Deloitte.

Global payments remade by COVID-19

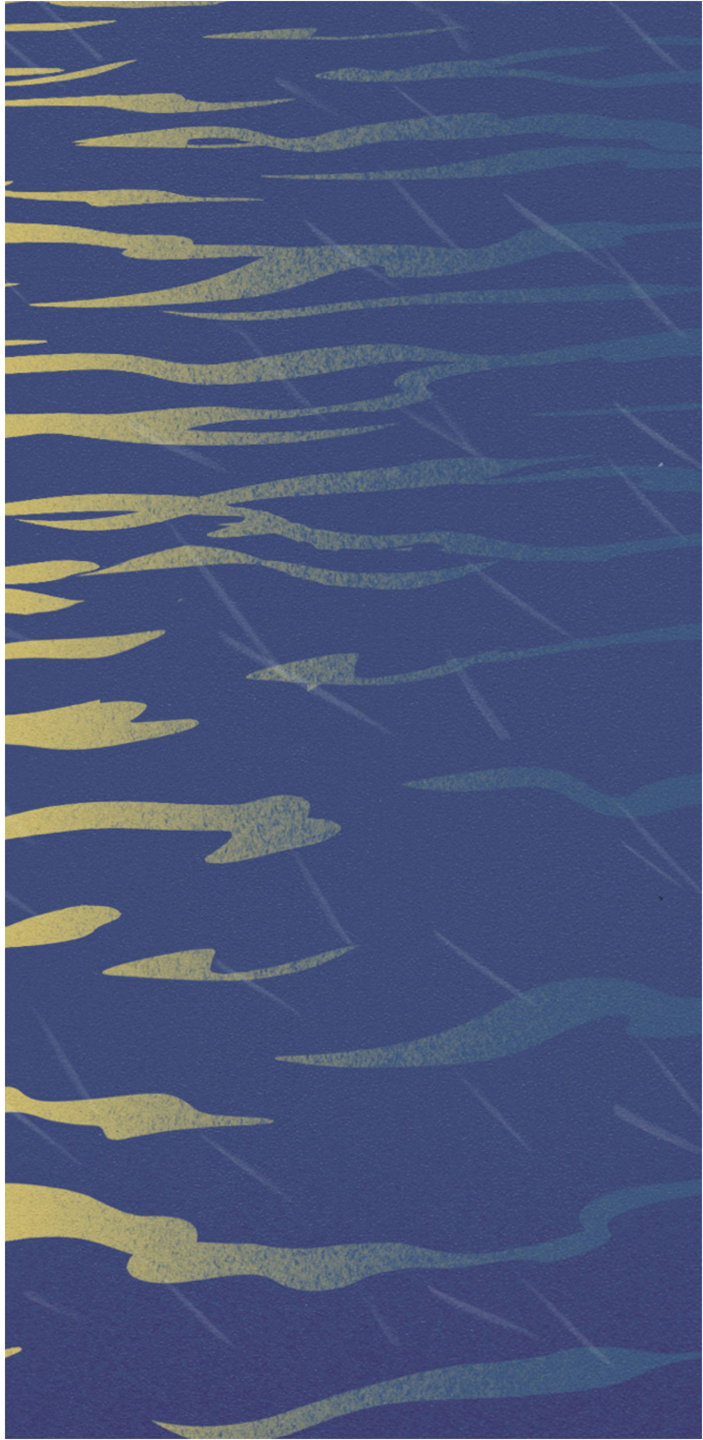
Scenarios for resilient leaders

June 2020

In the wake of COVID-19, Deloitte and Salesforce hosted a dialogue among some of the world's best-known scenario thinkers to consider the societal and business impact of the pandemic. The results of this collaboration can be found in *The world remade: Scenarios for resilient leaders*.

We face a global crisis unlike any we have seen before. Normal life has stopped for people around the world. Eventually, the crisis will end, and life will return to “normal.” **But what is normal?**

This document is intended to spark insight and help identify opportunities as payment industry leaders seek to understand potential implications of COVID-19. It outlines actions that leaders can take over the next three to 12 months to help enable long-term success for their people and organization.



1 / Evolution of the business environment

2 / Scenarios for the global payments ecosystem

3 / What could “Recover” look like?

