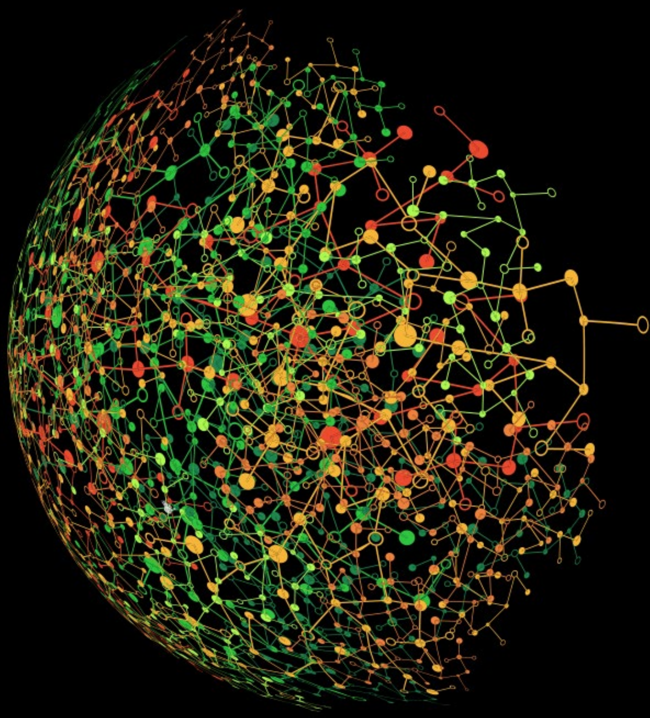
Deloitte.



Maintaining resilience in the payments ecosystem during the response to and recovery from COVID-19

April 2020

Contacts:

Rob Galaski
Vice Chair, Global Managing Partner, Banking & Capital Markets
Phone: +1 (416) 601-4594

Todd Roberts
Partner, Canadian Payments Leader
Phone: +1 (416) 333-1617

Joel So
Partner, Consulting
Phone: +1 (416) 354-1578

Soumak Chatterjee
Partner, Consulting
Phone: +1 (416) 601-4495

Martin Ho
Director, Consulting
Phone: +1 (416) 919-1592

Deloitte.

Overview

As the number of people and businesses around the world affected by COVID-19 continues to surge, health and well-being remains our central focus. Fortunately, during this crisis we can rely on the continued effective performance of our financial services ecosystem. Access to secure and resilient electronic payments infrastructure is critical during these uncertain times. The payments ecosystem continues to step up to the challenge.

While it will remain resilient throughout this crisis, the strengths and limitations of any system become apparent under stress. Deloitte has identified a number of areas where we see opportunities to strengthen payments now and in the future. We are confident that the payments ecosystem can become even more robust through pragmatic actions performed in the short term and during the inevitable recovery from this crisis.

In this moment of crisis, national payments systems continue to perform well

Electronic payments remain resilient

The global and local experience demonstrates that electronic payments systems continue to work without any material disruption. Just as before the crisis, citizens and companies are able to make purchases at point of sale, online, and through supply-chain management systems.

Financial institutions and networks are secure

The system has proven to be extremely resilient as financial services players rapidly implement their own business continuity programs in response to COVID-19. Prudent investments in redundancy, security, and remote management capabilities are invaluable.

Assistance payments can flow

The time required to deliver payments has not impeded national or regional governments from implementing emergency social and economic assistance. The payments systems have been able to rapidly deliver these payments to personal and business accounts either the same day or next business day from the submission of the payment file into the payments systems and networks.

Digital lifecycle management of payments is invaluable

Financial institutions are benefitting from the extensive investments they have made to digitally serve their customers. In a period of crisis where face-to-face contact or live-operator contact is challenged, the ability for customers to receive payments information, make payments, and manage their cards (e.g., lost/stolen/temporary hold) is critical.

Payment volumes, methods, and channels are being impacted in varying ways during this crisis

Overall spending will decline

Retail spending is expected to contract dramatically in the second quarter of 2020 and could persist further if social distancing and isolation requirements continue. In January and February 2020, retail sales in China declined by 20 percent relative to last year. Exports and industrial production also declined by 16 percent and 14 percent, respectively, impacting global B2B payment volumes and trade figures. This is a predictor for what may happen in other regions. However, the pace at which consumers and businesses will return to normal spending levels is not possible to predict at this point.

