



Contactless, frictionless, seamless: payments under the evolutionary pressures of COVID-19

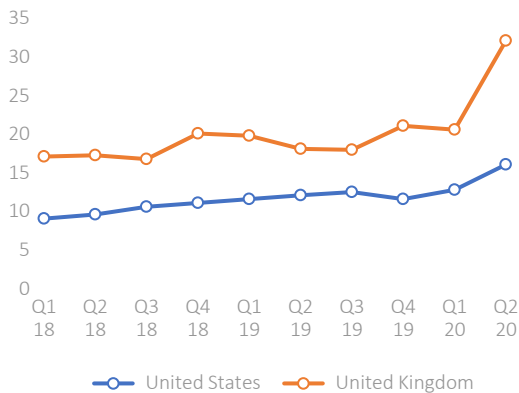
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Not a single year goes by without some aspect of the financial services industry permanently shifting online.

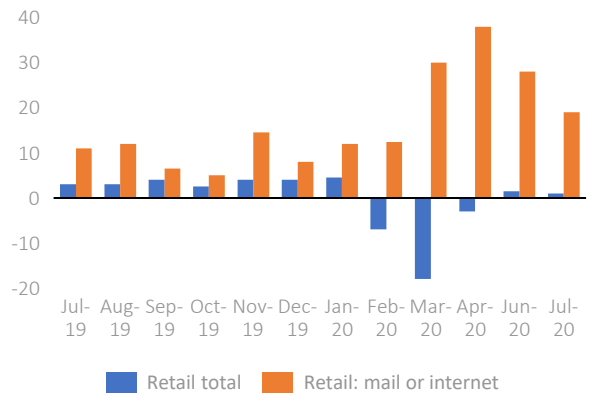
The past year has been unlike any other in every regard, and the payments industry hasn't been spared its share of turmoil. The societal and economic change precipitated by COVID-19 appears to have added momentum to the accelerating digitisation of consumer- and B2B payments, laying the foundations for a new standard of performance for the industry as a whole that will last beyond the pandemic and government restrictions. We view this as the product of three main trends:

1 Accelerated Digitisation

Share of e-commerce in total retail sales
% (2018 – 2020)



Retail sales, YoY Change
EU 27, % (July 2019 – July 2020)

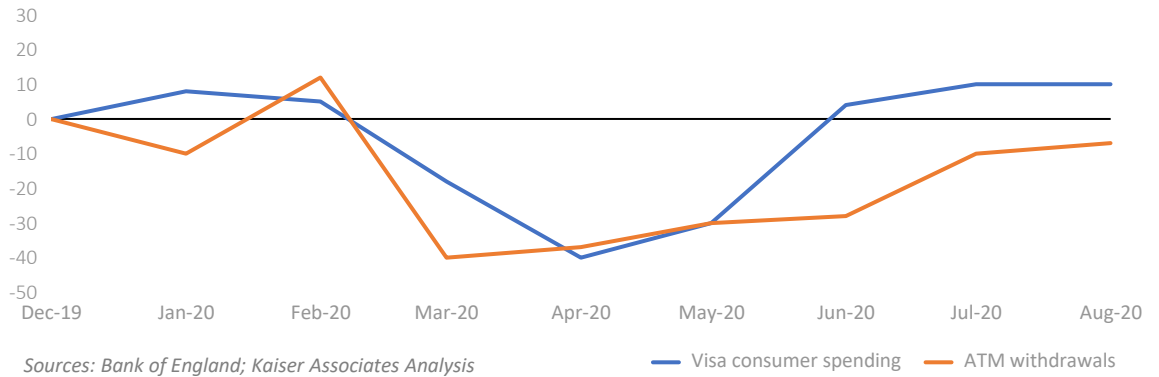


Sources: US Census Bureau, Office Of National Statistics, Eurostat; Kaiser Associates Analysis

Large corporates and smaller businesses alike have had to quickly adapt to remote sales and fulfilment processes. Many have had to pivot to altogether new business models. For example, restaurants shifting to delivery/takeaway-only, or retail in an attempt to recoup dine-in losses by selling drinks and 'cook-at home' meal bundles. Likewise, some suppliers to the hospitality and food service industries have opted to sell directly to consumers, thus establishing new B2C payment channels. Shopify has experienced a reported 97% increase in 2020 revenues as a result of this groundswell of activity. IBM's U.S. retail index suggests that these changes have accelerated the shift from brick-and-mortar to digital by ~5 years.

