"Now you see it, now you don't"

Do disappearing payments mean disappearing cards?

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Introduction
Statistics in payments are fraught with definitional challenges. There are many overlaps. For example, "Subscriptions" being included within RBA statistics for "Automatic Payments", yet also being included within the global measures for In-App payments. This can create much debate regarding transaction and value measures. Less debatable are the trends.

In this whitepaper we will not attempt to reconcile different definitions or sources of data. Rather, the focus is on the trend . . . and the trend for payments where the card/plastic is not present is pointing significantly upward.

Will plastic disappear?
Similar to cash more broadly, plastic is the lowest common denominator for enabling a card payment. For example, whilst the ability to use Apple or Google Pay is relatively ubiquitous in Australia, it is not in other countries, not the least being in the USA. Just as the trend to cashless is better described as a trend to less cash (as cash is unlikely to disappear any time soon), it is a similar story for plastic - which is unlikely to disappear (at least for some decades on a global basis). However, undoubtedly the need for physical plastic within Australia is already being challenged by the move to digital card (and other) payments.

The COVID-19 effect
Much has been written about how COVID-19 has and will change the payments landscape. Our view is that it has been an accelerant – like pouring kerosene on the firepit that was already burning, so to speak. Most of the trends were already underway. Responding to COVID-19 demanded a crash course in going digital in many aspects of our lives, and payments has been no exception - fortunately, many millions of Australians have passed the mandatory course successfully.

Source: www.pymnts.com

It's about the experience
Most life events have a punch line. When making a purchase that punch line is the payment – usually a pain point . . . if not for anything else but parting ways with your money!

The purchase experience is usually about the expectation of what you will receive, and the vendor delivering or exceeding on that expectation, not about the payment. Taken to its extreme, the payment can be invisible – the original example of this, albeit in remote payments, being direct debit for utility bills and the like. But it was not until decades later that a similar experience entered the realm of "in person" payments: possibly the most common example of this has been ridesharing, where an extraordinary customer experience (unimagined and impossible 20 years ago) has been delivered and, as relates to the payment, provided the "joy" of just getting out of the car and walking away - rather than finding the cash or a card to pay . . . the payment and the card have disappeared from sight.

However, making the payment simple, fast, no (or low) cost, embedded and secure can also make it "set & forget", and thereby creating a share of wallet challenge for payments providers – who of us consciously considers, or even cares, which card we set up 4 years ago in Uber, and what does that mean for the likelihood that we would ever make the effort to change it?

New?

The "disappearing act" is not really new. The ability to store payment credentials – your card number or bank account – has been with us for decades. At the risk of dating oneself, I recall promoting the use of direct debit for the payment of insurance premiums and utility bills on American Express cards, as well as leaving your card details with the travel agent ("card on file") for frequent travellers, way back in the early 1980's.

Card on file with the travel agent was popular, as it saved the aggravation of repeatedly filling out paper forms or quoting your card number over the phone – a pain point was removed. But one wonders how much security and PCI-DSS protocols were in place in those early days.

Direct debit via the Direct Entry system has never been as heavily embraced in Australia as it has been in Europe, as Australians appeared not to like people coming into their bank accounts to take their money, particularly when the amount could change each month such as for a telephone bill. However, "direct debit" (or a recurring payment) on a credit card account was more welcomed, as it gave the consumer an opportunity to review and dispute the transaction before having to pay with their own money.

What has changed?

A lot has changed, primarily due to the significant advances in information technology, involving areas such as: security, including biometrics; digitisation; products and services, and the way they are delivered, such as via smartphones; innovations focussed on removing the pain points of payments; a laser focus on improving the consumer experience; and increasing consumer expectations.

