Top 10 Trends in Retail Banking & Payments, 2020: Transforming by Elevating the Customer Experience

Retail Banking & Payments

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TOP 10 TRENDS FOR 2020

As we get ready to enter the next decade, the dawn of 2020 finds the retail banking and payments ecosystem in the midst of unprecedented transformation. Understanding consumers' increasingly complex path to transact, including which channels they use to explore, buy, and engage, has become a challenging quest for many market participants. Banking and lending technology startups are challenging established financial services incumbents, traditional payment rails are being challenged by alternative payment schemes, and consumers increasingly demand that billers and merchants be able to accept any payment type in any market.

The neobanks' success we're seeing across the globe is already teaching us that commitment to customer experience is paramount and may be the biggest competitive advantage left. Consumers' expectations for a greater customer experience, easier access to personal banking and payment information, and data-driven personalized advice and engagement are forcing all financial services companies to take a step back to evaluate their current infrastructure, processes, and product offerings. Financial institutions, payment companies, and startups alike have embraced APIs and are connecting back-end systems to business intelligence, digital channels, customer relationship management (CRM), and third-party solutions. This transformation of the ecosystem will lead to a better customer experience as participants will be focused on making every interaction and transaction as simple and streamlined as possible.

To this end, Aite Group identifies 10 trends that will shape retail banking and payments around the globe in 2020 and beyond:

- Financial wellness is the center of many FI strategies.
- Consumers take control of their credit scores.
- The consumer bill payment experience takes on a new life.
- Universal acceptance—can it happen?
- Faster payments go mainstream—or wait, do they?
- Instant digital card issuance gains traction.
- Payments intelligence goes artificial.
- Cryptocurrency steps up to the point of sale (POS).
- Delivering personalized experiences comes to fruition.
- Consumer lenders turn their focus to portfolio management.

FINANCIAL WELLNESS IS THE CENTER OF MANY FI STRATEGIES

By Tiffani Montez

There is no shortage of metrics that demonstrate that there is a consumer financial literacy problem. While solutions such as personal financial management (PFM) have made strides in helping some consumers gain a little more control over their finances, many PFM solutions look at only one dimension of financial management. To capitalize on the need to help consumers find better ways to manage their finances, new entrants are touting that they are helping consumers meet financial goals in new and unique ways. While some alternative providers—fintech companies, challenger banks, employers that offer financial wellness as an employee benefit, nonprofit organizations, and others—have helped people save money, reduce debt, and find financial alternatives, few recognize that financial wellness extends beyond saving money, tracking expenses, reducing debt, and managing cash flow. And while many firms, including FIs, have been trying to create a newer, shinier, and more engaging version of PFM or financial wellness, some still fail to see how helping customers with financial wellness also means they need to help them prepare for life events or unexpected events—unexpected medical expenses, tax debt, building or rebuilding credit, debt collection, estate planning, inheritance, and charitable giving—and delivering encompassing solutions that tackle all elements of consumers' lives that directly or indirectly impact their financial health.

Many FIs are figuring out how to deliver next-generation PFM solutions, or "financial wellness," as some are calling it, and alternative players are jumping in to help solve some of the major components—tracking spending, saving, and reducing debt—in financial health. But in the future, players will create a holistic view of financial health, not only encompassing tracking spending, saving, or reducing debt but also bringing that together with new capabilities around managing healthcare expenses, eliminating debt, saving for emergencies, planning for the expected, and creating a platform to help households manage finances and learn about financial topics together (e.g., married couples, teen/child banking, elderly parents' finances).

In the past, PFM solutions focused on making consumers aware of their financial status. Over the last year, solutions have started to focus on providing consumers insight into where they spend money and how that affects their financial health. In the future, Aite Group expects PFM and financial wellness solutions to focus on providing consumers insight into their financial picture, and then using data, artificial intelligence (AI), mobile devices, and other internet of things (IoT) devices to deliver personalized, actionable advice to guide consumers through everyday decisions that affect their financial health. Conversational touch points (chatbots, voice-activated assistants, digital banking assistants) are expected to play a key role in delivering financial advice. Once firms have created awareness around consumer financial health, offering insight into how consumers' spending behaviors impact their financial health, and provided actionable advice on how their behavior affects their ability to meet their short- and long-term goals, they will focus on using this information to qualify how consumers' decisions impact their ability to meet their goals. Aite Group also expects that the focus on financial wellness to uncover new business models—new products or services or an aggregation of products that are outside an FI's core competency to generate referral fee income—that address unmet customer needs for the mass affluent, unbanked, and underbanked, and the many consumers who are struggling to establish credit under traditional lending models.

