Payment Trends
for Financial Institutions

Abstract

Today's cardholders demand payment options that offer superior speed, convenience and security. Whether on the go, in line at checkout or online, consumers expect a smooth and frictionless payment experience that allows them to pay when they want, where they want and how they want so they can get on with their busy, active lives.

In this CPI Card Group® ("CPI") white paper, we explore the leading trends in financial payments that are enabling this rapid transition to a faster, more secure and more convenient cardholder experience.

Introduction

Evolving cardholder expectations are moving the payment industry toward faster payments, new form factors and anytime, anywhere convenience. Consider that consumer use of mobile payments using any type of mobile wallet, app or browser jumped from 48 percent to 60 percent from 2018 to 2019[1].

The mobile and contactless payment revolution threatens the revenue streams and market share of traditional card issuers. Issuers need to respond with an "all of the above" payment strategy, to address cardholder expectations, maintain wallet share and grow their payment card portfolios, while tackling the rising card not present fraud challenge head on.

Following are the top trends we are watching in a year marked by rapid disruption.

Top Trends in Payments

1 - Cash displacement continues:

Cash continues its decline as it is displaced by other, more modern payment methods, including debit and credit cards as well as digital wallets and person-to-person (P2P) payments.

According to McKinsey, cash transactions around the world declined from 89 percent of all payment transactions in 2013 to 77 percent in 2017[2]. In the U.S., debit cards overtook cash for the first time in 2018, with debit accounting for 28 percent of all payment transactions, versus just 26 percent for cash[3].

Yet cash remains popular in the U.S. and worldwide, particularly for small-value transactions. According to the same Fed report, using data collected in October 2018, cash was used for 49 percent of payments under $10 and 42 percent of payments less than $25[4] .

Every form of payment ever devised is still in use. From barter, trading, coin and currency, right through to twentieth century methods such as checks and credit cards, payment types never really go away. For example, coins were first invented by the Lydians in the sixth century Before Common Era (BCE)[5], yet are still widely used all over the globe.

Although cash displacement is an important trend to watch, the belief that it will be driven completely into obsolescence by modern methods of payment like peer-to-peer and digital wallets is unlikely.

2 - The contactless revolution has arrived:

The growing acceptance of contactless payments among cardholders, merchants and issuers is one trend driving the projected growth of open loop platforms.

In the U.S., dual interface cards – payment cards with an embedded chip and antenna enabling both contact transactions (inserted at payment terminals) and contactless transactions (tapped or waved at payment terminals) – is playing a major role in the rise of contactless. According to Visa®, more than 100 million Visa contactless cards have already been issued in the U.S., a figure expected to reach 300 million in 2020[6]. Major players like JPMorgan Chase and Wells Fargo have already launched dual interface card programs[7]. Smaller institutions are taking notice, and fast followers are adopting quickly.

Meanwhile, new and compelling use cases such as transit are capturing cardholders' imaginations and demonstrating the viability of large, open-loop contactless systems. With the May 2019 announcement of Visa's and Chase's partnership with NYC Transit to begin offering subway riders open-loop contactless capability[8], awareness of the format's convenience, speed and ease of use among commuters in some of America's largest metro areas has grown.

As of October 30, 2019, Visa has 100 partners enrolled in its global transit partner program[9]. In addition to New York, Chicago and Portland, OR have also launched contactless transit programs[10]. Roughly 20 U.S. cities have programs in some stage of implementation[11].

Although the majority of point of sale (POS) terminals sold to merchants since the EMV® conversion are contactless capable, they are not necessarily enabled for contactless on the back end. Many large and big box retailers have upgraded, but it will likely take time for smaller, independent retailers to convert, as they have less incentive to upgrade and are hesitant to absorb the associated expense and disruption. We anticipate terminal conversion will occur over the next couple of years, as a growing percentage of cards issued include dual interface functionality, and consumers across all demographic segments get comfortable with the ease and convenience of the technology.