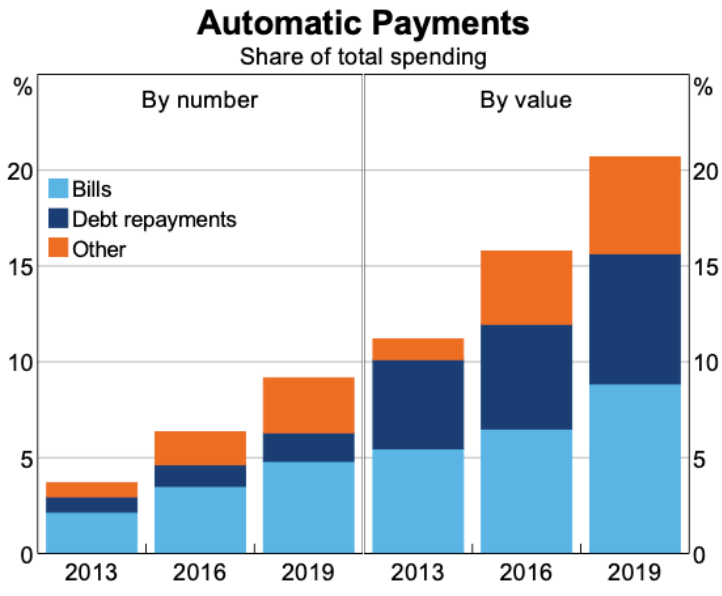
All have made it more likely that we are prepared to provide our payment credentials to merchants and/or enablers, such as Paypal (whose overall transaction value has doubled during 2021[1]), Apple Pay, Google Pay and BeemIt.

Automatic payments

In its "Consumer Payment Behaviour in Australia" report released in March 2020 [2], the RBA noted that the share of total weekly spending made "automatically" has steadily continued to increase to 9% of the number of total payment transactions. When measured by value, this automatic activity amounted to over 20% of all payments during 2019 survey period.

Automatic payments are defined as household bills (such as utilities, subscription services and debt repayments) paid by direct debit or recurring transactions online.

Further growth in the use of subscription services can be expected: having already spread in popularity with services like Netflix, they experienced significant success during



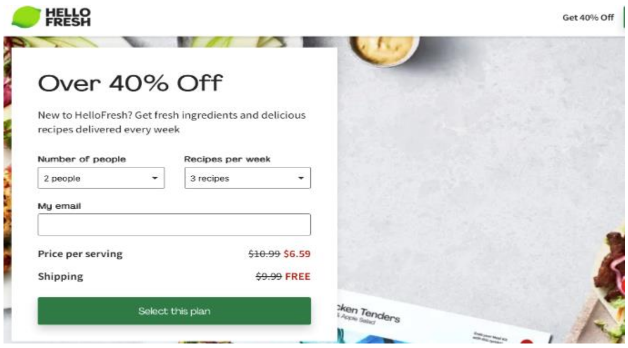
Source: RBA calculations, based on data from Colmar Brunton, Ipsos and Roy Morgan Research

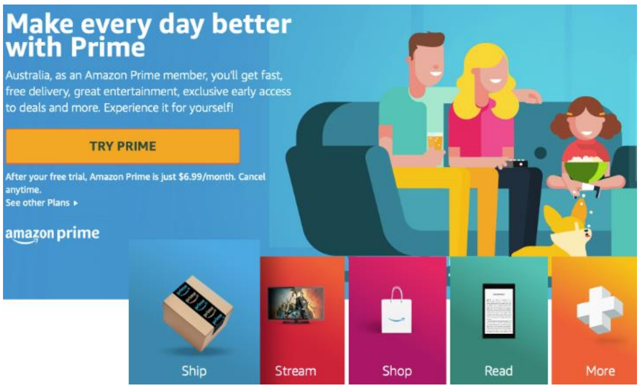
[1] The Economist, 8 May 2021

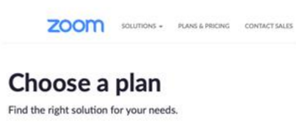
[2] https://www.rba.gov.au/publications/bulletin/2020/mar/consumer-payment-behaviour-in-australia.html

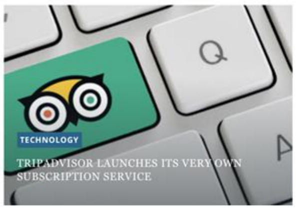
the COVID-19 period, with consumers preferring to move to paying monthly when their income streams became uncertain.