4 / Team and acknowledgements

Evolution of the business environment

As governments across the globe start to reopen their economies, business leaders should shape their "Recover" strategies even in the face of uncertainty

Deloitte's Resilient Leadership framework defines three time frames of the crisis

RESPOND

Manage continuity

For the first three months, the global payment industry's response was focused on . . .

- Adjusting operating models to maintain business continuity
- Providing relief to customers by changing payment terms
- Supplementing manual operations with "quick win" digital investments
- Supporting government relief programs and stimulus packages

RECOVER

Learn and emerge stronger

Focus of this document: Define the near-term response (3–12 months) focused on a resilient recovery

- What is the new business environment and how is it likely to change?
- What does this environment mean for the global payments ecosystem?
- What does recovery look like for your organization, and what is your plan?

THRIVE

Prepare for the next normal

Refer to ***Thrive scenarios for resilient leaders*** for a long-term view

- How will trends shape the global payments ecosystem in the long term?
- What are lasting implications for global payment industry and impacts of the crisis?
- What are decisions required to improve resilience to a changing landscape?

Scenario thinking can help better inform how we make decisions in an uncertain future

This document explores various scenarios about how the COVID-19 pandemic could accelerate or redirect the payment industry over the next three to 12 months. Building on several trends already in motion, the scenarios are built on important macro and payment industry uncertainties, both already evident and others potentially plausible based on the severity of the pandemic and government actions.

These scenarios target the global payment industry, which in many cases includes consumer payment and commercial payment in different geographies.

We chose to focus on the next three to 12 months on the assumption that this time frame is long enough that change is possible, but close enough that it matters to executives today.

As you read this document, challenge yourself to imagine how things you were sure were going to happen could now be on a different course. Avoid the temptation to conclude that the crisis will accelerate the changes you already expected or believed were inevitable or that the scenarios are truths or future forecasts.

This document and its depiction of possible future should ultimately spark several questions around implications and next steps for your organization.

What are scenarios?

Scenarios are stories about what the future may be like, created through a structured process to stretch thinking, challenge conventional wisdom, and drive better decisions today. They are not predictions about what will happen. They are hypotheses about what could happen, designed to open our eyes to new opportunities or hidden risks.

Note that these scenarios stand as of mid-June 2020. They are based on our best understanding of the health trajectory, economic impacts, and government actions in response to the COVID-19 pandemic. These scenarios might change based on how the above indicators evolve over time.

Evolution of the business environment

We have certainty that COVID-19 will change the face of payments globally, agnostic of pandemic severity

Acceleration of digital adoption

Omnichannel experiences and digital engagement with customers become table stakes

Move toward real-time payments

Faster adoption of real-time payment rails and use cases to accelerate movement of money

Investment in AI-driven automation

Investments in AI-driven automation of back-office processes focused on cost reduction

M&A and ecosystem expansion

Acceleration of M&A activity with focus on acquiring capabilities and digitizing offerings

Innovation in business models

Revenue and margin pressure drive innovation in business models

Two critical uncertainties will drive the overall impact of COVID-19 . . .

1 | What is the overall **severity of the pandemic** and pattern of disease progression?

Lower impact — Higher impact

Rapid peak

The virus's spread shows a rapid peak before quickly declining

Self-dampening

Rapid exposure across individuals leads to eventual "herd immunity"

Gradual progression

A gradual and prolonged development of the virus's spread is seen

Roller-coaster

Seasonal waves of the viral disease are seen, with decreasing degrees of severity

Second-act

A second wave of viral infections emerges stronger than the first

2 | What is the **level of collaboration** within and between countries?

Significant — Marginal

Coordinated response

- Nations "think big and act fast." Effective collaboration within and between countries to contain the virus's spread through coordinated strategies and best practices (such as mandating quarantines and testing)
- Coordination to reduce mobility of people and slow transmission
- Proactive measures by public institutions to prevent future widespread viruses

Weak and divided

- Lack of coordination among governments and institutions to provide supplies and resources required to prevent virus's spread
- Lack of accountability and breakdown in communications and information-sharing
- Insufficient and uneven response to effectively address mobility of people carrying the disease

Note: Refer to "The world remade by COVID-19: Scenarios for resilient leaders," section 2

. . . leading us to four macro scenarios that companies should consider to recover and ultimately thrive

The passing storm

The pandemic is managed due to effective responses from governments to contain the virus, but is not without lasting repercussions, which **disproportionately affect SMBs and lower- and middle-income individuals and communities**.

