

# Prepare for the payments revolution.

## How to get your business ready for the digital future.

“New payment technology can sometimes seem gimmicky. But as a business owner, you can’t afford to ignore it. Every industry will end up going through the payment evolution, so you need to be thinking about how your customers are interacting with your business and their expectations – are you set up to meet those, not only today but also in the future?”

**Lewis Billinghamurst** – Head of Digital Ventures, Westpac New Zealand.

### East leads West in payment innovation.

To get a glimpse into what payments could look like for us in the future, we simply need to look at what’s happening in China today. In the West, we have a well-developed financial system that has been built by making incremental improvements to payment technology over time. We’ve gradually evolved from gold to coins, notes to cheques, credit cards to internet banking – and now we’re just starting to adopt mobile payments. In China, this evolution never happened. A largely cash-based economy for many years, most people never got used to the forms of payment that we are comfortable with like cheques, debit cards and credit cards.

But now, the widespread availability of smartphones and mobile internet has led to mass adoption of mobile payment apps. The payments landscape there is dominated by mobile giants Alipay and WeChat. People link their Chinese bank accounts to the Alipay and WeChat apps, then make payment either by scanning a merchant’s quick response (QR) code with their phone or letting the merchant scan the QR code on theirs.

This contactless form of payment is used widely in Asia – from restaurants where wait staff have the QR codes pinned to their chests, in the markets where QR codes hang from the necks of livestock and even on the streets where beggars have QR codes on their placards. Cash is disappearing.

### It’s easy to make giant leaps when you don’t have to deal with legacy infrastructure.

If you skip out a whole lot of steps in the payment evolution, you don’t have to deal with the legacy of older payment methods – like phasing out cheques, for example. Without those obstacles to deal with, it’s easy to move onto the next innovation.



So while we're just starting to adopt mobile payments in New Zealand, in China they're already implementing services like facial recognition. Recently a restaurant trialled a 'Smile to Pay' service, which takes a 3D scan of the customer's face. The customer then simply has to input their phone number to authenticate the payment.

That doesn't mean we're not experimenting with facial recognition here in New Zealand, but there's a different level of social, political and legal comfort with technology like that for the New Zealand market.

### **As a bank we still need to supply services for all types of customers.**

Sometimes it's really hard to pioneer something new in a Western market when you have to account for a diverse set of customers. We still have customers who don't have cloud-based accounting or point-of-sale software. There are still generations of people who want to pay by cheque. But the benefit of legacy technology is that we are able to explore and eliminate the pain points when we develop a new innovation for customers.

When we launch new innovations, we know there won't be an immediate mass adoption because of our legacy infrastructure. We initially expect about a 1% uptake and then a slow growth over time as our customers migrate over to new services.

### **Payment innovation isn't just about improving customer experience – it can also benefit your bottom line.**

It's easy to dismiss new 'proof of concept' innovations like facial recognition payments as gimmicky, but some of this new technology has the potential to produce not only a better customer experience, but also a lower cost base. And that is crucial.

### **Removing friction from payments removes costs and frustrations.**

Payments at a business level can create a point of friction for customers. Regardless of what business you're in, your customers need to give you money and they want to do that easily and safely. The more steps involved, the more friction it creates. Businesses that remove that friction change that customer experience.

Let's look at how Uber has significantly changed the customer experience of taxis. It's in part because of the ease of payment. It removes the physical customer experience of having to get out a credit card, make a payment on the driver's machine and wait for it to go through – all while double parked on the side of the road with traffic piling up behind you.

So if you remove the friction from that payment interaction by providing an app, then not only is it a better customer experience, but it also lowers your cost base from a business point of view. That's because the driver doesn't have to spend time sorting out payment and can move straight to the next job, there are no lost profits due to customers who refuse to pay their full fare at the

end of their journey (or decide to do a runner), there's no need for the driver to handle cash or carry a float, and the risk of mugging is removed – which means no lost cash or driver downtime due to police investigations or injuries.

### **Enabling frictionless payments in New Zealand is one of the innovations we're investing in as a bank.**

One of the ways we can improve our customer experience is by making it easier for people to pay each other. For instance, we know that something as simple as paying your friend five dollars for the coffee they bought you is not as easy as it seems.