Increased use of internet services (e.g. Zoom, Twitter, TripAdvisor), streaming services (e.g. Netflix, Binge, Stan, Apple TV), online gaming (digital games), demand for new products to be regularly delivered to our homes (e.g. coffee pods), and merchants enticing us back into their stores (e.g. monthly subscriptions at café chains) or to buy their products (e.g. Volvo and Jaguar cars, ecommerce anything) all contributed.





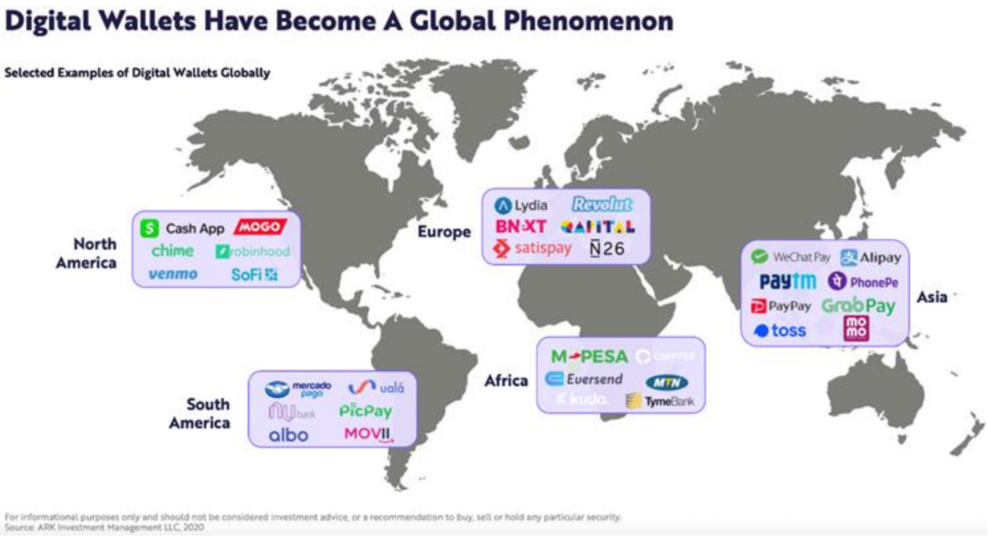




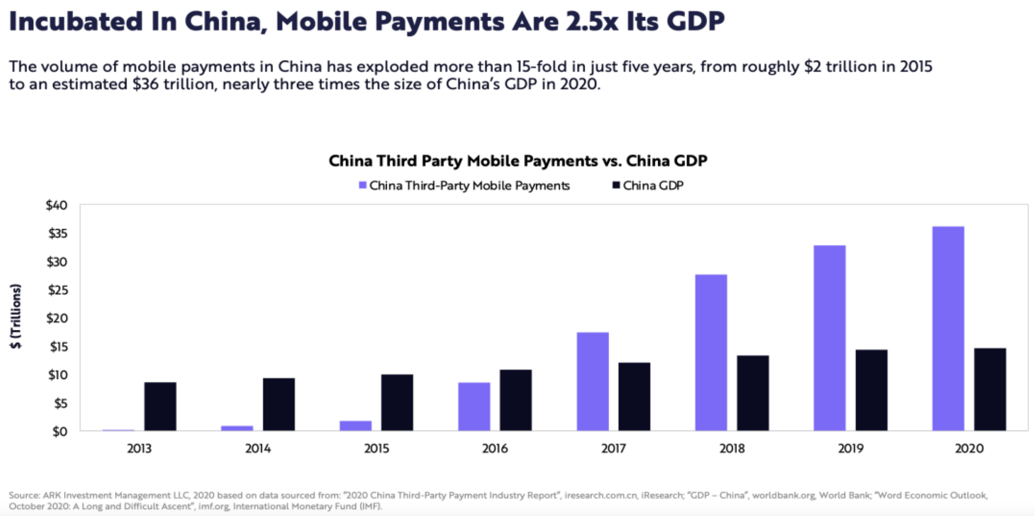
PYMNTS.com reported that "at least 75% of all US consumers signed on for at least one subscription during 2020". Whilst also reported that "33% of consumers will either cancel their subscriptions after free trials expire or create new accounts to get free services", the net effect will have been a massive increase.

