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SHAPING THE FUTURE OF PAYMENTS

OPEN ECOSYSTEMS AND VALUE CREATION

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Discussion Documents

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This article is written by [Mark Samuels](#), Chief Editor at CIONET UK. The content is based on a CIONET UK event held on 27 June at L'oscar in London. The event was sponsored by Google Cloud and Cognizant.

The context for the event

Our second event in this series analysed the transformative power of open ecosystems. In a moderated session led by CIONET UK Director Mark Foulsham, delegates from the financial services industry were joined by Ashish Bhatnagar, Head of Cards & Payments, GGM at Cognizant, Shree Ramakrishnan, Director & Head of UKI Cards and Payments Consulting at Cognizant, and Graham Drury, Director, UK Financial Services at Google.

Mark said the discussion would focus on embracing open ecosystems, value creation beyond transactions, and navigating the future of payments. Attendees said they were also interested in the following areas: the impact of artificial intelligence (AI), the rollout of digital wallets, the role of regulations, dealing with the last mile of payments, learning from fleet-of-foot startups, commercialising infrastructures, and combatting payment fraud.



Roundtable discussion

1. How can we embrace open ecosystems?

Blockchain offers huge promise to financial services organisations. Banks must think about how to use the blockchain responsibly. Use cases for the blockchain include peer-to-peer marketplaces, home-buying transactions and tokenisation for wholesale CBDCs.

While the blockchain will be influential in the longer term, payment fraud is a real and present danger. One delegate suggested blockchain technology could help secure payments in an age of AI-enabled deep fakes. Banks can use the blockchain to create smart contracts and ensure payment authenticity.

Banks must focus on their front-end and back-end processes to exploit the blockchain. The long-term dream is a unified ledger that promotes payment authenticity and trust. However, no one knows which blockchain will win. Financial institutions will use and develop a broad range of blockchains. We must think about how blockchains will be linked together via APIs.

Payments are a critical component of a great user experience. Friction could be a differentiator. The right ecosystem partners help banks reduce friction and increase payment speed. Most customers want frictionless payments. However, banks must consider how they will make money as friction reduces.

A wide data ecosystem is proliferating and scaling outside banks. A bank knows the fine details of a specific transaction, such as purchasing a car. Search and social media specialists know about customers' spending intentions. Technology companies have more power and data and we must think about the balance of responsibility in an age of ecosystems.

Payment ecosystems will continue to grow. Startups have excelled in the customer journey and traditional banks need to learn from this success. Collaboration between financial organisations and third-party partners is crucial. But these relationships should deliver value for all parties. What is the impact on your business if collaborative ecosystems go down?



2. How can we generate value beyond transactions?

One attendee suggested the key issue might be that banks see payments as a means to an end rather than a way to make money. Is there a way to improve payment mechanisms and provide a value-add? Can payments become a propositional tool that adds value and makes services sticky for customers?

Banks should support customers on their financial journeys. Expectations are high as customers trust their banks. Introducing payment technologies that help customers deal with fraud and debt would be a huge value-add. The industry must work collaboratively to reduce losses from fraud.

Banks can also increase value by reducing costs. The board will back your technology-based idea if it produces value by reducing risk and fraud. Friction can sometimes be a useful factor. It creates a moment of pause and allows financial organisations to check if a transaction is fraudulent. Accurate timestamps can help with the monitoring and regulation of payments.

The financial services industry needs to think carefully about the parts of the user journey that benefit from friction. We used to focus on the last mile of payments. Today, payments are embedded within the user experience. Consumers use payment mechanisms such as Google Pay and Apple Pay automatically.

We must think about how technology can be used to enhance payment mechanisms and boost customer experiences. Where it exists, friction should be used to solve a specific user problem. Liability is the keyword. A pause is essential when a customer is about to spend £1m on a new home. Friction is unhelpful when a user spends £4 on a coffee.