CONSUMERS TAKE CONTROL OF THEIR CREDIT SCORES

By Leslie Parrish

In recent months, consumers have gained the ability to use data from their transaction accounts to impact their credit scores. Consumers are going to take this opportunity and run with it, especially those who have bad credit or lack a credit score altogether. At least two solutions were introduced in 2019—Experian Boost and UltraFICO—enabled through the partnership with and technology of data access and insights provider Finicity.

Account transaction data can provide a robust look into a consumer's financial history. Bills paid electronically every month for rent, utilities, or telecommunications can provide insights on how a consumer manages his or her obligations. Lenders can also observe consumers' financial health by understanding the variation in their balances, the extent to which they may overdraw their accounts, and the amount and stability of their incomes.

In Spring 2019, Experian launched an ad campaign to invite consumers to link their bank account information so that payments of utility and telecommunication bills can positively impact their credit score. Experian partners with Finicity to provide consumers a way to link one or more accounts. Consumers select which of the identified utility or telecommunication bill payments to track as individual tradelines in their credit file. The result is typically an instant increase in the consumer's credit score, which takes these new tradelines into account. Aite Group estimates that more than a million consumers have already linked at least one account through the Experian Boost program. This "boosted" score is remarkable for two reasons. First, it instantly provides broad coverage of bill payment history, something many lenders have been clamoring for. Second, it has the potential to vastly expand the number of lenders that use alternative data, without the need for their FIs to bring new data in house, since participation in Experian Boost adds a tradeline in that consumer's traditional credit file and impacts a traditional score. Experian reports that about a quarter (24%) of users with poor credit move up to a higher tier, and that consumers on average see a 10-point bump in their FICO Score 8 credit score.

In addition, FICO is piloting its new UltraFICO score, which provides a way for lenders to evaluate an applicant based on the relative financial health of a consumer's transaction account. Currently, a consumer can sign up to have an UltraFICO score generated when prompted by a participating lender's invite. Once that consumer connects a checking, savings, or money market account, indicators such as account balance trends, the length of time the account has been open, and any signs of distress (such as overdrafts) are combined with traditional credit file data from Experian to generate an UltraFICO score. FICO believes this score may be especially helpful for consumers who lack a traditional FICO score, those with thin credit files, and those who are new to credit. The process of authenticating a bank account may also be used by lenders as an additional way to guard against first-party fraud during the loan application process.

Today, over half of U.S. adults either lack a credit score or have one below the prime threshold. Younger consumers and recent immigrants in particular face a chicken-and-egg problem where they cannot obtain credit because they do not have a score, and they cannot establish a score due to a lack of credit history. As more consumers become aware of these (and potentially additional) ways that they can harness their own data to raise their credit scores, participation will become a common way to establish creditworthiness.

THE CONSUMER BILL PAYMENT EXPERIENCE TAKES ON A NEW LIFE

By David Albertazzi

For many years, evolution in bill payment meant adding new channel support, particularly in the mobile space, and expanding the range of payment methods accepted. While these changes have been important, traditional methods such as ACH still dominate the bill pay space. Improving the customer experience now requires more than just tinkering with front-end services. Neither the FI-centric bill payment model nor the biller-direct model offers a holistic experience for consumers. Bill payments and billing data are still not integrated, making paying bills via either model a complicated task for consumers and prone to friction. Within the FI-centric model, setting a biller, seeing the bill details, understanding when the payment will actually be received by the biller, or having multiple payment options are current challenges. Friction within the biller-direct model includes remembering unique login credentials for each biller or opening up potential security issues as a result of entering bank account numbers or card details on multiple sites.