Firstly, your friend needs to log in to find their bank account number, then share that with you. Then you need to log into your bank account, make sure you enter their details exactly right and then transfer the five dollars. But it doesn't end there. Because your friend doesn't receive a notification when the five dollars hits their bank account, they don't know it's arrived unless they trawl through their transactions. And if it's on the weekend they're not going to see that five dollars till Monday. That's why people keep coffee ledgers in their head – it's just easier to take turns paying for coffee than paying each other back.

This type of friction can create relationship issues for New Zealanders. We all have that friend who never buys the coffees, forgets to pay you back for that concert ticket or takes too long to contribute towards the weekend away. Having a conversation to request payment creates awkwardness or a confrontation that New Zealanders tend to shy away from. Digitally we can solve that unmet need.

### **Westpac is working with partners to create a person-to-person (or peer-to-peer) instant payment app for all New Zealanders.**

It works in a similar way to the Chinese WeChat and Alipay apps. People signed up to the app can make payments to other people who are also signed up to the app. This means you can build a trusted group of people to whom you can make small payments easily, without ever having to know their bank account numbers. So making a payment becomes as easy as sending someone a text. Even better, it's in real time.

There is a school of thought that says you don't need real-time payments in New Zealand, because our current system of making payments every three hours in batches during the week is good enough. But it's not. If you're in a restaurant where bill splitting isn't allowed, you're going to want everyone's share of the bill paid into your account straight away so that you're 100% confident it's in your account when you walk up to the counter and pay for it. You need real-time payments for that type of scenario, and real-time payments are in minutes, not hours.

You can see how this will end up benefitting businesses too, when you look at person-to-business payments that allow you to quickly and easily pay the gardener or tradie. On a bigger scale, real-time payments will help businesses improve their cash flow and allow them to deliver goods and services faster to customers.

## **This is just one example of the type of new payment technology open banking will deliver.**

What will enable more of these types of propositions is allowing developers access to our banking Application Programming Interfaces (APIs). Effectively we're going to be opening up the billion-dollar infrastructure that we have as a bank for processes and payments, and allow approved fintechs to build their own innovations on top of that. Whether it be invoice financing or ways to solve cash flow problems for businesses, there's a lot of innovation that can be created. So when we think about the future of payments, we can foresee a little bit from China, but really it's going to be partnerships with fintechs driving this new innovation.

We don't know for sure what the future looks like, but we do know it's going to be fundamentally different than it is today.

## **So what does all this mean for you as a business?**

What's driving a lot of this change is customer expectations. There are already a lot of technology companies that are facing into those challenges like Xero, which has led the way with an accounting system that's based entirely in the cloud. If your competitors are starting to deliver these types of innovation you can't reproduce, you are going to have some challenges with customer loyalty.

## **What should we be doing for you as your bank?**

### **Make sure you're enabled for the future.**

When we work with you, we not only investigate how we can solve your business challenges today – but also look for ways to prepare your business for the future. That means making sure the technology you currently use is fit for purpose (like your EFTPOS terminals, point-of-sale and merchant services) and helping you understand how new technology (like APIs and contactless payments) can deliver that frictionless payment experience for your customers.

## **What should you be doing to prepare your business?**

### **Ask for a roadmap.**

You need to be looking at all your core systems today and asking your vendors, suppliers and partners what they are doing to equip you for the future.

How are they thinking about payments that will come to you via new technology? Can your point-of-sale integrate bank APIs and what is the strategy for that? Can your accounting package consume real-time payment data? Does your core enterprise ledger work well with the modern front-end? If not, you need to start challenging those partners and asking them to show you the roadmap for the future.

### **Talk to the right people in your business.**

Even though new payment technology in your business can create new experiences you can market to your customers, this is not just a job for your marketer. This is a CFO conversation. That's because some of these new purchasing and payments models within your business are going to help your bottom line because they are also more efficient. Modern technology allows for better controls on security or data governance, so you should include your Risk Officer in the conversation too. This is what drives the business case for implementing new payment technology.

### **Don't panic.**

Being a country of incremental change, New Zealand doesn't have mass demand for people wanting to pay for their coffee with their mobile phone. But change is coming. And these new innovations will slowly gain traction. So you don't need to ask your CIO for millions of dollars today to reboot your core systems, but you do need to be thinking about it, because it does need to be taken seriously.

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