Payment volume declines will be greater in specific segments

Households will cut back on discretionary spending, with travel, entertainment, dining, and luxury goods being the hardest-hit sectors, since most of those sectors require face-to-face interactions. Other sectors, such as grocery, are expected to experience significant increases in payment volumes as consumers not only stock up on foods and purchase more than they normally would for a given period, they also shift their previous spend from restaurants to the grocery sector. In retail, we also expect spending to shift from small-business sectors to big-box stores as they are proving to have greater resources to invest in their supply chains, staffing, and safety measures.

The rebound of B2B payment volumes depends on how the globally interdependent supply chains adapt to specific local mitigation strategies and impacts. Domestic B2B payment volumes are expected to rebound first due to increased and/or diversified domestic production capabilities. Cross-border volumes will lag as demand will have to rebound before cross-border supply chains fully reactivate.

Point-of-sale activity will be heavily impacted as e-commerce demand increases

Payment volumes are quickly shifting towards e-commerce due to social distancing and closures of non-essential services and storefronts. Beneficiaries of this include e-commerce giants and digital divisions of large retail organizations. For example, Amazon is hiring 100,000 to support the increased demand in their fulfillment and operations centres. Online grocers, particularly those offering both delivery and click-and-collect, will also benefit as social distancing measures and perceptions around relative safety continue to be top of mind. We expect that some customers who would not otherwise have altered their shopping habits will remain online shoppers even after the pandemic ends.

The way that people pay will evolve during the crisis

Contactless payments are a key part of social distancing. When society needs social distancing to prevent the spread of infection and to protect front-line employees, the ability to pay by contactless means (e.g., tapping a card, paying through a digital wallet) becomes an important way to limit physical contact. It has become commonplace for retailers to actively encourage contactless payments and discourage cash.

As consumers worry about the potential virus transmission stemming from the use of PIN pads, there will likely be a reduction in the use of chip/PIN pads at point-of-sale and a corresponding reduction in the use of ABMs. In China, the government has ordered the disinfection of cash and, in some cases, destroyed bank notes to reduce the spread of the virus. China’s strong mobile payments and QR-code adoption with WeChat and Alipay have played key roles in the reduction of physical contact during point-of-sale transactions.

The adoption of in-app payments is likely to increase as individuals spend more time on mobile applications during the crisis. Simplified payment checkout methods will also increase in relevance beyond the crisis. As social distancing requirements remain, the digitization of peer-to-peer payments (e.g., Venmo, Interac e-Transfer) will accelerate further with migration from cheque and cash to digital payments.

The need for rapid disbursements during the crisis

Governments around the world are supporting impacted individuals and businesses with emergency funding. Historically, cheques and direct deposits have been the leading forms of disbursements in many jurisdictions. However, the opportunity to use real-time push payments has never been more relevant as recipients can benefit from the speed (typically less than 30 minutes), immediate access to funds, and easier payment initiation (e.g., email address as opposed to account number). In Canada, the government utilized Interac e-transfers to send emergency disbursements in real-time during the 2019 Alberta wildfires. Prepaid cards also remain a viable option for certain customer segments, such as the unbanked or those who do not use online banking.

The COVID-19 crisis is also exposing certain gaps in the ecosystem of payments

Cash is being shunned as tender during the crisis

Whether there is sufficient evidence to suggest that cash is a vector for the transmission of disease is largely irrelevant. The merchant community, particularly the leading brands in the quick-service food industry, is actively discouraging or prohibiting the use of cash as tender for purchase. Merchants have been driving customers to card-based payments (e.g., contactless, digital wallets) as well as to their own loyalty apps that embed a card-based payment, or use a stored-value system that is reloaded through card-based payments. In countries that have a well-established digital payments ecosystem, such as India, the central bank is strongly advocating for end-users to pay digitally throughout the pandemic. Alternative forms of payment, such as cryptocurrencies, have not emerged as viable alternatives.

Fully digitized payments are not yet the norm

While the readiness of individual financial institutions differs significantly, it is fair to say that not all payment lifecycle events that can be digitized actually have been digitized. When branch and call centre support is challenged, the requirement to talk to a person to report a potentially fraudulent transaction or to cancel a lost or stolen credit card becomes a major burden on the customer and the institution. This crisis demonstrates the need to accelerate more complete digitization of common servicing needs that form a part of the payment lifecycle. While the outsourcing/offshoring of manual back-office processes has enabled a reduction in payments operations costs, the global nature of the crisis has highlighted that it is not an effective substitute for digitization and automation.