The market is due for new bill pay solutions to improve the customer experience and to help banks and billers capitalize on better digital consumer experiences and interactions. Some providers are already moving in this direction: ACI Worldwide's latest release of ACI Speedpay "enriches digital bill payment options and improves customer experience,"[1] Fiserv with CheckFree Next enables an "intelligent bill payment experience" with personalized suggestions and increased automation,[2] and Mastercard leverages its strategic partnerships and real-time messaging capabilities from Vocalink to launch the Bill Pay Exchange.[3]

In light of these shifts, Aite Group expects that in 2020 and beyond, the shift toward new technologies, such as real-time payments, APIs, and the implementation of the ISO 20022 standard, is building a framework against which banks and billers can create new payment experiences for their customers and improve their front- and back-office capabilities. The standards will provide transparency and efficiencies to the entire order-to-pay process and provide the ability to do the following:

- Automate certain tasks and reduce errors associated with biller setup

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1. "ACI Worldwide's Latest Release of ACI Speedpay Enriches Digital Bill Payment Options and Improves Customer Experience," ACI Worldwide press release, December 10, 2019, accessed December 11, 2019, https://www.aciworldwide.com/news-and-events/press-releases/2019/december/latest-release-of-aci-speedpay-enriches-digital-bill-payment-options-improves-customer-experience.

2. "Fiserv Introduces Intelligent Bill Payment," Fiserv press release, October 24, 2019, accessed December 10, 2019, https://newsroom.fiserv.com/news-releases/news-release-details/fiserv-introduces-intelligent-bill-payment.

3. "Mastercard Expands Bill Pay Exchange Partners," Mastercard press release, October 20, 2019, accessed December 10, 2019, https://newsroom.mastercard.com/press-releases/mastercard-expands-bill-pay-exchange-partners/.

- Provide a variety of payment options so that consumers can choose the payment methods that best fit their needs
- Provide additional insights and context to the payment experience via improved messaging, including customer notifications
- Offer real-time settlement, taking out the guesswork of when the bill will be received by the biller

Consumer bill payment providers that can come through with the most comprehensive bill payment experience to help bridge the gap between payment and data will differentiate themselves from the pack and become the preferred, go-to partners for either banks or billers.

UNIVERSAL ACCEPTANCE—CAN IT HAPPEN?

By Thad Peterson

Traditional payment processors are constrained by the need to focus on card-based payments to effectively compete in a highly concentrated market. Meanwhile, the number of noncard payment alternatives proliferates (local payment platform PPRO identifies over 300), and that's where the growth is.

THE SHORT-TERM, ENTROPIC FUTURE

Two conflicting macro trends in payments are creating massive disruption:

- **Consolidation and coalescence:** A significant coalescence is happening in payments, driven by the globalization of e-commerce. Organizations such as Rakuten, Etsy, Alibaba, and Amazon are increasingly attracting customers and generating sales across the globe. By 2020, 30% of all purchases will be cross-border, reaching US$1 trillion in value. The dominant traditional processors are quickly merging in an effort to provide their clients a global suite of payment offerings, and that's increasing concentration in an already concentrated category. In 2018, The top 10 global card processors processed 54.4% of the global card volume and 41.35% of transactions (Nilson Report).
- **The explosion of local and alternative payments:** Traditional payment types are being challenged by alternative payment schemes, and merchants increasingly demand the ability to accept any payment type from any consumer in any market, whether or not a card product is available. In fact, transaction volume growth in emerging markets is quickly outpacing that in developed markets, and it's likely that transaction volume from emerging markets will exceed that of developed markets by 2025—and most of that incremental volume will use noncard-based payment platforms.

We face a dichotomy; commerce is going global while payments are increasingly trending toward local or regional alternatives. At exactly the moment when the opportunity to expand a merchant's market is near its zenith, the complexity of making a sale has risen dramatically as consumers and businesses cross borders.

