

# DIGITAL PAYMENT TRENDS IN BANKING

Consumer Demands Drive Payment Methods



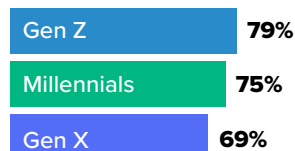


## INTRODUCTION

It wasn't so long ago that the banking industry was obsessed with capturing the attention (and business) of Millennials. But in 2020, a younger demographic looks to supplant Millennials as the most desired consumers.

According to Accenture, Generation Z (people born from 1997-2012) now represents 40 percent of American consumers<sup>1</sup>. It also happens to be the most comfortable generation with technology.

Generation Z is driving payments industry trends, and digital trends in banking, unlike any previous generation—especially in the mobile payments arena. According to Billtrust's "Generation Z and Digital Payments" study, 79 percent of Gen Z reported using P2P payment platforms (e.g., Venmo, Zelle) at least once a month<sup>2</sup>. That's more than Millennials (75 percent) and Gen X (69 percent).



Consumers using P2P payments platforms (e.g., Venmo, Zelle) at least once a month

Digital wallets are also popular with Gen Z, with 46 percent reporting they use services like Apple Pay and Google Pay one to five times a month, and 13 percent using digital wallets six to 10 times a month.

When it comes to payments, the future is now. Consumers are continuing to drive digital payments forward, leaving behind cash and cards for the convenience of a digital-first payments mentality.

In this white paper, we'll break down the latest trends in digital payments and e-commerce, and the role each plays in the current payments landscape for financial institutions.

