



Customer experience is driving change in the payments sector

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How capitalizing on new technology can transform banks' payments systems and boost customer experience

The global payments industry is rapidly transforming thanks to bold new technologies and changing customer needs and wants.

Customer experience is at the heart of the payments evolution as all companies look for ways to make transacting for their products and services more seamless. Changes in the payments sector, including real-time payments and security-enhancing data, are being driven largely by technology-savvy consumers and future-forward businesses demanding a full digital experience in their daily transactions.

Disrupting the traditional transaction

The payments industry is getting more crowded as new technology players enter the market seeking to fill the customer experience gaps left behind by larger institutions like the traditional banks. Examples of this include the 'invisible' payments of ride-hailing apps and connected digital assistants integrated into mobile devices, or money transfer capabilities built right into our favorite texting service, that all claim to simplify a number of everyday payment transactions.

Still, banks have the upper hand given the longer-term customer relationships and large volumes of customer data they've accumulated in their operations over several decades. Many banks are seeking to capitalize on those valuable assets by building a better customer experience for clients either in house, or by purchasing or creating partnerships with fintechs. Their goal is to create the kind

of positive customer experience fintechs have become known for, while maintaining and growing their dominant market share.

But banks and their fintech competitors aren't the only companies competing through customer experience in the payments sector. A growing number of non-traditional financial players, such as PayPal and Google, are seeking to own the customer relationship through their own payment platforms. This competition, alongside fintechs, could further disintermediate the banks through their focus on capturing customer loyalty with targeted improvements to specific consumer business transactions.

Real-time payments and open banking

To better compete with new industry entrants, traditional banks need to capitalize immediately on new money movement capabilities and offer multiple payment methods to provide the best customer experience possible.

Some banks are getting the message, with the help of regulators. A growing number of jurisdictions are accelerating progress around [real-time payments](#) (PDF 859 KB), enabling the rapid transfer of money online or on a mobile device. In fact, about half of the global population today has access to some form of real-time payments for reasons varying from economic stability to consumer preference.

Increasingly though, it is the data that travels with the payment that is emerging as the true catalyst for enhanced transaction experiences.

Veterans in the real-time payments space, including the UK and Switzerland, are moving quickly to add new functionalities to reach today's tablestakes capabilities, such as ISO20022 adoption for its data carriage. Others — relative newcomers such as the U.S., the EU, and Australia — are aiming to add brand new overlay services for customers that are built on the back of new, data-rich functionalities. There is also a movement towards instant multi-currency payments in some regions, with continued conversations around how best to connect the real-time payments systems around the world.

While open banking as a concept has been met with varying degrees of support or skepticism around the world, it continues to gain momentum. Regardless of the stance taken with the movement, the importance of the data itself to unlocking inherent value in payment transactions is apparent. With the recent adoption of PSD2, the EU has become a global leader in open banking. Open banking remains more ad hoc in the U.S. and bilateral agreements between banks are less common. Only a small number of banks, including Capital One and Citi, for example, have embraced open banking.¹

Regardless of how it's being managed, the next stage in real-time payments is here — and will continue to evolve. As KPMG stated in its latest [Real-Time Payments report](#), (PDF 859 KB) "It's not just about fast payments anymore; it's about securing a winning place in a new, broader ecosystem."

Safeguarding payments key part of successful CX

While real-time payments and open banking are opportunities for financial services companies and their partners, there is also a growing threat of cyber-attacks, data breaches, and fraudulent activity, often times outpacing and outsmarting today's existing security capabilities.

Companies that handle payments are becoming more aware — sometimes after experiencing their own breach — of the serious consequences of not offering better protection, especially on any open commerce platform. The risk isn't just the data breach itself but also the potential loss of trust among customers — regardless of whether they were directly affected. Customers increasingly expect companies

they interact with to do everything in their power to safeguard their data.

There are opportunities for financial services companies amid the growing threat of cyber-attacks, which can benefit them and their customers. More data traveling with the payment can provide more assurance for managing risk and more insight for identifying fraud, especially as new technologies rise to meet the challenge such as Artificial Intelligence (AI). There is also a first-mover advantage for companies that work to commercialize protection systems and software, while also adhering to the increasingly strict regulatory requirements put in place to keep data secure.

To help serve and protect their customers, players in the payments industry are expected to make significant investments in data security in the coming years. Their goal is not only avoid falling victim, but staying one step ahead of cyber criminals. It's about giving customers the protection they want and building a solid reputation for doing it.

Preparing for the future

The increased adoption of payments modernization worldwide, including real-time payments, and straight-through processes and platforms, are clear opportunities for the sector as companies seek to build a better customer experience. However at the same time, the increased volume and velocity of money moving around is giving cyber criminals more targets. We've already witnessed the growing pains of fraudsters' responses to the introduction of faster payments systems globally, and there have been a number of high-profile cyber-attacks and breaches in recent months. No industry that handles payments and related data appears immune.

On the tipping scale of function versus security, enhanced data capabilities will be critical to striking the right balance between improved customer experience and heightened safety and soundness of the financial system. New data elements, the formats that structure them, and a platform that leverages them in the right way can help to transform today's new payments systems into platforms for innovation for both the customer experience and the security that surrounds the experience.

¹ American Banker (Dec. 20, 2017)

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