ORDER (OR LESS DISORDER) FROM CHAOS

Cross-border commerce is only going to grow, as is the volume of noncard payments, so there needs to be a path to a future in which a merchant can accept any kind of payment, from any customer, anywhere, at any time. Universal payment acceptance isn't a wildly optimistic dream—it's what needs to be in place if the global economy and payments providers are to prosper. The question is how to get there. Here's what needs to happen:

- **Break out of card-centric thinking:** It's not about cards, it's about value exchange in any form factor or tender type. Cards will be an essential component for the foreseeable future, but they may not be the dominant component for very much longer.
- **Tender-agnostic data networks will be the foundation for universal payment acceptance:** White-label networks, such as the Discover Global Network, that can support any payment type will be the rails that allow parties to quickly and safely exchange value. Branded networks cannot support an "any-to-any" payment ecosystem.
- **Transaction intermediaries will become global clearinghouses:** Payment hubs and cross-border processors will provide the interface between the merchant, the data network, and the payment provider.
- **Standards need to be in place:** The development of secure remote commerce and the World Wide Web Payment Initiative, as well as the work that the FIDO Alliance is doing, are creating a standard set of interfaces to securely enable any type of payment, card or noncard, and this is critical to universal payment acceptance.

Moving to a universal payment acceptance model doesn't require any new technology. Everything needed is available now. It's really a matter of having a different perspective on the existing tool set and building the relationships and interfaces necessary to connect the different components.

THE PAYMENTS SPACE IN FIVE YEARS

There's no magic bullet that will resolve all the issues inherent in the existing payment ecosystem, but the opportunity being created by global commerce and the proliferation of payment types will drive innovation and accelerate migration to a tender-agnostic worldwide payments network in the next few years. There is real opportunity for every organization in the payments space to broaden its reach and enhance the value that it delivers to its clients by driving toward the concept of universal payment acceptance. Of course, walls will have to come down, competition will need to migrate to coopetition (or even cooperation), and the foundational aspects of payments, security, safety, and speed remain table stakes. Finally, the space needs to generate revenue and profits for participants. But the proverbial train has left the station, and we know where it's going. Every organization needs to decide if it wants to begin the journey or get left behind.

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FASTER PAYMENTS GO MAINSTREAM—OR WAIT, DO THEY?

By Talie Baker and Francisco Alvarez

The focus and hype around faster payments technology continued throughout 2019 with Zelle reporting exponential growth in adoption, Visa and Mastercard making major partnership announcements for push-to-card payments, and The Clearing House successfully launching its Real Time Payments (RTP) network at major U.S. FIs. The U.S. has lagged much of the world in the implementation of faster payments, and although this technology has finally made its way to the marketplace, various factors may prevent faster payments technology from going mainstream in the U.S. immediately:

- **Providing ubiquity in faster payments:** With more than 13,000 FIs in the U.S. today, the key to driving mainstream adoption of faster payments is ubiquity. Ubiquity will be realized when all FIs are live on the various faster payments networks. Both Zelle and RTP can reach more than 50% of all direct deposit accounts (DDAs) in the U.S. with the limited number of FIs connected to the networks today. And Zelle's partnership with Mastercard and Visa allows it to reach approximately 97% of all DDAs. But there is still much work to do. While core providers such as FIS and Fiserv enable smaller institutions to connect to the networks, there are still rumblings across the industry that Zelle and RTP are cost prohibitive for smaller FIs and as such, some of these institutions do not have a clear faster payments strategy in place. In response, the Fed has announced plans to roll out a faster payments system to compete with RTP, but this system will not be available until 2024, and the Fed will not be focused on providing interoperability with RTP. In 2020, the industry will remain focused on making interoperable faster payments accessible to all U.S. FIs to drive ubiquity.

- **Rolling out relevant use cases:** While FIs are excited about the possibility of faster payments, many are struggling with making the business case for implementation because they are unclear on the use cases and how to best enhance down-stream customer experiences with faster payments technology. Faster payments are a weapon FIs can use to beat back competition from fintech companies, and speed of payment is just one of the benefits that can be realized. Other benefits include the certainty of delivery and real-time status of payments on both ends of the transaction in addition to enhanced messaging that can accompany payment transactions. In 2020, FIs will leverage Zelle and RTP to improve the customer experience for business-to-consumer disbursements (e.g., insurance claims, expense reimbursement, gig economy compensation), bill pay, and business-to-business (B2B) supplier payments with enhanced remittance information such as purchase order and invoice numbers. Consumers and businesses will be willing to pay for the convenience of faster payments across a wide range of use cases, and as such, FIs will begin driving growth to the bottom line.