2 Transformation across the payment mix

Change in method of payment vs prior year
United Kingdom % (Dec 2019 – Aug 2020)

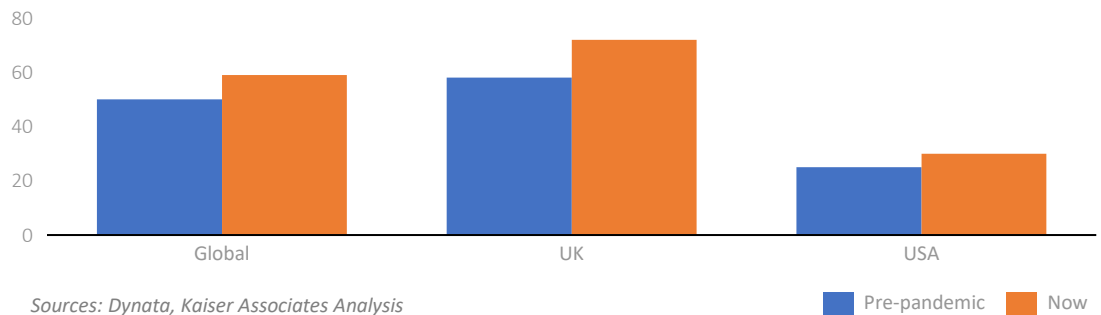


In adapting to the new reality, many merchants have catapulted into the contactless economy, enabled by widespread mobile adoption, the low cost of social marketing, ubiquity of digital processors like Stripe and integrated e-commerce platforms. This has added fuel to the substantial shift away from cash, with ATM withdrawals remaining substantially below pre-pandemic levels.

In parallel we have seen the QR code finally reach the retail front line from its humble origins in a Toyota production line. It has now become a cornerstone of the post-COVID payment experience – a gateway to check into a venue, order a meal or pay for it. As a format that can hold 100 times more information than a typical bar code it may at last become a mainstay in multichannel commerce.

3 Behaviours becoming habits

Change in contactless and mobile payments use preference
% of respondents; pre- and post pandemic



The shift from cash, and paper-based payment instruments was well underway in the last few years. It appears to have received a further boost as consumers, businesses and governments acted in unison to facilitate safer, contactless and mobile payments.

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Banks in Europe have successfully increased the minimum contactless payment limit, which in the UK increased from £30 to £45 and is poised to be raised to £100.

Consumers are voting with their 'wallets' – Visa has reported 500m additional contactless payments, with some contactless volumes doubling year on year in 2020.

Recent MasterCard research cites that nearly half of consumers in Europe have stated that their usage of cash has decreased as a result of the pandemic, and >80% cite cleanliness and ease of use as their primary reasons for continued use of contactless.

Key Implications:

The primary takeaway for any actor in the payments market is that many of these changes are poised to remain, and are likely to introduce new strategic and operational imperatives:

- > Effective integration across the payment lifecycle, and having an API-centric model that enables frictionless data and service handovers for an unfailing customer experience
- > Merchant services tailored to a more complex landscape of business archetypes in the B2B and B2C segments. The new wave of businesses rushing to implement B2C payments, or modernising their AP/AR processes to adjust to the 'new normal', represent a new set of needs
- > Heightened emphasis on security and fraud prevention – the opportunities for fraud are multiplying as more businesses (and late-adopting consumers) engage in contactless and mobile transactions
- > New competitive threats/intermediation – as e-commerce providers vie for greater control over the merchant- and consumer value proposition

Sources and additional information:

[US Census Bureau Quarterly Retail E-Commerce Sales, Q3 2020](#)

[Eurostat Retail Trade Monthly Database](#)

[Bank of England – Cash in The Time of Covid](#)

[Quartz.com: QR codes are finally having their moment because of Covid-19](#)

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