Digital wallets

Although Apple Pay, Google Pay and Samsung Pay are definitely types of digital wallets (residing on your phone), in this section we are thinking about the digital wallets that are used for online payments, that can reside on your phone or via a website link, and that may offer the option of storing funds within the digital wallet account - albeit storing funds within wallets, such as Paypal, is far less common in Australia than compared to other markets such as the USA and China. These wallets include Paypal, Alipay and WeChat Pay. When used at physical POS, they typically rely on QR code scanning (a challenge in Australia to date) rather than the NFC interface used by the Pays.



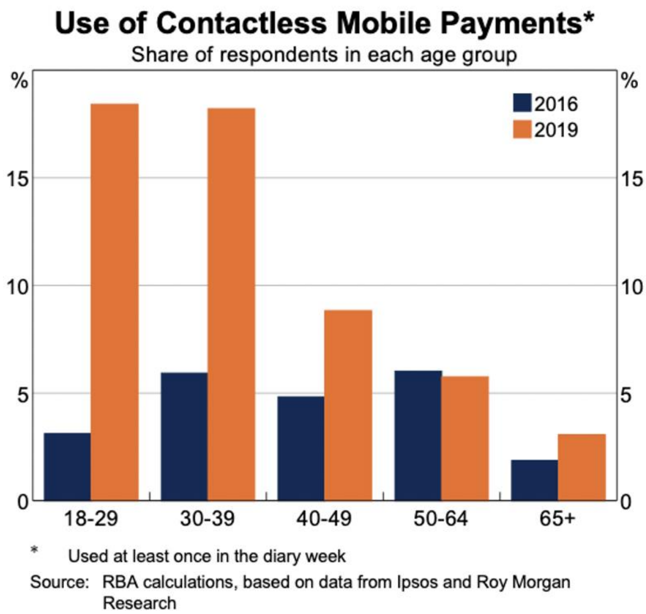
The Worldpay 2021 Payments Report found that during 2020 digital wallets remained the payment method of choice amongst global e-commerce consumers, accounting for 44.5% of all e-commerce transaction volume. Whilst this is only a 6.5% increase on 2019, it is of note that this growing percentage is being applied to a rapidly increasing level of e-commerce sales. China leads the way in digital wallet usage, where these wallets account for 72.1% of e-commerce purchases; traditional card payment rails, as we know them in the West, having been leapfrogged by these new ways to pay, adopted by consumers as a secure means to make ecommerce purchases. Indeed in 2019 the payments value transacted with Alipay was close to 25 times that of Paypal[3].



The next phase for western digital wallets is to (aspire to) become "super apps" similar to WeChat in China – consumers can virtually live their whole (virtual) lives on WeChat, including messaging, social media, paying for goods and services, and transferring funds to one another.

The "Pays" – contactless mobile wallets

The use of digitised card payments via Apple Pay, Google Pay and Samsung Pay, primarily transacting at POS, continues to rise. The 2019 RBA consumer payments survey found that 10% of respondents made at least one payment with the Pays during the survey week, which was double the level reported in 2016.



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[3] The Economist, 8 May 2021

Bringing things up to date, Commonwealth Bank of Australia (CBA) announced that, as of March 2021[4], more than 40% of the bank's combined debit and credit card contactless transaction volume was via a digital wallet. CBA's figures also revealed that many Australians have started using their digital wallets to make higher value purchases, with the average dollar value of a digital wallet transaction increasing from $41 to $44 for credit and $26 to $29 for debit over the past 12 months. So, the use of plastic is definitely disappearing amongst the CBA cardholder base.

Based on the current trends, CBA believes that it is likely that digital wallets will overtake traditional plastic as the most popular contactless way to pay by the end of 2021

And the Pays are extending into online transactions . . . "Prior to the pandemic, the majority of European Google Pay transactions were contactless transactions, either in-store or for transit. Linked largely to the state of the national lockdowns, we saw a drastic reduction in these in-person transactions. But this was offset by a huge up-tick in online transactions. At the start, all manner of merchants were scrambling to enable ecommerce payments for the first time, and we saw a surge in growth across several categories, like food delivery services, neighbourhood stores, and takeaways[5]."

