CGI Global Payments Research 2017
Key highlights and observations
Introduction

Every year as part of CGI’s global insights program, we conduct original research across the banking industry. A key focus area of the research is payments—from the perspective of customers, whether consumer or corporate, banks and practitioners. Key findings of the research conducted this year by CGI with the Financial Services Club, a leading European network for senior financial services executives, include:

- **Account-to-account transfers/payments** are likely to be the single largest payment instrument by 2022, overtaking cards
- **Checks and other paper instruments** will continue to disappear, and cash will decline
- **Retail and wholesale payment capabilities** will be accessed through APIs
- Payments will be initiated through **mobile technology**
- **Big technology companies** will become increasingly dominant in impacting retail payments, changing the customer journey instead of simply supporting payments
- **Social media** has not materially changed since 2013 and will likely remain insignificant in terms of impacting instant payments
- **Real-time capabilities bring new challenges**, including real-time fraud and increased cyber crime

The survey sought additional insight on the following questions:

- The future should be about value-added services, but can banks develop them? Will consumers pay more for them?
- Who should pay for the infrastructure required for real-time payments?
- How should the move towards real-time payments be funded overall?
- Where should liability sit when a third-party is involved in payment processing?

With real-time payment initiatives underway across the Eurozone, Canada and the U.S., CGI believes it is essential to understand the key challenges financial institutions face in the adoption of these new instruments, as well as share lessons from countries that have already made the transition. Financial Services Club members, including bankers, payment processors, corporates, consultancies, academics and government representatives, were surveyed in March and April of 2017. More than 360 respondents shared their input on instant payment trends and issues, and this report summarizes the key findings from the survey.

We hope you find the results of this research interesting and informative. At CGI, we constantly research the market to understand the challenges our clients face so that we can bring the right ideas, innovations and solutions to help them stay ahead of the competition.

To learn more about our financial services expertise and capabilities, visit [www.cgi.com](http://www.cgi.com).
Which payment instruments will dominate in 2022?

We asked which payment instruments will dominate in five years. While the results were mainly as expected, there were a few surprises. First, account-to-account transfers are expected to become the single largest instrument by 2022, overtaking the individual use of debit, credit and contactless cards. When cards are treated as one instrument, they might surpass account-to-account transfers, but only if the debit card continues to be the easiest means for accessing current accounts.

It is entirely feasible that debit cards could become the means for initiating account-to-account transfers rather than the current use of card clearing infrastructures. Once real-time payments become fully “live” across most regions, it is highly likely that both virtual and physical points-of-sale will include account-to-account transfers, just as many now offer PayPal. The challenge is to build a business case for developing a new low-cost and ubiquitous transaction type that can be made available online and across mobile channels.

Another interesting result is that digital currencies are still viewed as minimal in their impact on everyday transaction processing — less impactful than cash and only slightly more impactful than checks, which are continuing to rapidly decline as expected.

- Account-to-account transfer will become the key payment instrument.
- Treating debit, credit and contactless cards as one instrument will continue to dominate but will lag behind account-to-account payments.
- Wearable devices will overtake cash in the small value transaction space.

Source: CGI 2017 Payments Survey
In the future, networks for exchanging high-value or cross-border payments may not be dominated by SWIFT, as other channels or networks begin to erode their position for certain types of payments. The research raises the question: will banks use SWIFT for real-time messaging? It is clear from the significant increase expected in real-time account-to-account transfers, which is underpinned by ongoing investment in new real-time infrastructures around the world, that this instrument is expected to grow, replacing other transaction types. SWIFT is expected to stay relatively constant, while non-SWIFT wires are forecasted to decrease. This implies that many of the first-generation FinTechs will be overtaken by the next generation, built on shared ledgers and digital currencies.

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Increase</th>
<th>Stay the same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared ledgers (e.g., Ripple)</td>
<td>77%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Account-to-account transfer</td>
<td>72%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Digital currencies (e.g., Bitcoin)</td>
<td>59%</td>
<td>29%</td>
<td>6%</td>
</tr>
<tr>
<td>Card payments</td>
<td>43%</td>
<td>39%</td>
<td>14%</td>
</tr>
<tr>
<td>SWIFT wire transfers</td>
<td>25%</td>
<td>41%</td>
<td>28%</td>
</tr>
<tr>
<td>Non-SWIFT wire transfers (e.g., Earthport)</td>
<td>25%</td>
<td>28%</td>
<td>41%</td>
</tr>
<tr>
<td>Cash</td>
<td>12%</td>
<td>81%</td>
<td></td>
</tr>
</tbody>
</table>
Which payment instruments will decline the fastest over the next five years?

• As expected, checks will see a dramatic decline in use.
• Cash also is forecasted to decline almost as quickly, as small transactions move to wearables.

While we expected a majority of respondents (70%) to say that checks would decline significantly in the next five years, it was a surprise that cash will decline almost as quickly. In regions where real-time payments are supporting account-to-account transfers, there has been a steeper decline in checks. The decline in cash, however, is more likely to come from the growth of low-value, contactless payments such as Apple Pay.
Which technologies will dominate payments in 2022?