- **Increasing consumer awareness:** It's no secret that when people are owed money, they want to be paid faster, but Aite Group's research shows that consumer understanding of faster payment methods is muddled. Until consumers understand faster payments in their personal lives, mainstream adoption of faster payments in business will continue to waver. In 2020, the industry will be focused on helping consumers reach that first moment of truth, where they experience faster payments and it leads to a paradigm shift in the way they transact. Zelle will play a key role in driving adoption of faster payments as consumers transact with Zelle and realize that receiving a digital payment with their mobile device is even more convenient than receiving cash.

INSTANT DIGITAL CARD ISSUANCE GAINS TRACTION

By David Shipper

With so many debit and credit card options available to cardholders, it is more important than ever for issuers to obtain and retain "top of wallet" status. One way FIs compete in the cardholder's wallet is by providing immediate access to the card with instant issuance. Historically, "instant issuance" has been defined as a physical debit or credit card issued in a branch. More recently, that definition expands with instant digital card issuance, which is a digital card record made immediately available via the cardholder's mobile banking app.

The most common use case for instant digital card issuance allows the cardholder to push and provision the new or replacement card to a mobile wallet for immediate use. Other use cases include providing the card number, CVV, and expiration date for card-not-present purchases; creating a virtual card for temporary use; or allowing the customer to conduct ATM transactions. Additionally, instant digital card issuance can allow FIs to reduce card production expenses by issuing a digital card without a physical card.

Improved customer experience, higher penetration, higher activation, and higher usage are all benefits of instant digital card issuance. With that said, instant digital card issuance may not be urgent for every FI, and factors such as cardholder demographics and the issuer's digital strategy need to be a part of a decision to launch. For example, a rural FI with an older population and little or no mobile wallet volume may not see the benefits of instant digital card issuance as much as would an issuer with a younger customer base. Ultimately, FIs need to consider a variety of factors before launching an instant digital card issuance feature.

For online-only issuers, instant digital card issuance may be critical to compete with brick-and-mortar issuers. Without it, online-only account holders must always wait for a card to arrive in the mail, which impacts the activation and usage of new and replacement cards. FIs with a branch network will find instant digital card issuance to be an innovative way to provide instant access to the card and can launch in conjunction with, or place of, an in-branch instant issuance program. From a customer experience standpoint, having the choice of in-branch or instant digital card issuance is ideal, because it provides immediate access even if the cardholder cannot visit a branch.

Even though we expect to see a significant increase in issuers who offer instant digital card issuance through 2020, merchant mobile wallet acceptance will remain the elephant in the room for the foreseeable future. Aite Group projects that just under 50% of all POS locations will be contactless-enabled by the end of 2020, meaning physical cards will remain more widely accepted for purchases compared to mobile wallets. Still, acceptance is only a piece of the puzzle. As an example, after Apple Pay launched, cardholders effectively pressured almost every issuer in the country to support mobile wallets, even though merchant acceptance was relatively low.

While still in its infancy, instant digital card issuance will see significant growth through 2020 as issuers realize the customer experience and "top of wallet" benefits it provides. Issuers who do not currently plan to launch this feature may want to proactively reach out to their processor or network to understand what options are available in case demand reaches an inflection point. Several FIs and fintech companies have already launched an instant digital card issuance feature, and the number will only increase as more processors, networks, and third-party providers make this service available to their cardholders.

PAYMENTS INTELLIGENCE GOES ARTIFICIAL

By Ron van Wezel

Among the vast range of AI applications in finance, payments looks like one of the best targets to generate return on AI investments. Payment processing is about manipulating large sets of data with highly predictable outcomes, an area in which AI beats human intelligence hands down. AI is set to replace traditional rules-based engines (which use fixed rules based on human experience with past events) by dynamic rules based on real-time analysis of actual data.