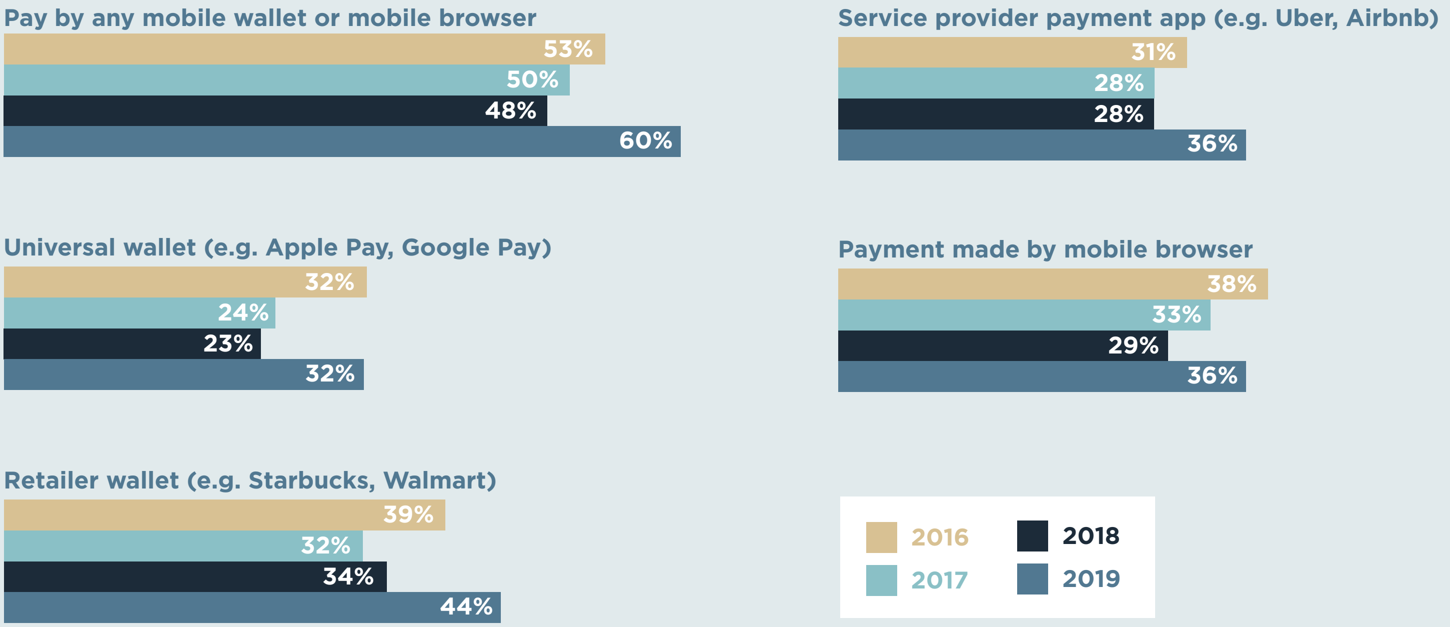
As users become familiar with contactless capabilities, and the impact of COVID-19 begins to influence consumers' preferences at POS, merchants are upgrading their POS terminals. According to Juniper Research, the number of contactless-enabled POS devices installed will rise to 161 million in the next five years, from 78 million in 2019. By then, 94 percent of all POS devices in use will be contactless enabled[12].

For more detailed insights about the contactless and dual interface trends and growth opportunities for issuers, see CPI's thought leadership white paper, "Tapping the Dual Interface Opportunity."

3 - Emerging touchpoints capture the imagination:

Nearly all – 96 percent of Americans – own a cell phone of some type[13]. Between 2011 and 2018, smartphone ownership in the U.S. grew from 35 percent to 81 percent[14], and consumers are increasingly transacting commerce via a mobile device. As consumers embrace the digital revolution, mobile payments continue to grow. In fact, 21 percent of millennials prefer a digital payment option, either a smartphone payment app like Apple Pay®, Google Pay™ or Samsung Pay, or a P2P app like Venmo® or Zelle®[15].