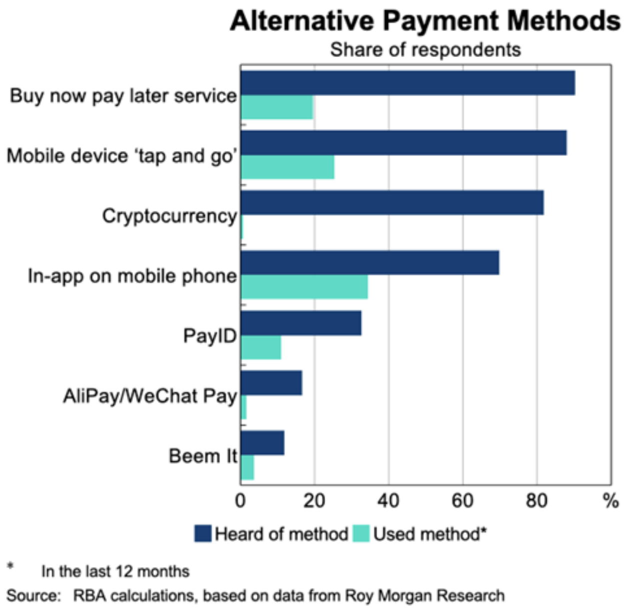
In-app payments

According to www.businessofapps.com, global in-app sales value increased by 25% to US$111 billion during 2020, with 71% of this activity from online gaming. But non-gaming revenue grew by 29%, and, within this, subscription in-app revenue grew by 40%. This non-gaming revenue also includes merchants leveraging the opportunity to generate payments within their own mobile app. Most of these payments will be funded by the debit and credit cards embedded into the apps.

Invisible payment success stories, such as Uber, Grab, Deliveroo and Lime, are being supplemented by growing invisible payment activity at Starbucks (25% of their US sales coming from in-app payments, up from 17% pre COVID-19)[6], McDonalds and other fast food outlets, as well as Hey You. Slightly less invisible (i.e. you need to indicate "Yes" in order to a charge to your stored payment credential) in-app/in-website payments for physical and ecommerce merchants such as BP, Ampol, car companies such Mercedes Benz and Jaguar, Amazon and The Iconic are also adding to the "seamless" payment trend. This is before the Internet of Things (IoT) really takes off and your refrigerator starts paying for your groceries.

In fact, in Australia in-app payments from mobile phones are more used than the "tap'n'go" contactless Pays, as shown in the graph to the right.

Even prior to COVID-19 the use of shopping apps in the USA was significant – in 2019 it was found that nearly 80% of people surveyed were using shopping apps whilst at home, and most were using them 2-5 times per week. Mass merchant and pure online retailer apps are the most popular shopping apps. Food & beverage, apparel and convenience store apps are next in usage frequency.[7]



[4] https://www.commbank.com.au/articles/newsroom/2021/05/digital-wallets-contactless-soar.html
[5] Visa Navigate, May 2021, Interview with Google Pay
[6] Starbucks Q1 Fiscal 2021 Results
[7] https://www.prnewswire.com/news-releases/nearly-80-of-people-use-shopping-apps-while-at-home-and-most-use-them-frequently--at-least-2-5-times-a-week-300829668.html

Fraud

Fraud is big business. Fraudsters are also going digital at speed, making it hard for businesses and consumers to keep up and protect themselves. However, whilst one might expect that there would have been a significant escalation over the past 12 months, this has not been the case. Card present fraud in Australia has continued to fall and Card Not Present fraud only increased marginally in 2020, returning to 2018 levels - most likely due to the unusual COVID-19 circumstances that we found ourselves in and “first time users” being pushed into using ecommerce and digital channels. Indeed, scams are now causing significantly greater financial losses for Australians (and globally) than payments fraud.

In fact, in-app and stored credential digital payments should be inherently safer, with card details protected through initiatives such as tokenisation, biometric authentication and PCI-DSS, as well as the adoption of sophisticated machine learning being incorporated into many online fraud detection platforms. Plus the physical plastic has disappeared, and can therefore no longer be stolen.

Conclusion

The growth of “plastic not present” payments will continue apace, with use of the Pays and other digital wallets, in-app payments, and stored payment credentials all reducing the need to handle a physical payment card.