Consumers also use a range of payment mechanisms for different reasons. They might use a Revolut card on holiday, use Uber to pay for transport, and work with traditional financial institutions to arrange a mortgage. How can financial organisations bring these mechanisms together to deliver a great experience?

A tight integration between banks and third-party partners makes it easier to deliver personalised services. However, data processing and privacy are huge concerns. Payment mechanisms must be universal, accessible and safe. We're moving to an age of end-to-end transactions in a connected ecosystem and regulations haven't caught up with this shift.

Also, what platform will support integration between partners? Should you build the platform yourself or work with others in an ecosystem? And how will partners split the revenue they generate from new customer experiences? While banks can benefit from integrated services, customers must be able to opt out of data-processing activities. One solution might be a central orchestrator that oversees customer consent.

3. How can we navigate the future of payments?

Future demographics will use different payment and banking techniques. Gen X have traditionally seen a mortgage as their financial moment of truth. Gen Z thinks differently. These individuals want to travel the world and not be tied down. This generation might be keener to use challenger banks for mortgages. Banks must cater to all demographics and meet people where their demand for service lies.

The impact of AI needs to be considered. Large language models (LLMs) could help banks understand intent-based outcomes and support new levels of personalisation. The scale to which these models will be deployed in banks is uncertain. New models and AI specialists will launch and die quickly. Banks should look to providers for assistance on LLMs.

LLMs could help banks deal with risks, regulations and vulnerabilities. The banks must fight fire with fire and use AI to combat fraudsters' use of emerging technologies. Industry-wide initiatives could help banks deal with the fraud problem. It's important to recognise that we are only at the beginning of LLMs. Banks and their partners must work together to exploit and scale up AI. Workshops between industry partners can be a great way to generate ideas.

The level of customisation and openness varies across markets due to regulations and national interests. Context is everything and people adopt new payment mechanisms for particular reasons. While India is ahead in open payments due to its desire to boost financial inclusivity, France is behind due to governance. Alipay and WeChat Pay dominate in China, where traditional card-based payments aren't accepted.

Can we revolutionise the last mile of payments to make things easier for customers? One delegate suggested the future of payments could be invisible with increasing machine-to-machine payments via a convergence of emerging technologies such as CBDC, blockchain and the cloud. These M2M services make payments easier for customers without them knowing how the underlying technology works.

The future is likely to involve a shift towards invisible payments. We will see increased use of micropayments. Implementing AI, blockchain and the Internet of Things could mean devices pay without customer intervention. In an open ecosystem where there's a desire to add value, banks and their partners must collaborate to deliver the innovations that help businesses deal with cross-border challenges and regulations.

Conclusion: Three key takeaways

1. **Open ecosystems** – Blockchain offers huge promise but banks must focus on their front-end and back-end processes. Payment ecosystems will continue to grow. Banks must collaborate effectively with their third-party partners.
2. **Value generation** – Technology can enhance payment mechanisms and boost customer experiences. Where it exists, friction should be used to solve a specific user problem. Payment mechanisms must be universal, accessible and safe.
3. **Future of payments** – AI will have a big impact on personalisation and fraud. Banks should work with providers on large language models. Banks and their partners must collaborate to deliver innovation as we move towards invisible payments.



Authors



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A pioneer of today's Internet as an ARPA research fellow at MIT in the seventies, Roger has spent over fifty years helping corporations harness the power of new technologies such as AI, cloud, mobile communications, e-commerce, voice recognition and satellite. He was a partner at EY responsible for e-commerce during the dot.com boom. He is a Cambridge University and MIT graduate and a visiting professor at the Hebrew University in Jerusalem.

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Mark is a business writer and editor, with extensive experience of the way technology is used and adopted by CIOs. His experience has been gained through senior editorships, investigative journalism and postgraduate research. Editorial clients include the Guardian, The Times, the Sunday Times and the Economist Intelligence Unit. Mark has written content for a range of IT companies and marketing agencies. He has a PhD from the University of Sheffield, and master's and undergraduate degrees in geography from the University of Birmingham.

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