Applications of AI in digital commerce payments include the following:

- **Optimization of the customer experience:** AI can analyze customer behavior during checkout and identify events that may lead to shopping cart abandonment. This information can then be used to adapt the customer journey, either as a next release of the merchant's payment page or in real time based on individual customer behavior. AI can also be used to personalize checkout pages to closely suit the preferences of the customer and reduce friction in the checkout process as much as possible. Using natural language processing, AI can help to provide a richer, more personalized service for online consumers.
- **Fraud detection and prevention:** The field of fraud detection ranks among the prime use cases of AI and machine learning (ML) in payments. Large data sets are available to train machines to recognize fraudulent transactions with high accuracy. According to Visa, AI helped FIs prevent an estimated US$25 billion in annual fraud.[4]
- **Improvement of payment acceptance:** AI can be trained to find the most efficient payment routing and messaging paths to increase the probability of payment acceptance by issuers. Rules-based payment routing is replaced by smart routing, finding the most promising payment route (with the highest probability of acceptance) based on transaction type, location, time of day, and other criteria. AI can also dynamically tailor payment formats based on specific issuer system

4. "Visa Prevents Approximately $25 Billion in Fraud Using Artificial Intelligence," Business Wire, June 2019, accessed December 1, 2019, https://www.businesswire.com/news/home/20190617005366/en/.

preferences. Stripe, for example, uses ML to determine the most optimal values to provide in each field of a payment message.

- **Automation of back-office operations:** AI can support operations staff to automate time-consuming tasks. For instance, it can sort through documents and images to provide evidence to succesfully contest chargeback requests.
- **Reporting and analytics:** Merchants and their payment service providers own massive amounts of customer data, including payment data, but it has always been a challenge to use that data effectively to improve business performance. With AI, the tools are becoming available to sift through terabytes of data and create actionable marketing insights.

The conclusion is that AI and ML will bring countless opportunities to payments and commerce. But the implementation will not be without challenges. For instance, AI needs large sets of reliable data that are not always readily available due to organizational silos or lack of proper data management. Some applications of AI may also be restricted by regulation to avoid machine decisions that go against ethical standards.

Despite all the hype, machines are not (yet?) intelligent in the sense that they can think for themselves and create solutions independently. For payments intelligence to go artificial, human expert guidance will be required, and organizations need to invest in training their staff to understand AI and work effectively with this new technology.

CRYPTOCURRENCY STEPS UP TO THE POS

By Talie Baker

According to a June 2019 consumer study by Statista, approximately 5% of U.S. consumers use or own cryptocurrency today.[5] Cryptocurrency is still in its infancy, and there is no way to tell how it will impact global commerce as it matures, but there may soon be a tipping point at which people pay for everything with cryptocurrency, from groceries and gas to high-end luxury items. With this in mind, one thing is certain: As merchants move toward a unified commerce model and mobile payments continue to be a driving force, POS solutions for both e-commerce and brick-and-mortar merchants must include cryptocurrency.

Apart from the anonymity it affords, cryptocurrency is appealing to consumers for a variety of reasons, including the widespread adoption of digital assets and travel abroad. Additionally, in an economic downturn with high inflation, cryptocurrency becomes a natural solution. The cryptocurrency Dash, in Venezuela, is a great example. Amid the Venezuelan political and economic crisis, it was reported that thousands of Venezuelan merchants were accepting Dash as a form of payment. And when the U.S. put sanctions on Iran's banking system, hotels started asking customers to pay their deposits in cryptocurrency. Consumers also like cryptocurrency for its convenience. The Spanish coffee chain Nostrum allows customers to pay for coffee using

5. Katharina Buchholz, "How Common Is Crypto?," Statista, June 12, 2019, accessed December 2, 2019, https://www.statista.com/chart/18345/crypto-currency-adoption/.

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cryptocurrency, and in South Korea, where more than one-third of the population holds digital assets, Bithumb has partnered with a local payments service provider to enable more than 6,000 retail stores to accept cryptocurrency. In 2019, U.S.-based Facebook announced the launch of its own cryptocurrency, Libra, which is designed to make it easier and cheaper for people to transfer money online and to attract new users to the social network. Cryptocurrency has also created a new wave of multimillionaires, and when people have wealth, they like to spend it.

