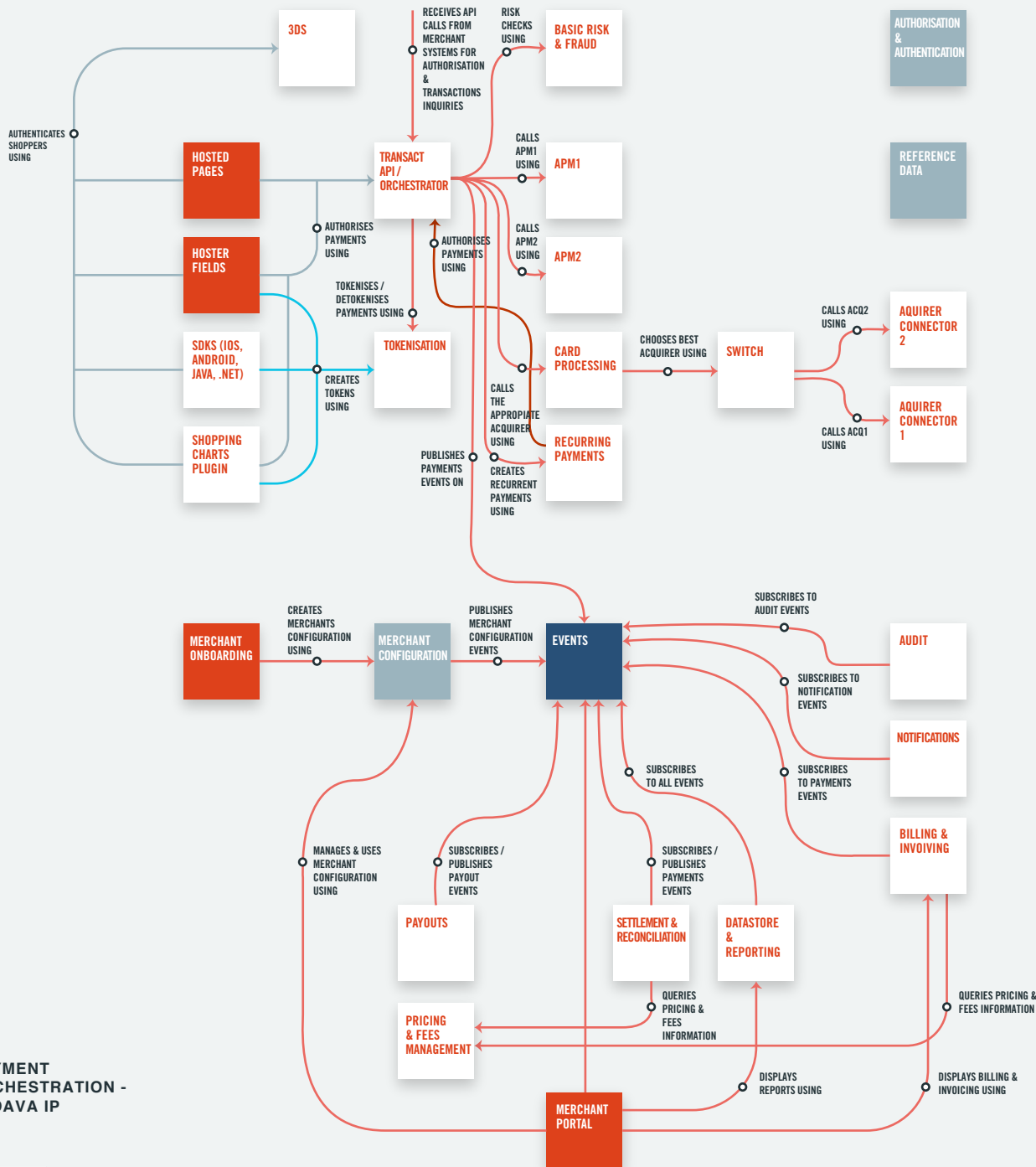
Platform as a Service / Payment Orchestration

The last trend in this report focuses on the maturation of cloud platforms. The software as a service model has gained traction in the last five years, creating huge momentum in the market. The payments ecosystem is no exception with 'payments platforms as a software' becoming increasingly common.

Increasingly, we see organisations integrate with cloud-based providers for new or replacement services - whether they are KYC/AML, Risk & Fraud detection, tokenisation or additional payment providers. This cloud migration enables a more agile

product development and lower capital investment on platforms - a point to note, is that most new entrants in the payments ecosystem are cloud-native.