However, if you are planning on travelling outside of Australia (or perhaps we should say when you are allowed to travel outside of Australia) do not expect to be able to dispense with your plastic card just yet, as you may be “up the creek without a paddle” if you don’t have a physical card at hand when you are trying to check out of that boutique hotel in the back streets of Hanoi!

The Initiatives Group

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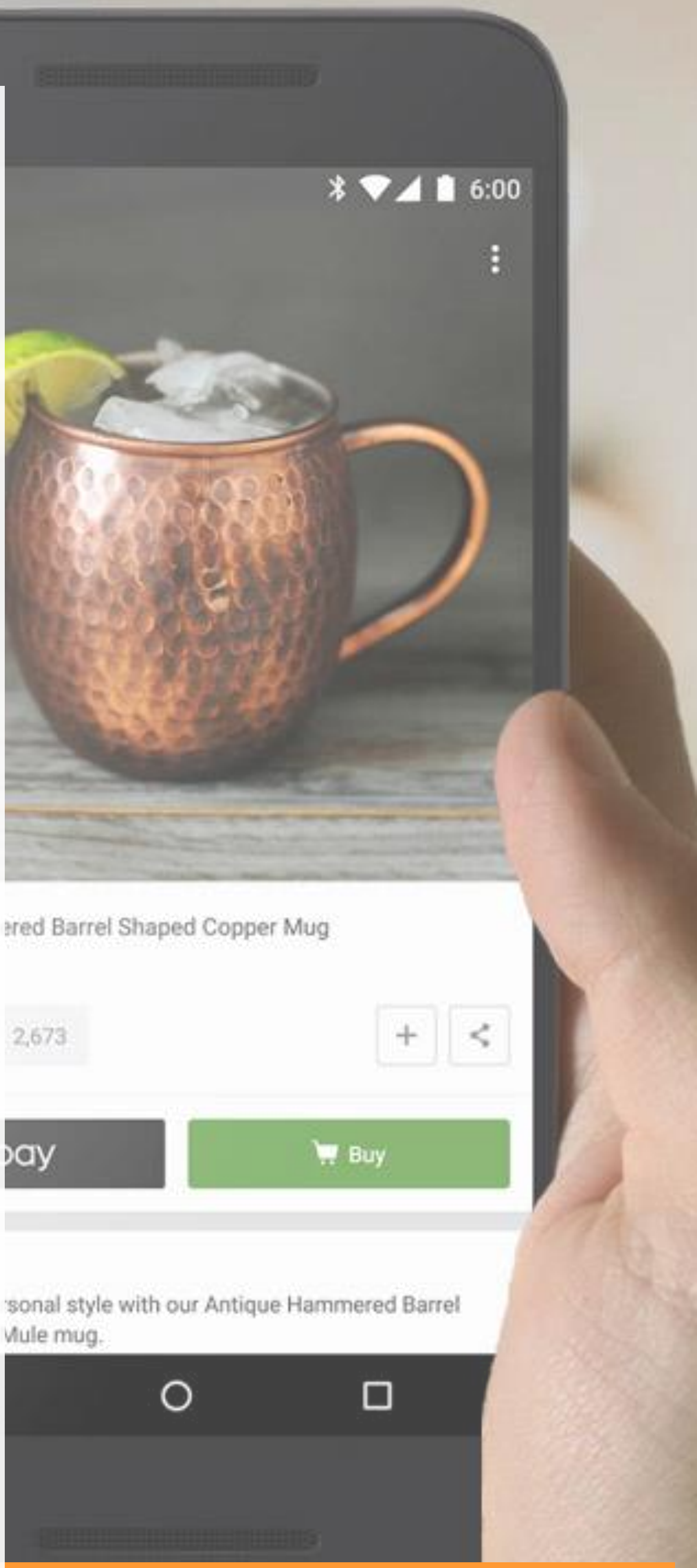
The consulting team at The Initiatives Group has advised participants in the payments market since the 1990’s - including issuers, acquirers, third-party processors, technology providers and associations. We help solve many of the financial industry’s most significant issues, such as payments strategies, customer profitability and retention, credit and fraud risk, leveraging new technologies, and assessing new market and product opportunities.



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