Taking into consideration its volatility, the cryptocurrency market cap is following an exponential growth curve, and by some estimates, there is approximately US$150 billion of bitcoin alone in circulation today. That, in addition to the consumer appeal of cryptocurrency, is impacting retailers' decisions to start accepting payments in cryptocurrency. Retailers are concerned about stability in their business, are looking for ways to reduce operational costs and increase cash flow, and have a desire to remain vigilant around regulatory and compliance requirements. Digital payment natives, including Venmo and Square Cash, already allow users to hold and send bitcoin to peers, and in 2020, a whole new generation of POS solutions for cryptocurrency will proliferate in the market. These providers will protect merchants from cryptocurrency's volatility by allowing merchants to confirm and settle transactions immediately. They will help merchants avoid expensive interchange fees by charging only a nominal amount for transactions. They will help merchants avoid the risk of chargebacks, because cryptocurrency works like other real-time payments in the sense that they are irrevocable. And finally, they will provide merchants with technology that enables them to assess and report sales tax to government entities as well as protect merchants from other regulatory uncertainties around cryptocurrency. POS solutions will become instrumental in giving cryptocurrencies a practical use. Not only will they enable holders of cryptocurrencies to spend their money, they will also help normalize the market and attract newcomers to it.

DELIVERING PERSONALIZED EXPERIENCES COMES TO FRUITION

By Tiffani Montez

Personalization is an over-used buzzword that is embedded in most banking strategies, but many FIs are still missing the market on personalization. At its simplest level, personalization is about designing a product or experience to meet an individual consumer's requirements or needs. It's moving the consumer experience from a mass-market experience that currently treats a consumer as only one in a million to *the* one in a million. And, through that experience, showing customers that you know them, you understand them, you are there to help them whenever they need it, and you are even be able to predict a need. Personalization is grounded in developing a deep understanding of each customer's needs and building a tailored experience across channels.

The best attempts at delivering personalized experiences are more about finding products or services that are relevant and then customizing the interaction. In most cases, the information or offer presented in the interaction doesn't always deliver information in context to what a customer is doing, deliver at a time or place that makes sense to the consumer, or give them a call to action or message that demonstrates it meets a consumer's wants or needs.

The industry is beginning to shift its focus to delivering truly personalized experiences to consumers—moving from designing mass-consumer experiences to personalized and even predictive consumer experiences. As data is now more accessible and analytics solutions have gotten more sophisticated, many FIs will use personalization to pave their path to competitive differentiation. Sixty-nine percent of marketing and risk executives indicate that the ability to deliver personalized messages or information to customers across digital and offline channels is a major or moderate competitive differentiator. Forty-six percent of respondents indicate they use alternative data for marketing and account review/portfolio management, and about four in 10 respondents indicate they plan to use alterative data for the same purposes in the next 12 to 24 months.[6]

The financial services industry is at an interesting inflection point. Many FIs seek out new data sources and analytical solutions, including integrating nontraditional and third-party data sources and using AI and ML to uncover additional insight into consumer needs, help assess consumer or organizational risk, or find new sources of revenue through new business models. In the near term, FIs' personalization efforts will be grounded in getting their data fit to get a holistic view of a customer's relationship throughout their organization and using that information to begin personalization efforts. In the future, personalization will be used to not only deliver information or help customers understand how to optimize finances but also give consumers more actionable advice. For example, telling customers what credit card is right for them based on their spending with an estimate on how many rewards they can earn by applying for that card. Another example would be performing a cost-of-vehicle ownership assessment for customers who may be experiencing a large number of car repairs and helping them understand the cost to continue repairing their car compared to that of purchasing a new vehicle.

CONSUMER LENDERS TURN THEIR FOCUS TO PORTFOLIO MANAGEMENT

By Leslie Parrish

For the past several years, consumer lenders have been squarely focused on updating their marketing efforts to target relevant offers to consumers at the right time and create a customer-centric loan decisioning process. Now, perhaps to prepare for a change in the credit cycle, lenders are (or will soon) shift resources to bring their monitoring and collections functions up to speed so that their entire loan life cycle is transformed.

Many of the institutions originating consumer loans today either did not exist or were just getting started during the Great Recession of 2008. These lenders, many of them fintech companies, built their lending platforms with modern technology stacks, using copious amounts of data, for the twin goals of digitizing the lending process while allowing for a more personalized customer journey. These lenders are now seeing how these approaches can serve them after loan proceeds are disbursed or a line of credit is opened.

