

Payments innovation

Success is dependent on
more than a good idea



Across the globe the payments industry is in a flux of 'innovation overdrive'. New applications, technologies and capabilities are seemingly being announced on a daily basis, and all are founded on great thinking.

Yet, if recent history is to be believed, most of these will fail to gain much traction. Why? It isn't because they aren't great ideas or they don't work – the reason is often more glaring than that. It is more because, somewhere along the line, when developing these new innovations we have forgotten to consider what customers want and what it takes for them to change their habits and behaviour.

What is it that customers want?

From a customer's perspective, payments are quite simple. You either make a payment to somebody or let somebody take a payment from you. And there are certain rules, guarantees and controls in place that give you confidence, peace of mind and security.

In research, whenever we ask customers about their payment needs, the same set of themes surface – of course they do. And this holds true, whether you ask the question of a consumer, an SME or a corporate body. Yes, they will be positioned slightly differently by the research agency so they appear as different insights – but really?

This isn't new thinking or rocket science insight, rather its plain common sense and logic. What it does though is highlight just how straightforward customer payment needs are and the fact customers perceive payments as a utility service, not a value adding service. They want payments to work without fail, be easy to use and accessible, 24x7.

More so, it is hard to argue that existing solutions do not already satisfy these needs, very successfully. Rarely will you find a customer who is unable to pay for something, or not able to easily send money to somebody ...and rarely do things go wrong. So there is no latent 'customer' demand for a payments revolution, yet innovation thinking continues abound.

Why – almost certainly it is because there are pockets of untapped potential and all new entrants know that, with certain exceptions, the payments industry hasn't yet leveraged the value of the data it holds and collects and new players see this as a whole new gold mine.

So what's the key to success?

A common misconception is that a new payment innovation will increase the number of payments made. Not true. If adopted, a new innovation will change how a customer pays for something and therefore the overall payments mix, but it will not determine whether the customer actually pays! That's an entirely different matter and probably something to do with the law.

The challenge therefore, and key to success, is to ensure the customer chooses the innovation as their payment preference – above what it is they use today. And for this to happen, the innovation must perform on 3 fronts:

- 1) Against all the core hygiene factors above, not just one of them – if it doesn't offer a superior user experience then why would customers adopt 'en masse'?
- 2) Acceptance ubiquity: customers need to be able to use it when they want and where they want, and at no extra cost – again, if they can't then why would they switch behaviour?
- 3) Awareness and trust: the market must be aware, ready and excited for the innovation as well as trust the provider – they must see the innovation as a positive improvement

There are five 'customer need' categories: security, control, security, flexibility, visibility

'Payments UK' has done some great work recently on the future UK Payments environment ([▶ report hyperlink](#)) (although we must declare a slight bias, as a member of our team had a hand in its completion). From their research and industry scan, they concluded there are five 'customer need' categories: security, control, security, flexibility, visibility and immediacy. These fell out of the key messages they observed customers in research (whether Personal, SME or Corporate) were saying:

- A baseline requirement to feel secure when making a payment
- When a payment is made, customers want reassurance that its going to the right person – especially true for larger, high value payments
- Customers want to know how much they have in their account in real time, both before and after making a payment
- They want clear and precise details of payments that have been or are soon to be made
- Where charges are involved, customers want low and transparent pricing – who wouldn't?



To achieve this, any business launching a new innovation must focus significant effort, energy and design thinking onto creating a population that:

- See and understand the benefits (usually a combination of experience, security and cost)
- Perceive it as a better solution than today
- Know how to use the service and are ready equipped to do so
- (Critically) are able to use it, where they want

Case study: contactless

Lets take contactless as a case in point. The user experience benefits were clear from the get go and the first cards were issued almost 9 years ago. However, it is only today that we can say with any degree of confidence that customer behaviour is changing and adoption is taking off. Why the delay? Two reasons: ubiquity and awareness.

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The first challenge was in getting cards out there. What was the business case for Issuers to increase costs even further if there was no evidence of customer or merchant demand? The second was encouraging merchants to accept contactless (made even harder by the reality that cards were not yet enabled). It has taken some bold moves by leading issuers (e.g. Barclays and HSBC) as well as some major retailers and fast food chains (Tesco, M&S, McDonalds, Starbucks etc) together with Transport for London to really open the market up.

Now some 9 years after initial launch, there is 'critical mass' and ubiquity and awareness are established. As a result we see rapid growth and adoption across the UK.

How is this relevant for today and the future?

The next big innovation area is digital payments and wallets, and there are a host of providers with their own value proposition, each promising to make the experience of online shopping easier, safer and more convenient. But which to choose, which is the best?

Indeed, so far it has been difficult to pinpoint any as being the shining light and hopefully the arguments laid out about help explain why. Trust plays a huge role in the 'on-line payments space' as you are effectively giving someone in cyber-space your personal details. And trust buys permission.

Looking to the future, the impact of 'Apple Pay and Tokenisation' could be significant. As a brand Apple already invoke a sense of trust, security and confidentiality and their recent stand against the FBI over phone and password security has no doubt benefited their reputation here even further. Combine this with the Apple Pay solution (a digital wallet with mobile payment capability that works both 'in person' and 'in-app') and its highly engaged, tech savvy and loyal user base, then you have a potential user revolution waiting to happen.

Even if 'in person' usage does not rise substantially because of its direct clash with contactless, there remains the huge untapped potential of 'in-app' payments. Given Apple's brand is synonymous with mobile apps, this may be the game changer. But if Apple already has everything is in place, why hasn't it happened?

Because success depends upon the 3 criteria mentioned above and Apple still needs to ensure its wallet solution provides all the assurances, convenience and security of existing solutions and also ensure acceptance ubiquity for its 'in-app' proposition plus establish mass market awareness. Surely however, this is just a matter of time and it certainly won't take the 9 years it took contactless.

To conclude, it is fair to say that no matter how good the idea or innovation, only when it is accepted and available "any time, any place, anywhere" and the security, convenience and cost tests are complete, can anybody expect mass adoption and growth.

And that takes significant investment, effort, focus and time to do this arguably, it's harder to do this than develop the innovation in the first place. The question is, who will do it and when? The clear front-runner in the UK is Apple ...and then what?

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