Customer Experience Drives Retail Banking Investment in Mobile and Digital Payment Technology

Published 12 August 2021 - ID G00743572 - 11 min read

By Analyst(s): Andrew Steadman

Initiatives: Financial Services Technology Modernization and Transformation

Mobile and digital payments have increased in 2020, driven by the global pandemic, and concurrently, governments are opening access to payment systems. Banking CIOs still approach payment technology investment with caution, but must move swiftly to remain relevant in a competitive market.

Overview

Key Findings

- The rapid changes in the way in which people pay for goods and services, whether through contactless methods, wallets or non-bank-based accounts, require banks’ CIOs to respond. Over 70% of technology leaders surveyed are investing in new payment technology to support mobile and digital payments in retail banking.

- The principal drivers for payment investment are focused firmly on customers, both acquiring new customers through better services, as well as increasing use by existing customers through better experiences. Providing payments integrated with the mobile experience that are simple to use not only for purchasing, but also for sending money, removes friction, thus encouraging increased usage.

- Security concerns and the potential for service interruption are the key risk factors for leaders making technology decisions. As payment disruption increasingly gains the attention of regulators, CIOs are careful to ensure new technology doesn't impact their operational services.

Recommendations

Retail bank CIOs responsible for technology modernization and transformation should:
Reevaluate technology plans by examining your customer payment patterns to ensure budgets are appropriate to support the defined payment strategy in light of consumer behavior shifts over the last year. With payment behaviors having shifted, influenced by the global pandemic, current technology-business alignment plans might no longer meet the needs of consumers.

Clearly define the impact technology investments will have on customer acquisition and retention by aligning with line-of-business leaders on how specific payments services will drive better customer experiences. Making payments simple to use, while providing robust biometric security, enables customers to use one method over another.

Anticipate any service outage risks or data loss or penetration vulnerability impact by ensuring the risk and security departments are engaged early in the planning process and in vendor selection. Delaying their involvement can cause lag, but it is imperative their role is clearly defined and understood as part of the overall team.

Data Insights

At the end of 2020, Gartner surveyed executives in retail banking to understand their approach to the changing market for mobile and digital payments and the impact it is having on technology investment. Investment by central governments to implement real-time national payment networks, open banking initiatives providing access to bank account information and to initiate payments, together with digital giants and fintechs innovating payments are disrupting the market.

Furthermore, customers are demanding that banks provide mobile and digital payment options that are simple and convenient to use. The COVID-19 pandemic drove consumers to change their payment habits more than ever, with increasing digital commerce through wallets and contactless payments through P2P networks. This increasingly rapid pace of change has many banking CIOs assessing their existing payment technology and planning future investment to ensure they remain part of the payment landscape.

Payment Technology Is Seeing a Surge in Investment, and It Is Set to Continue

Nearly three-quarters of respondents indicated that their organization is planning an investment for mobile and digital payment technology. Governments around the globe are investing in national real-time payment infrastructure and driving open banking initiatives, which are creating opportunities for innovation within the payments sector.
The survey identified retail banks are adopting new technology, as well as replacing legacy solutions, but the greatest percentage of respondents indicated their investment is being applied to upgrading the technology they already have (see Figure 1).

**Figure 1: Mobile and Digital Payment Technology Investment**

The mobile and digital payment market has seen an increasing number of fintechs entering with innovations that make access to payments easier and simpler for consumers and businesses. These are providing real alternatives for bank customers and have the potential to exclude the bank from the payment process itself.

- **Lydia** is an example of a fintech provider offering payment services and a bank account, but is not actually a bank. Authorized as a payment service provider, it facilitates payment and financial services for its customers, while its mobile-first approach is attractive to millennials.
Melio Payments is focused on simplifying the process of paying bills for small businesses.

Stripe continues to evolve its product portfolio to support merchant customers in all aspects of managing their money, very different from a simple merchant solution.

However, technology buyers expect their need to invest in payment technology to continue as the pace of change in the industry and competition continue to increase.

I told you before, everyone is going to be involved in payments ... I expect it to be very, very tough, brutal competition in the next 10 years.

— Jamie Dimon, Chairman and Chief Executive Officer, JPMorgan Chase & Co.