Just as alternative credit scores and data can help lenders find and underwrite qualified borrowers in ways of which traditional sources may fall short, they can also help them determine

6. See Aite Group's report *Current State Assessment: Global Analytics Ecosystem*, October 2019.

whether a borrower shows warning signs of financial deterioration. For example, an ID Analytics study found that its Credit Optics Full Spectrum score often revealed changes in a borrower's financial condition significantly earlier than such changes were evident in a traditional score. At a more macro level, just as lenders use analytical "sandboxes" to gain insights on market share and how they stack up against their peers, these sandboxes can also be used to monitor for changes in credit quality and detect the extent to which those shifts are a result of a lender's own practices or broader market conditions. These are just two examples of how institutions will apply data and solutions once focused primarily on marketing and decisioning to the other end of the loan life cycle.

Some leading lenders are also borrowing a page from digital transformation playbooks to update their collections processes. In a few years' time, it will be common for FIs to create more customized journeys for delinquent borrowers based on a 360-view of their customer relationship and overall financial picture, the consumer's communication and other preferences, and characteristics of the past-due debt. ML and other techniques will be used to intelligently segment borrowers, and AI-infused chatbots will help lower-risk debtors navigate a self-service payment, freeing up collection agents to work more complex cases.

Lenders that invest now in updating their portfolio management and collections functions will not only be perceived as innovative early movers but also better weather the next change in the credit cycle, however and whenever it may occur.

CONCLUSION

In 2020, Aite Group anticipates the following trends in retail banking and payments:

- **Financial wellness is the center of many FI strategies:** Opportunities exist for FIs that will deliver financial wellness solutions designed around personalized, actionable advice guiding consumers through financial decisions using data and analytics via mobile devices and conversational touch points such as chatbots, voice-activated assistants, and digital banking assistants. The focus on financial wellness will help attract and retain customers as well as uncover new products or services that will generate additional fee income.
- **Consumers take control of their credit scores:** New types of credit scores—using account transaction and bill payment data—are emerging, creating additional opportunities for over half of U.S. adults to improve their creditworthiness.
- **The consumer bill payment experience takes on a new life:** Modern technology, real-time payments, and strong standards will create new bill payment experiences, providing transparency and efficiencies to help bridge the gap between payment and data.
- **Universal acceptance—can it happen?** The opportunity being created by global commerce and the proliferation of payment types will drive innovation and accelerate migration to a tender-agnostic worldwide payments network in the next few years.
- **Faster payments go mainstream—or wait, do they?** While the industry as a whole will remain focused on making faster payments ubiquitous and increasing consumer awareness, FIs will need to leverage Zelle and RTP to improve the customer experience for business-to-consumer disbursements, bill pay, and B2B supplier payments.
- **Instant digital card issuance gains traction:** As more processors, networks, and third-party providers make the service available to cardholders, the number of FIs offering instant digital card issuance will increase, and it will become the basis for new competition and improved customer experience.
- **Payments intelligence goes artificial:** AI and ML will replace traditional rules-based engines with dynamic rules and real-time data analysis. This will bring countless opportunities to payments and commerce, especially for the optimization of the customer experience, fraud detection and prevention, payment acceptance, automation of operations, and reporting.
- **Cryptocurrency steps up to the POS:** Supported by consumer appeal and digital payment companies, expect a whole new generation of POS solutions for cryptocurrency to proliferate in the market. By allowing merchants to confirm and settle transactions immediately, protecting from the current cryptocurrency's volatility, POS solutions will become instrumental in giving cryptocurrencies a practical use.

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- **Delivering personalized experiences comes to fruition:** FIs are looking to leverage the opportunities presented by including new data sources and using AI and ML in their decisioning to uncover additional insights into consumer needs, help assess risk, or find new sources of revenue through new business models. FIs' personalization efforts will be first grounded in getting their data fit to get a holistic view of a customer's relationship and second focused on helping customers understand how to optimize their finances and give them more actionable advice.
- **Consumer lenders turn their focus to portfolio management:** Lenders that invest now in transforming and monitoring their portfolio management and collections functions will not only be perceived as innovative early movers but will also better weather the next change in the credit cycle, however and whenever it may occur.

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