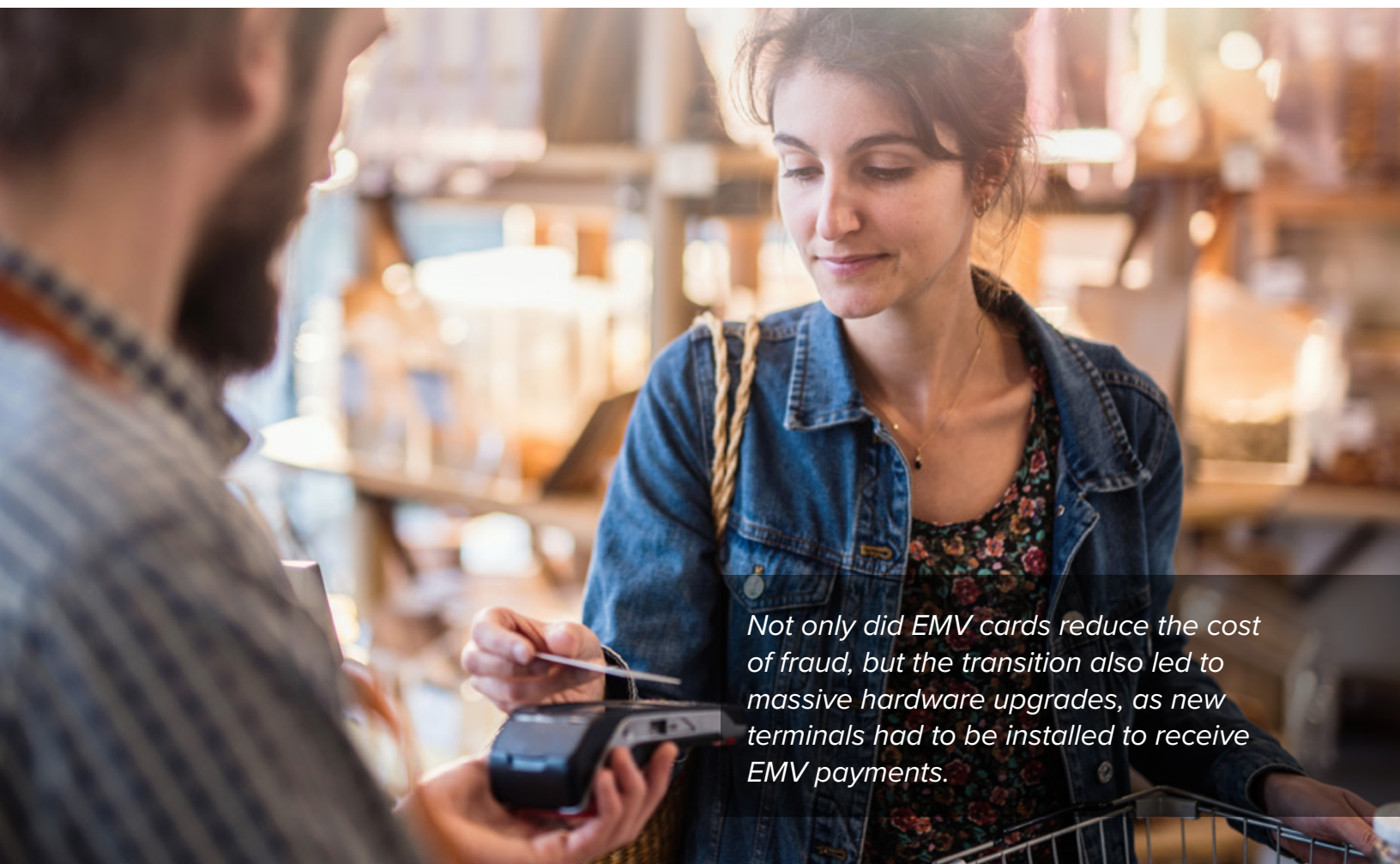
## CONTACTLESS EMV PICKS UP STEAM

In the mid-90s, as Internet usage grew exponentially and e-commerce began to take shape, credit and debit card processing remained limited to the magnetic stripe on the back of the card. This led to a surge in “card-present” fraud, because the information contained in the magnetic stripe is static, and therefore, easy for criminals to steal and/or replicate.

In an effort to combat increasing fraud, Europay, Mastercard and Visa came together in 1994 to create a more secure processing standard called EMV<sup>3</sup>, which added an additional layer of security via a microchip on each card that stores payment card data and creates a unique cryptogram for each transaction.

The transition to EMV cards was monumental for several reasons. EMV cards feature a stellar layer of data protection, known as tokenization, that makes EMV payments faster and more secure to all parties involved in a transaction. Tokenization works by replacing the static credential—the number on the front of a debit or credit card—with a token credential that is unknown, even to the cardholder<sup>4</sup>.

Not only did EMV cards reduce the cost of fraud, but the transition also led to massive hardware upgrades, as new terminals had to be installed to receive EMV payments.



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The terminal upgrades also served as a catalyst for a more convenient method of payment, as most EMV terminals came with Near Field Communication (NFC) already equipped<sup>5</sup>. This paved the way for merchants to accept contactless EMV (tap-to-pay) payments, including the wallets mentioned above. Even today, as merchants replace their payment hardware, 95 percent of them are choosing terminals with contactless capability, according to Visa<sup>6</sup>.

Even though contactless EMV adoption originally took hold faster in places like Australia and Asia, adoption rates in the U.S. began to skyrocket in 2019 for several reasons. First, contactless EMV payments are faster and more convenient than contact transactions<sup>7</sup>. Faster payments lead to an increase in transactions, which leads to more activity on payment rails, which means payment processors make more money. In fact, Visa's goal was to get 100 million contactless cards into the market by the end of 2019, and more than 300 million by the end of 2020<sup>8</sup>.

Contactless payments have also become more popular due to the rise of digital wallets and wearable technology—both of which are used heavily by younger consumers<sup>9</sup>. In a recent survey from FreedomPay Inc. and Ingenico Group, 51 percent of Baby Boomers said they were satisfied with contactless payments. In comparison, 70 percent of Generation Z consumers, 75 percent of Millennials and 66 percent of Generation X consumers said they like contactless payments<sup>10</sup>.

### Bottom Line for Banks

As contactless EMV rises in popularity and prevalence, especially among younger consumers, it's in the best interest of financial institutions to ensure this capability is front-and-center in their repertoire of payments services.