This model is developing into the new normal - payment orchestration, a series of systems that provide holistic management and coordination of complicated ecosystems, for both external and internal services, used by merchants and payments companies, based in the cloud to meet functional needs or adapt quickly to scale up.





What's next?

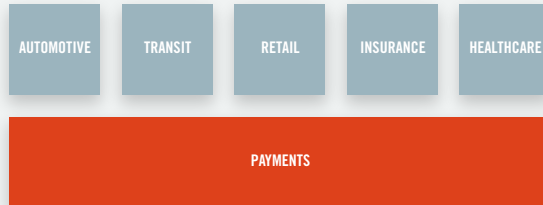
- On-premise hosted platforms will become the reserve of only the very largest or most legacy-bound providers.
- Orchestration becomes a key technology capability: the competitive advantage will come from organisations in order to develop their core differentiating capabilities, and curate their data - all while coordinating external best-in-class solutions for the remaining moving parts.



What's the impact?

- Modern technological infrastructures are essential. Is your organisation at risk of being constrained by complicated or outdated infrastructure or applications?
- There is the potential for vendor lock-in or overdependence – even the largest cloud providers still have outages. Can your business strike the balance of partnership without sole dependency?

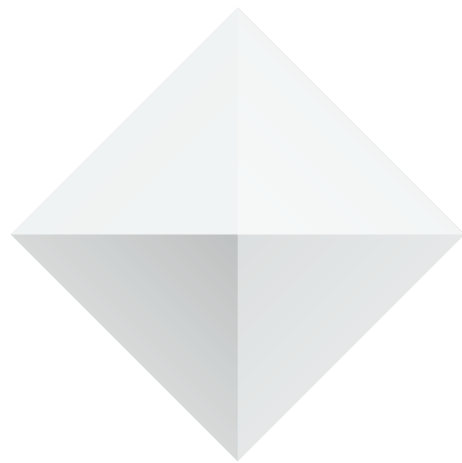
Payment Opportunities in Other Industries



The next five years will see a continued acceleration of investment and interest in the payments ecosystem. Payments has evolved from being considered 'just' a critical business function of almost every commercial organisation, to becoming an extraordinary source of data and insight into the behaviour and needs of customers.

At Endava, we see payments not as a vertical capability, but rather as a horizontal foundation technology, cutting across many industries, such as:

- Insurance, where matching payment data to policies and claims can bring faster claims, better user experiences and improved efficiency in back-office finance operations.
- Transit and Automotive, with the shift to transit as a service utterly dependent on understanding who the users are and collecting payment as they travel.
- Retail, where managing friction and making sure consumers can pay however, whenever and wherever they want across channel is pivotal.
- Health, where identity, privacy and capability to pay are crucial access and success factors.




Looking Forward

Focusing on these five trends, we anticipate a future in which payments are experienced through sophisticated digital channels, with data-driven decision-making providing frictionless transactions and new sources of credit, as well as creating ecosystems of value where connected systems allow new insights and opportunities.

With investment pouring into the sector, payments technology is a critical enabler of digitisation and operational efficiencies across different verticals. Payments is increasingly connecting consumers and businesses – a foundational capability that supports the future of enterprise.

endava.com



“For businesses, the transformation involves reimagining the buying process into automated workflows and AI processes, resulting in a seamless transfer of funds, whether within a country or across borders. For consumers, an even more frictionless buying experience will arise, with the payment step seamlessly integrated.

In short, the transformation in payments will lead to the actual payment itself becoming ... invisible. It will become a given – a seamlessly integrated part of the event triggering it.”

John Cotterell
CEO, ENDAVA

ABOUT THE AUTHORS

Nick Telford-Reed

Nick is a passionate and award-winning technology innovator who has a strong focus on ensuring great customer experience. For two decades, he has worked to develop compelling visions of the future, to build strategies to move towards those goals, and to build and run engaged, enthused, self-organised teams to develop and deliver customer-focused products and services. As Executive Advisor at Endava, Nick supports our teams in the Payments and Fintech domain with their client strategy and new technology and industry standards to enable them to deliver next-gen solutions for our clients.



Petru Metzger

Petru has over 16 years' experience in various roles in IT delivery working for clients in the Financial Services industry. For the last 8 years, he has been supporting our Payments clients with his knowledge in the Payments domain, from acquiring and issuing to cross-border payments, banking payments or mobile wallets and more. By combining a strong technology background with a great interest and skills in leading people and managing projects in his role of Global Head of Payments Delivery, Petru ensures that our teams are able to grow and deliver value to our clients.

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FIND OUT MORE

Get in touch and start the conversation on how we can help you achieve more by utilising Endava insights, technology and subject matter expertise.

Contact us at
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