Consumer use of mobile phone to pay online or in-store



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After the initial launch of the third-party wallets, mobile payment usage began to accelerate in 2019, most notably in the closed-loop retailer segment exemplified by Starbucks® and Walmart, which use QR codes versus near-field communication (NFC) common to contactless schemas like Apple Pay and dual interface cards.

As comfort with mobile payments rises, particularly among millennials and younger consumers, cardholders may be more open to new payment form factors, touchpoints and interfaces, from wearables and payment objects, to paying via familiar appliances like cars and refrigerators.

Consumers are using voice payment technology, with 8% of US respondents saying they used voice commands to purchase something or pay a bill. Consumers can transmit payments with their voice assistant-enabled mobile device, such as Amazon Echo or Google Home[16]. The next phase will be the introduction of payment capabilities within IoT-enabled household appliances and durable goods like cars and refrigerators, but it will take time for the technology to be implemented and use cases established. Security protocols and regulations are in a state of flux, as evidenced by the UK government's January 2020 announcement of plans to introduce new legislation to improve the security standards of consumer-level IoT products[17]. Furthermore, the public's willingness to embrace such methods of payment is yet to be proven.

Venmo is a service of Paypal, Inc.
Google Pay is a trademark of Google Inc.

4 - New security methods address rising CNP fraud:

Thanks to EMV® chip technology, card fraud at the point of sale has dramatically declined due to fraudsters' inability to clone a card from information stolen from a merchant's database. However, as millennials and other consumer demographics have migrated to shopping online, criminals have taken advantage of vulnerabilities in card not present (CNP) transactions.

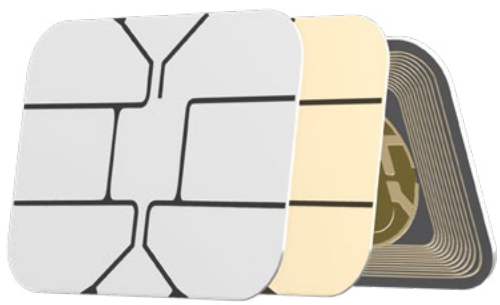
By the end of 2019, Aite Group estimates that U.S. payment cards will have lost $5.5 billion in CNP fraud, a figure expected to rise to $6.4 billion by 2021[18].

Several methods are being deployed to address CNP fraud, including Dynamic CVV[19], secure remote commerce and 3D Secure 2.0. Dynamic CVV is a technology that creates a new, random cardholder verification value for every transaction, eliminating criminals' ability to employ card information contained in a database.

Secure remote commerce and 3D Secure 2.0 are two back office methods of catching fraud that utilize rich shared data sets among the merchants and issuers, helping to recognize potentially fraudulent transactions and trends and reducing the number of false positives.

Biometric authentication is another method of security that is rapidly maturing. Thanks to evolving smart phone technology, fingerprint and facial recognition are now commonplace and seek to reduce criminals' ability to access personally identifiable information contained on a device.

With the advent of EMV and contactless transactions, signatures are no longer effective methods of fraud prevention. For this reason, retailers are in many cases no longer asking cardholders to provide signatures, particularly on contactless transactions up to a certain dollar threshold. This in turns helps to speed up transactions and improve the cardholder experience.



5 - Convenience and choice rule card issuance:

Today, financial institutions have several options for issuing cards beyond traditional, centralized issuance. These include instant issuance in the branch and digital issuance into a digital wallet like Apple Pay*, Google Pay or Samsung Pay.

According to Aite Group, by the end of 2019, over 4,500 FIs will have implemented instant issuance at over 59,000 branches in the U.S. By 2021. This figure is projected to grow to nearly 5,500 FIs and over 67,000 branches, or 55 percent of the market[20].