It's important to note that tokenization isn't limited to card-present EMV transactions; contactless payments also benefit from the security of tokenization. We'll further explore the influence of tokens on payments later on in this paper.

## MERCHANTS BAND TOGETHER FOR “CLICK TO PAY”

Given the success of contactless EMV payments (and to increase competition with processors like PayPal who default to ACH payment rails), the major card processors began to pursue a simplified method for card payments made across web and mobile sites, mobile apps and connected devices. In October 2019, American Express, Discover, Mastercard and Visa announced the launch of a new online checkout process based on the EMV Secure Remote Commerce (SRC) industry standard<sup>11</sup>.

Commonly known as “click to pay,” the processors deemed it a faster, more secure online checkout, and are hoping to have 300 merchants live by the end of 2020, including their 75 largest e-commerce merchants.

“Our goal is to create a ‘virtual payment terminal,’ which offers the same level of familiarity and confidence across remote-commerce transactions as consumers enjoy today in the physical world,” said Karteek Patel, chair of EMVCo’s executive committee, in a press release<sup>12</sup>.

The benefits of click to pay are two-fold. For consumers, it allows them to make purchases without having to create or log into an account. According to the processors, the idea behind click to pay is to mirror the consistent checkout experience that exists in physical stores—with one terminal and one way to pay—no matter who the retailer is.

Consumers shopping on sites with click to pay integration will see a uniform click to pay button with card network logos, with the idea that in the future, clicking the button will fully replace the current guest checkout process.

For merchants, click to pay provides “a more efficient checkout solution that will help reduce shopping cart abandonment rates and a way to offer multiple card brands for digital checkout in one seamless integration<sup>13</sup>.” And as a bonus for banks, card art will be loaded into the solution, enabling banks to maintain branding on their cards.



### Bottom Line for Banks

Think of click to pay as a pseudo wallet: Your customers will load up all their cards, with your branding on them, and use this wallet to complete a fast, efficient and secure checkout process. At a time when consumers want the path of least resistance when making a purchase, click to pay is an intriguing premise.



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## THE CASE FOR PUSH PROVISIONING

An additional type of payment innovation that could help financial institutions keep up with the rapid pace of change is push provisioning. Push provisioning means a processor creates a card-based token and allows account holders to push the token into participating merchants, digital wallets or other payment platforms.

Push provisioning is also a valuable proposition for consumers, as it allows cardholders to add cards into digital wallets directly from their mobile banking apps.

While the idea of push provisioning sounds promising, there aren't many financial institutions offering this capability ... yet. Research firm Celent conducted a survey of 160 North American financial institutions to assess how ready they are to meet specific payment imperatives, including how to remain relevant in the world of consumer payments<sup>14</sup>.

Zil Bareisis, Celent's head of retail banking and author of *Payments Imperatives: How Ready Are You?*, said the results of the survey indicate that financial institutions still have quite a bit of work to do to deliver against payments imperatives.

In an episode of "Fintech Focus," CSI's educational podcast, Bareisis said considering that push provisioning is a relatively new capability, he didn't expect to see many institutions already offering it.

"But we were surprised by how many institutions had no plans to offer it even in the future ... about half of large and mid-size organizations and two-thirds of smaller financial institutions<sup>15</sup>," Bareisis said.

In addition, the click to pay initiative serves as a beneficial use case for push provisioning, because the card processors will rely on its functionality in order to build their desired consistent checkout experience.

### Bottom Line for Banks

Push provisioning is a valuable service for both financial institutions and the consumers they serve. Payments that are provisioned are tokenized, so account holders can shop online or in-store knowing payments are secure<sup>16</sup>. It's worth having a conversation about push provisioning with your card processor.

## DIGITAL WALLET USAGE IS EVOLVING

Now that we've taken a look at contactless EMV, click to pay and push provisioning, let's check in on digital wallets. According to a recent report from eMarketer, in 2020, more than one billion people worldwide will use a mobile payment app to pay in-store at least once every six months<sup>17</sup>.