The majority of respondents to the survey indicated spend increases for mobile and digital payment solutions over the next two years (see Figure 2). Seventy-seven percent of all respondents indicated that their spend is increasing, with 23% saying their growth would be over 7% during the period, indicating the level of investment they feel is necessary to compete.
As real-time payment networks are implemented around the globe, along with open banking initiatives, there will continue to be innovation within payments from both existing industry providers and fintechs. The data above indicates that budgets will be going up, a reflection of the need to modernize current platforms and to maintain innovation in the face of competition. There are opportunities to compete with niche propositions, such as Ordo’s request to pay or Aleta Planet, as well as to compete against or partner with digital giants who are developing payment ecosystems.

Purchasing the necessary technology still remains the most popular approach by respondents, compared with partnership or do-it-yourself options (see Figure 3).
While purchasing a solution is the most popular option, slightly less than half of respondents take that implementation approach, as just over one-quarter still build their own solutions. Buying from a provider in the current environment provides banks with additional benefits. Increasing options for payment as a service and cloud-based delivery from technology providers means that the time and effort to build can very well impact a bank’s ability to get to market quickly. It also enables them to manage change in a timely fashion as the market moves.

Payment as a service as a technology strategy is not just the domain of neobanks. Lloyds Banking Group leverages Form3 to support its strategic initiatives as it seeks to leverage the new payment architecture being implemented in the U.K. Payments as a service offers CIOs a new approach to address both existing payment technology challenges, as well as future capability and should be considered as an option when selecting technology.

Technology within payments is changing at an ever faster pace. Consider your technology acquisition by:
Identifying Value to Support Investment

As with any investment decision, payment infrastructure investment for mobile and digital payments needs to balance the risk against the value generated for the business. The top three value drivers identified by survey respondents all focus on providing increased customer value (see Figure 4). Payments are not simply a commodity service, but increasingly a means of differentiation in the market.

Figure 4: Mobile and Digital Payment Investment Value Drivers

Payment Investment Value Drivers
Multiple Responses Allowed; 3 Value Drivers

- Improve Acquisition of New Customers: 47%
- Improve Customer Service and Experience Drivers: 44%
- Increase Sales to Existing Customers: 41%
- Keep Up With Competitors’ Capabilities: 39%
- Comply With Regulations: 34%
- Reduce Risk (Example: Security/Operational Failure): 34%
- Differentiate With New Capabilities: 31%
- Achieve Internal Process Efficiencies: 30%
- Other: 1%

n = 158; base: adopting or investing/upgrading/replacing/no planned change to technology — mobile/digital payment solutions, excluding “Unsure/Don’t know” responses

Q: Which of the following value drivers are most important when making decisions regarding each of the following technologies? — mobile/digital payment solutions

Source: 2021 Gartner Financial Services Technology Survey

343572_C
The importance of mobile and digital payments to consumers is highlighted by the focus on using new payment methods as part of an acquisition strategy for new customers. Convenience and a great customer experience will drive customers to change provider, whether that be between banks or a bank to a fintech. And with the ease of switching being made easier through digital onboarding processes, consumers have greater choice and access than ever.

Banking CIOs recognize this competitive threat, and the business case for new payment technology investment must show the impact on new revenue, not just cost optimization.

It is not just for new customers, however, with focus also on providing better services to existing customers and driving increased usage. Bad digital or mobile experiences will prevent customers from using new options, as friction in the process will frustrate them, hinder adoption and — at its worst — drive them to an alternative provider. See The Rise of Real-Time Payments and Why CIOs Should Take Action for more insight into how financial services CIOs should define their strategy for real-time payments.

As customers’ behaviors have shifted since early 2020 to increasingly use digital and mobile payments, the value of payment capability has a significant impact on the customer experience overall. In 2021, NatWest International introduced biometric approval of digital payments through its mobile app, which significantly improved the overall customer experience, rather than using manual card readers or SMS codes. Moving away from SMS-based one-time PIN codes to biometric face recognition approval means that customers have a more convenient and quicker payment experience.²

Understanding the impact on customer experience and, thus, the impact on customer numbers can be a challenge, so approach technology renewal by:

- Enabling the rapid test and measurement of changes to the customer experience driven by new technology. Being able to respond quickly can ensure any negative impact can be quickly addressed.