• APIs are the key underlying technology that will dominate retail payments in five years.
• Real-time capabilities will underpin all payment instruments.
• Mobile will remain the preferred technology for making payments.
• Despite growing cyber crime concerns, biometrics still rate very low as a key technology enabler.

It is no surprise that APIs will become the dominant technology behind payments for the foreseeable future. This is part of a wider open banking agenda, with a number of factors at play, including regulation like the Revised Payment Services Directive (PSD2) and regulators like the Competition and Markets Authority (CMA) in the UK. Regulation is driving banks to open up their account services to FinTechs to enable access to customer data and payment processing. The only sensible way to do this is via the development of an open API layer that provides simple access while enabling banks to stay in control of security.

Programs to implement real-time payments are now underway in countries and regions in the developed world where they are not already “live.” Because banks have had to fund the majority of this development, they are now looking for new revenue streams to recoup their investment and launch value-added customer services. The combination of real-time payments and APIs underpins the real move to open banking.

Source: CGI 2017 Payments Survey
What will be the impact of big tech companies and social media?

### Impact of social media

<table>
<thead>
<tr>
<th>Company</th>
<th>2017</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fedwire</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>American Express</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Baidu</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Tencent</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Bitcoin related companies</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>SWIFT</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Ripple</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>ACHs</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>Ant Financial/Alipay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facebook</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>PayPal</td>
<td></td>
<td>31%</td>
</tr>
<tr>
<td>Mastercard</td>
<td></td>
<td>34%</td>
</tr>
<tr>
<td>Visa</td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>Amazon</td>
<td></td>
<td>42%</td>
</tr>
<tr>
<td>Google</td>
<td></td>
<td>43%</td>
</tr>
<tr>
<td>Apple</td>
<td></td>
<td>43%</td>
</tr>
</tbody>
</table>

Companies that will most impact retail payments in the next five years.
When looking at the companies that will have the most impact on retail payments over the next five years, it is not surprising that respondents believe the large technology companies will dominate. Nor is it surprising that those companies would overtake the 20th century equivalents—the card giants such as Visa and Mastercard. The issue is what role will those companies take? Are they trying to be banks or intermediate themselves between banks and bank customers? It certainly looks like the latter.

By now we would have expected the impact of social media to be much greater if the technology companies were using their power in the market (e.g., their subscriber bases and the frequency of users accessing their sites). However, a comparison of the latest results with those of our 2013 survey shows that, while there has been some change in the impact of social media, the change has been nothing like that predicted by pundits, if the threat to banking were coming from big tech companies.

So one inference we can make is that the threat from these companies is actually based around the traditional use of using payments for ordinary transactions. They have not managed to come up with any game changing value-added services, but rather have just developed and provided traditional payment processing through their sites, which incidentally still use banking payment processes in the background.

Further, there has been little evidence of the technology companies moving into direct product competition with banks. It appears that, through the use of APIs, the threat posed by technology companies may likely arise from the customer service advantages they provide rather than from end-to-end payment processing, for instance. As a result, technology companies may pose a more conventional competitive threat to banks, i.e., one based on distribution rather than actual banking itself.

- Big tech companies will have the most impact on retail payments in 2022.
- The impact of social media has remained and will remain constant.
- Is the threat from big tech therefore really conventional?
- If not, will a new threat emerge?
How big a challenge is cyber?

- Cyber threats continue to increase.
- Instant payments bring additional challenges:
  - Traditional, low-value transactions are processed in batches, allowing time for anti-fraud and anti-money laundering checks.
  - Real-time transactions clear almost instantly, so anti-fraud and anti-money laundering checks must be done within the processing time of the transaction.
  - Introducing new real-time anti-fraud and cyber controls is essential.
- New approaches continue to be required to stay ahead of cyber crime and make anti-fraud and anti-money laundering controls effective.
- The rise of artificial intelligence and big data will help control attacks.

Cyber threats remain a huge challenge for banks and are increasing. The introduction of real-time payments and the general move towards digital transformation is only exacerbating the situation. When transactions clear in real time, there is no batch window to allow time for checking. Therefore, the ability to check and control becomes increasingly difficult. This means that banks will need faster and more sophisticated ways of controlling and tackling fraud.
Will value-added, real-time payment services via APIs have a significant impact?

- Despite the prediction of account-to-account dominance, there is a lack of vision around overlay services.
- The view on PSD2 and APIs is still too short-sighted.
- But, research shows that banks can charge for value-added services. The issue is to get on with designing them!

In our payments research, more than 80% of respondents said “yes” or “maybe” to three linked questions: 1) Will customers pay for value-added services?; 2) Should banks charge for these value-added services?; and 3) Should infrastructure players do more to provide them?

However, at the same time, 66% said that banks are not paying enough attention to value-added payment services.

Some value-added services involve “invisible payments.” For example, services like Uber invite customers to input payment details only once—at the time of setup and registration. All subsequent usage of the service involves the same payment method, and the customer will rarely revisit his or her decision to use a certain method.