And according to Statista<sup>18</sup>, in 2019, 51 percent of U.S. mobile payment users stated they have used Apple Pay in the past 12 months, and 29 percent of Americans said they would like to pay with their smartphones all the time.

Research shows mobile wallet usage in this country pales in comparison to Asia and Europe, but that doesn't mean financial institutions should sleep on Apple Pay, Google Pay and the many other digital wallets available to consumers.

Additionally, there's a perception that mobile wallets are used primarily in a face-to-face fashion. People typically associate using Apple Pay with going to the store or a restaurant, pulling out their

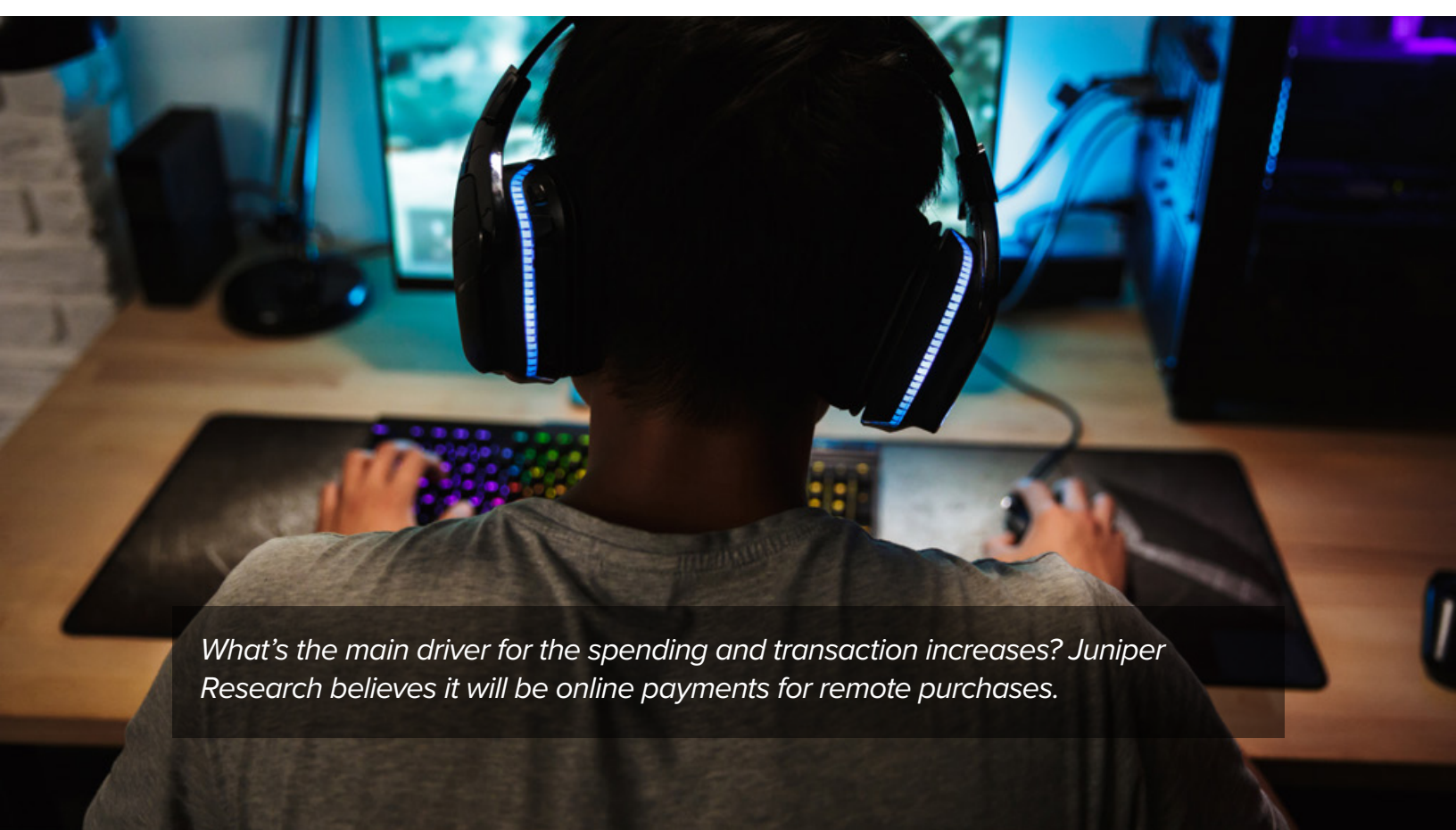
smartphone and tapping it to a terminal. This is certainly a prominent use case for digital wallets, but it doesn't tell the entire story.