Contactless payment capabilities are still maturing and at times remain inflexible

While many Asian and European markets are quite advanced in contactless capabilities (retail tap, QR codes), other markets such as the United States remain in earlier stages of implementing contactless payments as the prevailing point-of-sale method. To further compound matters, there is often a complex ecosystem of changes between the network, issuer, acquirer, and merchant that needs to be navigated to raise contactless limits to a higher level in a time of crisis. Given the challenges inherent in managing business continuity during a crisis, this complexity becomes a practical constraint to pushing through urgently needed changes.

Beneficiary account information is a bigger challenge than the speed of payment

As governments look to move massive sums of economic assistance to beneficiaries, the constraint is typically the lack of account information for the beneficiary population. It is relatively straightforward to provide account-to-account payments for individuals or small businesses that are already receiving and/or making direct payments from/to the government. However, when these direct payment relationships are not already established it is exceedingly difficult for governments to rapidly disburse funds. Call centres are not a viable option as call volumes have peaked; digital enrollment options require two-factor authentication (often through a mailed PIN); and the potential for fraud increases as new enrollments are expedited.

Deloitte.

The ability to push new changes through this complex ecosystem is dramatically reduced

As financial institutions, networks, and merchants focus resources on business continuity, there are scarce resources available to implement any new change. Therefore, the practical reality becomes one in which only the most critical national payment choices can be considered (such as emergency disbursement programs), and the risk of failed implementation takes on new proportions. The unfortunate reality is that efforts to remediate actual or perceived failings of the payments ecosystem will need to be deferred until after the current period of risk.

In the short term, we have identified some practical measures to help weather this crisis

Leveraging available digital tools and partners to help non-digital natives

The focus should be not only on helping the digital natives who are already limited users of financial institutions' assisted servicing channels. The focus should also be on engaging with the population who, with assistance, can change their behaviour, and on the realities imposed by the crisis.

Proactive financial institutions are accelerating how they can use their digital channels to deliver simplified enrollment for designation of accounts to receive emergency assistance payments. We are also seeing effective use of highly simplified FAQs, YouTube videos, and online chat to provide non-digital natives with the remote support necessary to get what they need without being forced to go to branches or join long call-centre queues. Furthermore, the advice that they need may be beyond what a financial institution actually does versus what the consumer thinks they do. A timely example is having assisted tools available to help customers understand the range of options available from their bank and from government programs to help them manage their own personal or business cash flow during this crisis. Existing trust can also be leveraged to deploy needed surge capacity to fast track the execution of targeted efforts.

Pushing more authority to the front line to deal with routine payments "problems"

In normal circumstances, escalation processes to manage payments disputes (e.g., fees, interest charges, reported fraudulent transactions) make sense when capacity is not at a premium. However, during a crisis, authority should be transferred to the front line to free up capacity by reducing average handle time and having fewer handoffs. This may well be worth the trade-off in higher operational losses (e.g., lost revenue, higher fraud). Training front-line retail cashiers to use contactless payments will also drive greater contactless adoption.

Maximizing the flexibility that is already built into automated processes

During this period, the last thing that should be considered is a fundamental overhaul of automated processes. However, in many cases there is greater flexibility within systems that can be used to prudently address pain points. Examples include relaxing approval rules for online payments or over-limit spending for tenured customers versus only high-value customers; approving transactions with values higher than "standard" contactless limits; etc.

Utilizing in-app communications to drive adoption of digital serving

As customers become isolated from being able to receive mail (e.g., statements, bills, etc.) or talk to their regular advisor, in-app communication channels along with data analytics can be deployed to drive behaviours that customers were not motivated to undertake pre-crisis. For example, financial institutions could push out messages to notify clients of the statements that they still receive by mail and provide a simple "click here" button to move their statement access to digital. Similarly, where the customers' ability to receive utility and other bills also becomes challenged, proactive financial institutions could provide customers with estimates of what average prior bills have been and the dates that they are due. Providing customers with the ability to also “click here” to pay would be a powerful demonstration of proactive help.