- Consider pilots or AB testing of different approaches to see which appeals to the market before fully rolling out changes. Customers can quickly find alternatives, so banks must respond quickly.
Managing Risks Associated With Technology Change

As shown in Figure 5, risk factors are spread across a number of concerns. Security vulnerability is the highest risk factor, as funds being diverted due to bad actors can impact the financial position of the institution directly. Not all security risks are direct technical vulnerabilities, but new payment methods offer new opportunities for manipulation of customers to exploit shortcomings in a process design. CIOs must carefully consider not only technical aspects of security, but also how new payment processes can be socially engineered by fraudsters and building in protections.

Figure 5: Mobile and Digital Payment Investment Risk Drivers

<table>
<thead>
<tr>
<th>Risk Drivers Influencing Purchase Decision</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vulnerability to Security Threats</td>
<td>47%</td>
</tr>
<tr>
<td>Potential for Catastrophic Service Disruption or System Failure</td>
<td>46%</td>
</tr>
<tr>
<td>Overdependence on External Partners</td>
<td>46%</td>
</tr>
<tr>
<td>Scalability of System to Planned Volume</td>
<td>42%</td>
</tr>
<tr>
<td>Inaccurate or Time-Consuming Compliance With Regulatory Requirements</td>
<td>41%</td>
</tr>
<tr>
<td>Difficult System Integrations</td>
<td>39%</td>
</tr>
<tr>
<td>Overdependence on Specialized, In-House Resources</td>
<td>37%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

n = 158; base: adopting or investing/upgrading/replacing/no planned change to technology — mobile/digital payment solutions

Q: Which of the following risk drivers are most important when making decisions regarding each of the following technologies? — mobile/digital payment solutions

Source: 2021 Gartner Financial Services Technology Survey

Payments are a critical capability delivered by banks, and any impact to payment processes can be immediately felt by customers. Due to the direct customer impact, outages frequently make the news, potentially damaging the reputation of the bank involved, together with a direct financial cost if compensation is paid.
The risk of catastrophic failures weighs heavily on purchasing decisions, so it is important to examine in detail the performance of prospective suppliers. CIOs should contact existing customers to understand their experience of the stability of a solution or service being evaluated.

Bank CIOs continue to be concerned about the reliance on external partners for critical systems. While certainly payment as a service is being used more frequently by banks, CIOs are still cautious about placing an overreliance on partners for such a critical solution.

While fintech providers continue to emerge in the payment space, their long-term viability should be scrutinized by CIOs, and a fallback position should be considered if such a fintech fails or is acquired by a competitor. Wirecard, a payment processor, failed in 2020 after irregularities at the business, and Tink was acquired by VISA. Using external partners will enable new skills to be brought to bear more quickly for new technology, but CIOs need to plan to bring that knowledge in house to rescue such overreliance on partners.

These factors make purchase decisions more complex and will involve a number of different groups within the bank to adequately address these risks:

- Clearly define the criteria to measure the risks against new technology. Ensure that all stakeholders sign up to the criteria, which must permeate all selection and testing endeavors.
- If leveraging cloud deployment, consider the use of multiple clouds to provide failover if connectivity is challenged. While this is a similar approach to redundant data centers, for critical systems, it provides an option to ensure that a single point of failure is not present.

**Evidence**

2021 Financial Services Technology Survey: The 2021 Financial Services Technology Survey was conducted online from October 2020 through December 2020. The respondents included senior leaders who were either primary decision makers for their organization or business unit’s technology strategy or had a high level of influence in those decisions. The results of this study are representative of the respondent base and not the “global” financial services population as a whole.
The total sample was 847, with representation from Australia, Canada, India, Malaysia, Singapore, the U.K. and the U.S., and both banking and investment services and insurance industry sectors. The survey was developed collaboratively by a team of Gartner analysts, and was reviewed, tested and administered by Gartner's CIO Financial Services QUADS Team.

Notes

1. Lloyds Banking Group Enters Strategic Partnership With Form3, Form3.


5. Commonwealth Bank Customers Receiving $50 'Sorry Payments' After IT Outage, 7NEWS.


7. Visa Signs Agreement to Acquire Tink, Tink.

Recommended by the Author

Some documents may not be available as part of your current Gartner subscription.

- Compose New Payment Strategies to Succeed With Digital Acceleration
- The Rise of Real-Time Payments and Why CIOs Should Take Action
- Payment Acceptance Will Never Be the Same After the COVID-19 Pandemic
- For Cryptocurrency Payments, First Explore Demand Factors
- Navigating the Digital Commerce Payment Market
- How to Improve Customer Experiences in Digital Commerce Payments