According to Juniper Research, annual spending per digital wallet in the U.S. will increase to about \$6,400 by 2024 from current levels of \$3,350 per wallet<sup>19</sup>. What's the main driver for the spending and transaction increases? Juniper Research believes it will be online payments for remote purchases.

To that point, a predominant amount of digital wallet activity looks similar to the click to pay experience. For example, Apple users are using Apple Pay on multiple devices, either via app integration or through the Safari browser, and checking out with the Apple Pay button, or their Apple login.

### Bottom Line for Banks

Although digital wallets have been around for years, their usage continues to increase as they become more ubiquitous and multi-purpose.



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## DIGITAL TRULY IS THE FUTURE OF PAYMENTS

So, as you view this rapidly changing digital payments landscape, and a consumer base that continues to get younger and more technically savvy, do you see what lies in front of you as an annoying challenge or an exciting growth opportunity? As the forecasts show, payment innovation is not slowing down anytime soon. The demand is there for fast, secure and simple digital payments—now banks must rise to meet it.



## ABOUT CSI

Computer Services, Inc. (CSI) delivers innovative financial technology and regulatory compliance solutions to financial institutions and corporate customers across the nation. Through a combination of expert service, cutting-edge technology and a customer-first mentality, CSI excels at driving businesses forward in a rapidly changing industry. CSI's expertise and commitment to authentic partnerships has resulted in the company's inclusion in such top industry-wide rankings as the FinTech 100, *American Banker's* Best Fintechs to Work For and *MSPmentor* Top 501 Global Managed Service Providers List. CSI's stock is traded on OTCQX under the symbol CSVI. For more information about CSI, visit [www.csiweb.com](http://www.csiweb.com).

## RESOURCES

<sup>1</sup>[Accenture Article: Powering Payments Innovation](#)

<sup>2</sup>[Billtrust Study: Gen z and Digital Payments](#)

<sup>3</sup>[Fin Article: How EMV Hopes to Chip Away at Fraud](#)

<sup>4</sup>[CSI Blog: EMV, Tokenization and the Future of Payments](#)

<sup>5</sup>[Merchant Maverick Article: Why Merchants Still Aren't Accepting EMV](#)

<sup>6</sup>[Visa Contactless Card PDF](#)

<sup>7</sup>[Smart Card Alliance White Paper: Contactless EMV Payments](#)

<sup>8</sup>[Payments.com Article: US Contactless Payments Primed For A Big 2020](#)

<sup>9</sup>[AlliedWallet Article: Why Digital Wallets are Gaining Popularity](#)

<sup>10</sup>[Digital Transactions Article: Consumers Are Satisfied Making Contactless Payments, But Security Concerns Linger](#)

<sup>11</sup>[Mastercard Press Release](#)

<sup>12</sup>[CU Insight Press Release](#)

<sup>13</sup>[Mastercard Press Release](#)

<sup>14</sup>[Celent Research: Payments Imperatives](#)

<sup>15</sup>[CSI Podcast: How Payments Changed in 2019](#)

<sup>16</sup>[Mastercard Overview: Push Provisioning](#)

<sup>17</sup>[eMarketer Report: Global Mobile Payment Users 2019](#)

<sup>18</sup>[Statista Article: Mobile Payments in the United States](#)

<sup>19</sup>[Mobile Payments Today: Juniper Research Report Press Release](#)