We need to start planning for how we make the payments ecosystem more resilient in the recovery phase of this crisis and strengthen our readiness for future crises

Creating national fit-for-purpose registries to make payments to beneficiaries

In a new normal of disaster response, whether it be a global pandemic or a localized environmental emergency, it is evident that simplified and automated processes are required to rapidly funnel aid from governments and charities to valid beneficiaries: citizens and businesses. While this is difficult to build in a crisis, effective public- and private-sector collaboration can address this gap for the future. National digital identity systems are the right long-term solution. Yet a short-term priority should be a more focused effort to create central registries of citizens and companies that are linked to accounts.

Financial institutions have strong client authentication methods and access to financial account information. Governments have access to citizen information (such as social assistance and taxpayer numbers), but often suffer from the absence of practical digital client authentication methods (e.g., they cannot remember their government login, but can remember their bank login), and cannot match citizen level records with financial accounts. This problem can be readily solved with the right partnership and utilization of proven and secure digital technologies. Through the current crisis we are learning this is likely a capability that nations will need on a sustained basis.

Accelerating the full digitization of payments processes

While much progress has been made, every organization that Deloitte has surveyed still has key areas in which the self-serve options in digital channels remain inadequate (i.e., not present, or limited functionality). The crisis will have demonstrated where the critical gaps remain: the logs of call-centre calls and the social media complaints will readily pinpoint the gaps. Likewise, the inconsistencies in the level of digitization of payments for personal, small business, wealth management, and corporate clients will also become clear. The early responses to the crisis have resulted in digital forms (e.g., interest deferral applications) that are in turn managed by back office teams. Post crisis, consideration should be given to how these processes can be automated end to end: application, approval, communication, and administration of the change.

Making the necessary investments in closing these gaps should be strongly considered as a top priority. The major investments that financial institutions have made in core enabling technologies—such as CRM platforms, artificial intelligence, digital imaging, and robotic process automation—will provide a very strong platform to take the next step toward complete end-to-end digitization of payments.

Increasing the flexibility to respond in real time to changing requirements

The crisis has revealed many of the inherent inflexibilities in existing systems, policies and procedures. The short-term tactical responses that financial institutions have had to execute have been challenging to rapidly deploy and have been difficult to tailor in any meaningful way (e.g., across-the-board changes versus changes targeted at specific clients, use cases, or behaviours).

While the financial services community has been an early experimenter with artificial intelligence (AI), the at-scale application of AI in payments has been limited. The deployment of AI tools more broadly in payments systems could allow for more rapid and tailored decisions (e.g., to permit low-risk clients to transact beyond authorized limits). Likewise, the ability of card-based payments systems to rapidly adjust transaction approval algorithms (e.g., online payments, contactless limits, etc.) will require thoughtful adjustment to systems and procedures. Constraints such as limited intelligence in hardware (e.g., point-of-sale terminals, chips on cards) as well as systems processing logic (e.g., simple rules for all clients versus dynamic risk-based rules at the client level) will all require reevaluation if increased flexibility during times of crisis is to be realized.

Enabling direct digital provisioning of payments

As digital payment methods continue to grow, albeit often from a low base (as is much of the global experience in digital payment wallets), there remain compelling opportunities to be able to expedite a consumer's ability to activate digital payment options. Key examples include: pushing out a digital payment credential as a temporary solution for a lost or stolen credit card when physical reprovisioning is challenging; and enabling straight-through ("green path") provisioning of payment cards to mobile wallets that become a more attractive option in periods of social distancing (e.g., provisioning a debit card for a new user into Apple Pay to avoid having to insert a card into a physical terminal).

Moving forward

Once the pandemic ends, the Canadian payments industry will shift its focus back to the business-as-usual activities and the payments modernization journey. It will be important along that journey to incorporate lessons learned from this crisis, which will position the industry to better respond to future crises. Those who are able to focus on customers and steadily improve the digitization of end-to-end payments processes will be stronger and better prepared for the future.

Deloitte.

www.deloitte.ca

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

Deloitte provides audit and assurance, consulting, financial advisory, risk advisory, tax, and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and service to address clients' most complex business challenges. Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Our global Purpose is making an impact that matters. At Deloitte Canada, that translates into building a better future by accelerating and expanding access to knowledge. We believe we can achieve this Purpose by living our shared values to lead the way, serve with integrity, take care of each other, foster inclusion, and collaborate for measurable impact.

To learn more about how Deloitte's approximately 312,000 professionals, over 12,000 of whom are part of the Canadian firm, please connect with us on LinkedIn, Twitter, Instagram, or Facebook.

Copyright © 2020 Deloitte Development LLC. All rights reserved.