As a result, to own market share, it is imperative for a payment service provider to become the customer’s first and top payment method. What drives payment method decisions include “top of mind” awareness, ease of use, or some reward incentive. Customers take the easiest path and right now for payments that is normally a card. However, for account-to-account transfer to become the number one payments instrument in five years, innovation elsewhere in the value chain is required.

- Despite the prediction of account-to-account dominance, there is a lack of vision around overlay services.
- The view on PSD2 and APIs is still too short-sighted.
- But, research shows that banks can charge for value-added services. The issue is to get on with designing them!
Who should pay for real-time payments?

- The consensus is that banks should pay, although banks themselves do not feel the same way.
- In the end, of course, the customer pays in one way or the other, so, in some respects, this is about transparency and fee competition.
- However, there is no clarity on who owns liability, which is likely to depend on the number and nature of the players involved and could increase the overall risk on consumers.
- Clear rules (such as those adopted by card schemes) will need to be developed.
In this section of the survey, we asked three questions about instant payments: 1) Who should pay for it? 2) How should it be paid for? 3) Who should own the liability?

The first two questions had a reasonably clear majority. Respondents indicated banks should fund instant payments and be repaid by consumers through a transaction fee. Interestingly, in countries where instant payments have been around for several years, plans to charge consumers per transaction have never been deployed. In Europe, given the legislation to reduce or remove ATM transaction fees and the drive to punish card schemes for their charges, one could envisage that European legislation could prevent banks from charging customers in the future.

The liability issue is much more difficult to resolve, as it involves more complex issues. Card schemes argue liability is the reason they must levy transaction fees. Many respondents suggested the adoption of more complex rules, similar to the rules governing cards schemes, for account-to-account transfers or real-time payments.

Liability remains a major problem still to be solved. For existing instant payment implementations such as in the UK and Sweden, there is less complexity than in other regions of Europe or in the U.S. where multiple schemes and, hence, scheme interoperability needs to be considered, as well as intra-scheme and cross-border issues.
### Key takeaways

<table>
<thead>
<tr>
<th><strong>The world is moving to “INSTANT” everything!</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Open APIs</strong></td>
</tr>
<tr>
<td>APIs are likely to standardize over time leading to more plug and play for connectivity</td>
</tr>
<tr>
<td><strong>Open banking</strong></td>
</tr>
<tr>
<td>Instant payments are THE fundamental building block for open banking, as driven by PSD2 and the CMA in the UK</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>New revenue opportunities are available for banks but payment gross margins will decline. It is essential to create value-added services and deliver to customers or process more volume to arrest the loss of revenue</td>
</tr>
<tr>
<td><strong>Regulatory and cyber crime</strong></td>
</tr>
<tr>
<td>Regulatory compliance and protection from cyber crime will remain the highest priorities and will continue to be a challenge</td>
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</tbody>
</table>
These findings highlight a number of key trends and important issues for banks and payment providers. Open banking is coming! In some regions, regulatory pressure is acting as the catalyst, such as in Europe and the UK, but in other regions, it is coming as a result of market pressure and market evolution.

Meanwhile, many countries have implemented or are now accelerating plans to introduce or evolve real-time/instant payment initiatives covering central market infrastructures and the commercial banks that connect to them. This is causing tectonic pressures and shifts within the industry. The banks, which have been forced to fund these changes, are facing the erosion of their traditional income streams, as they lose their traditional captive ability to charge customers for moving money.

It is the combination of these two forces—open banking and real-time payments—that present opportunities and threats to the banking sector. New competition to bank core services is real and has the potential to do more damage; on the other hand, the opportunity to add new services and generate different revenue streams has the potential to change the game for banks.

At the same time, banks have had to keep their eye on the changing threat from cyber crime and fraud. Instant payments could mean instant fraud.

In conclusion, leading banks are deciding what role they want to play in the new open banking world and transforming their business to fit that role. This affects technology, business and strategy. They are making a conscious decision on their direction, understanding they do not have the luxury of playing a waiting game any longer. They realize it is time to transform and develop new revenue models.

Those new business models, underpinned by real-time payment processing, offer an exciting future for banks and their customers alike. However, these models need to be developed hand in hand with a radical new approach to fighting financial crime and fraud to avert a potentially disastrous downside.

CGI, as a global leader in payments, understands the pressures banks face and is helping them to respond. We advise on and implement the transformations that must be undertaken not only to survive, but to thrive in the new world of instant payments.
About CGI

Founded in 1976, CGI is one of the largest, end-to-end IT and business process services providers in the world. Operating in hundreds of communities across the globe, we help clients become customer-centric, digital organizations. Our high-end business and IT consulting, systems integration and transformational outsourcing services, complemented by more than 150 IP-based solutions, help clients accelerate their digital strategies. Our unique client proximity and best-fit global delivery model enables highly responsive service, on-time and within budget delivery, and competitive advantage for an increasingly digital world. We are one of the few providers with the talent, scale and end-to-end capabilities that clients need to connect legacy to digital for holistic success.

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