For institutions with a small number of branches, a distributed delivery system like CPI's Card@Once® SaaS-based instant issuance solution makes perfect sense. With a handful of in-branch card printing devices, they can provide the convenience and customization of instant issuance while controlling the process from beginning to end.

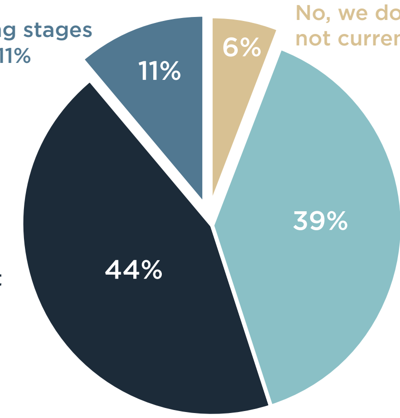
Digital issuance is also growing as a complementary strategy to physical card issuance—whether centralized and/or in-branch[21]. According to a survey conducted by Aite Group across 18 of the top 25 issuing banks in the U.S.[22], two in seven respondents indicated they planned to issue both physical and digital credit cards, and three in seven planned to issue digital only in the next one to two years.

On the debit front, two in six respondents planned to issue both physical and digital cards, and two in six respondents planned to issue only digital cards in the next one to two years[23].

Forty-four percent of respondents indicated they were already capable of instantly issuing cards direct to digital wallets, but do not actively promote the capability[24].

Instant Issuance Strategies to Digital Wallets

Question:
Does your FI have a strategy to increase the proportion of cards that are instantly issued (provisioned) to digital wallets (Samgung Pay, Google Pay, etc.)? (N=18)



Source: Aite Group contactless card executive survey, December 2018

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*Apple Pay is a trademark of Apple Inc.

Key Takeaways for Issuers

In today's dynamic, rapidly evolving payment climate, issuers have the opportunity to leverage the trends, adopt a flexible, multi-pronged strategy and be prepared to adjust quickly.

- **Consider cardholders' needs:** In addition to traditional debit and credit cards, today's cardholders are adopting new methods of payment in-person and online, including contactless cards, payment objects, and digital wallets. Make sure to address their needs and behavioral patterns.

- **Catch the contactless wave**: Many major banks have begun issuing dual-interface cards. If you are a community bank or credit union, consider offering contactless-enabled debit and credit cards now to elevate the customer experience and protect your share of wallet.

- **Offer multiple card issuance options:** Today's cardholders demand immediate access to their cards. Offer them a range of options, including centralized issuance for mass reissues and branding changes, in-branch instant issuance for new accounts and lost or stolen cards, and digital issuance to position your card in their third-party digital wallets.

- **Keep it safe:** Ensure that the cards you issue today are EMV® compliant to address fraud. To combat rising CNP fraud, payments providers are offering new and relatively costly solutions, including biometric authentication, Dynamic CVV, and back-office methods such as secure remote commerce and 3D Secure 2.0.

Need help in developing a financial card strategy? CPI Card Group offers credit, debit and prepaid solutions delivered physically, digitally and on-demand. We help our customers foster connections and build their brands through innovative and reliable solutions, including financial payment cards, personalization and fulfillment, and Software-as-a-Service (SaaS) instant issuance. Our experts will work with you to create a tailored program to meet the needs of your institution and your cardholders.

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About CPI Card Group

CPI Card Group® is a payment technology company and leading provider of credit, debit and prepaid solutions delivered physically, digitally and on-demand. CPI helps our customers foster connections and build their brands through innovative and reliable solutions, including financial payment cards, personalization, and Software-as-a-Service (SaaS) instant issuance. CPI has more than 20 years of experience in the payments market and is a trusted partner to financial institutions and payments services providers. Serving customers from locations throughout the United States, CPI has a large network of high security facilities, each of which is registered as PCI compliant by one or more of the payment brands: Visa, Mastercard®, American Express® and Discover®. Learn more at www.cpicardgroup.com.

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