

The Future of Digital Payments is 'Invisible'

Abstract

The customer experience while making payments is evolving. The demand for frictionless payment experiences is driving innovation across industries, for instance, how retailers accept payments from customers. This paper takes a look at the trends in the payments industry, explores the challenges to rolling out invisible payments, and proposes measures that banks can take to embrace the limitless opportunities in this space.

Invisible Payments are Already a Reality

Contactless cards, mobile near-field communication (NFC) payments, and payment-enabled wearable devices have all simplified and sped up the point of sale (PoS) experience. Many apps have been designed to make payments frictionless and simplify the customer experience; however, the 'payment' continues to be the heart of any transaction. The fact is that it has become so convenient to execute that the very act of making the payment becomes 'invisible'.

The shopping experience is evolving - retailers are experimenting with ideas, both in-store and online, to improve the shopping experience. Real world examples include Amazon One-Click¹ and Amazon Prime² that simplify the payment and delivery process, and self-scanning checkout that relies on consumer trust to enable quicker supermarket checkouts. Uber Inc.'s payment system³ remains the most famous innovation - customers neither verify the amount nor ask for confirmation, they understand that they will be charged a fair price at the end of the ride, or at least informed upfront about surcharge pricing.

These approaches rely on self-management and trust, be it with the customer or the service provider. The invisible payment trend is now expanding with several organisations running pilots. Amazon.com has launched Amazon Go stores, possibly the boldest of the invisible payment experiments, with the 'Just Walk Out' service, which automatically triggers payment as customers walk out of the store with their goods.⁴ Amazon.com embraces many challenges in this experiment - dealing with a couple or a family shopping together, addressing disputes when consumers allege overcharging, recognizing goods returned to the shelves, and so on.

BBVA has introduced frictionless payments based on biometric technologies in order to make checkouts easier.⁵ Similarly, Barclaycard is trialling 'Grab+Go', an app that enables queue-less payments, at its staff restaurants.⁶ These initiatives are not as trailblazing as Amazon.com's - the BBVA and Barclays apps have built-in scanners to track purchases. Starbucks Corporation offers the 'Skip the Line' feature that allows coffee orders to be placed and paid through the mobile app so that it is ready for collection when customers visit the store.⁷

What it Takes to Make Payments 'Invisible'

As invisible payments become mainstream, there are changes to the way customers of banks need to receive information and track their payments. This is because invisible payments, by virtue of eliminating the 'hassle' of conducting a payment transaction at the time of purchase will, in a way, encourage customers to spend, and sometimes, overspend. Banks must evaluate the customer journey and assess how they can provide the necessary value and support.

Reconciliation

Invisible payments require reconciliation - customers will ultimately need to know how much they have paid for each purchase. This increases in complexity as more items are wrapped into a single payment. If customers feel they are losing track of their spending because of adopting invisible payments, they will revert to traditional PoS checkouts.

Disputes

While retailers strive for a frictionless experience, customers are left unaware of what the service has cost until after they have left the store. This may lead to an increase in disputes. Identifying a mistake as opposed to fraud can be achieved through digital audit trails and in-store cameras with facial recognition, to tie a transaction to a customer and validate payments. However, this involves technical complexity and human intervention to assess each claim. The Payment Services Directive 2 (PSD2) regulation mandates European financial institutions to immediately refund disputed amounts or review and confirm within two calendar weeks. This entails business process complexity and human intervention, which in turn may result in significant additional costs.

Both these challenges can be addressed by leveraging machine learning (ML) technologies. An ML-powered chatbot can be used to assess the claim, review the audit trail, and resolve the issue by deciding whether to refund or escalate for human review.

Social responsibility

Customers can lose track of how much things cost, spend beyond their means, and end up in debt, with far-reaching consequences. This is where the social responsibility of merchants and banks comes in - retailers and banks can leverage the insights generated from data analytics that they use for marketing and fraud prevention to identify potential

reckless spending. They could then trigger alerts to notify the customer; in fact, many post-PSD2 account aggregation apps are introducing such features.

Strong Customer Authentication (SCA) Regulation

The SCA regulation set to take effect in summer 2019 is an intrinsic part of PSD2 and introduces measures to better protect customers by requiring additional security checks at the PoS. These security checks are similar to '3D Secure' but more stringent with regard to the timing and the degree of security. For invisible payments to work seamlessly, customers cannot be stopped and asked for biometric or other forms of authentication – in fact, customers would have left by the time they realize that such checks are required. The SCA check is not a showstopper but will require careful thought about how to include it in the payment flow, even if retrospectively. However, the upside is that combining SCA with biometric security on the device or in-store could potentially end card-not-present fraud.

Invisible Payments have a Bright Future

Banks and financial services firms the world over are exploring a variety of use cases for invisible payments across industries, for instance:

Hospitality: Booking a table at a restaurant, checking in using a device or biometric identification, ordering directly on the device, and agreeing upfront on how the bill will be split can eliminate long waits at the end. Diners can just walk out; the restaurant recognizes the group has left, and initiates the payment.

Automotive: Connected cars are essentially IoT ecosystems. Enabling them with payment capabilities enables the 'car' to pay for parking, fuel, tolls, and even fines!

Retail: When making a purchase, the invisible payment app can proactively check the affordability and trigger alerts so that customers can forgo a transaction if need be, or find an alternate payment method. The app could even upsell alternate credit solutions to help customers tide over temporarily.

With augmented reality (AR) becoming immensely popular, financial firms now have a way to give customers a heads up on how much they will end up spending at the end of a retail purchase or dining experience. The app can display the shopping cart cost or a restaurant bill in real time, and a nod or a blink is all what a customer will need to do to approve the payment. The upfront availability of expense information will drastically reduce payment disputes and retrospective reconciliation of receipts.

What Banks Must Do for a Seamless Adoption

Banks must remember that the payment is merely the operational aspect of the journey, the innovation is in the customer experience. Implementing invisible payments will require banks to collaborate with partners and competitors to build tech platforms to leverage partner capabilities and resources in order to create exponential value for all stakeholders. The key tenets of a successful invisible payments strategy are:

Open APIs: Work with retailers and app providers to identify and deliver the relevant payment APIs to develop innovative solutions.

Data analytics: Analyze usage of payments interfaces to generate new product ideas, identify cross sell opportunities, and improve personal financial management offerings.

Mobile app or wallet: Integrate in-app offerings for payment processing and enable app-to-app communication to leverage app security and biometrics for secure payment execution.

Digital identity: Ensure the security of customer data and their payment patterns. Solutions that involve IoT devices (including mobile devices), beacons, and biometrics will aid the rollout of invisible payments.

Given that introducing innovative payment solutions is a business imperative, banks must capitalize on the opportunities offered by invisible payments to remain competitive and provide the right services to ecosystem partners.

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