- Relatively constrained disease dynamic
- Effective health system and policy response

Lone wolves

Prolonged pandemic period, spurring governments to **adopt isolationist policies**, shorten supply chains, and increase surveillance.

- Severe, rolling pandemics
- Insufficient global coordination and weak policy response

Good company

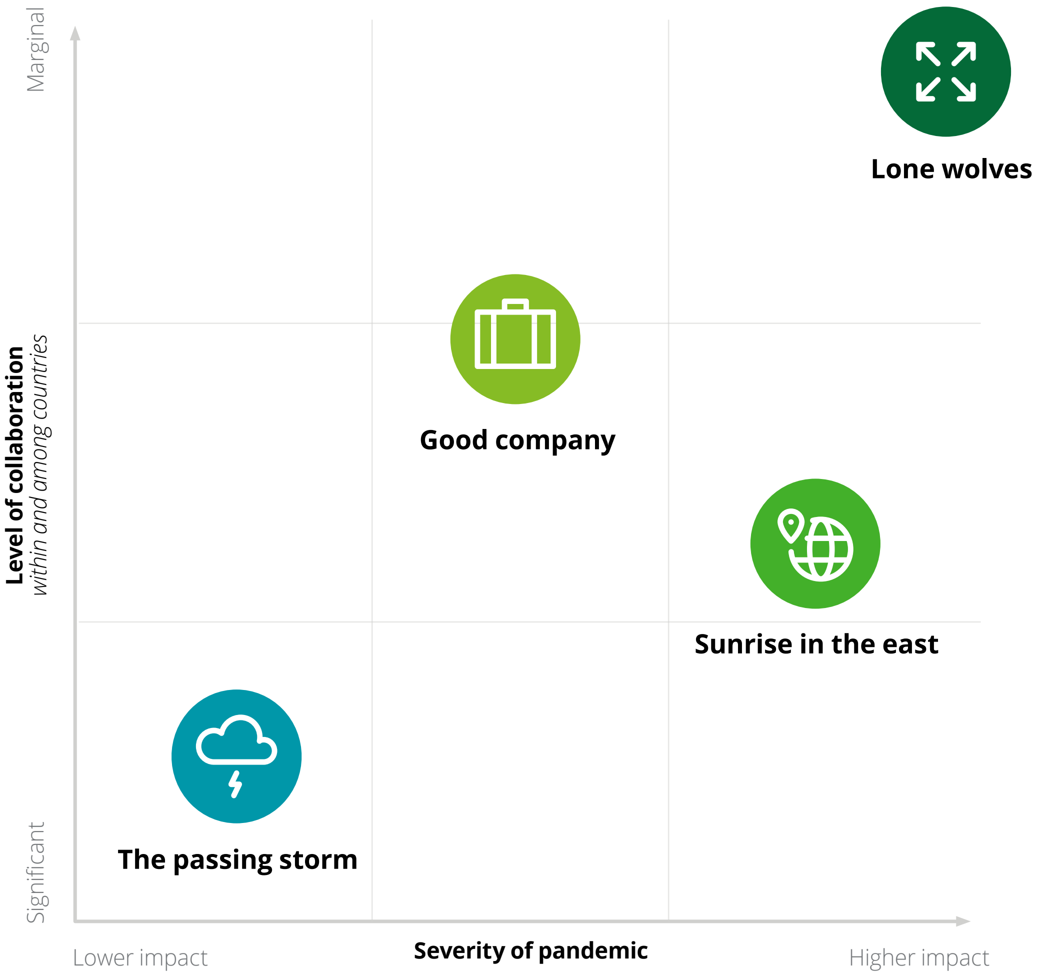
Governments around the world struggle to handle the crisis alone, with **large companies stepping up as a key part of the solution** and an acceleration of trends toward "stakeholder capitalism."

- More prolonged pandemic
- Collaboration to control the pandemic led by large companies

Sunrise in the east

China and other East Asian nations are more effective in managing the virus and take the reins as **primary powers on the world stage.**

- Severe pandemic
- Collaborative health response led by East Asian countries



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What does the world of payments look like in these possible scenarios?

The passing storm

Companies weather the passing storm with government stimulus and focus **investments on delivering digital experiences**
(pages 17–19)

Despite the relatively contained duration of the pandemic, **contactless payments are widely adopted, and digital and faster payments gain share**, propelled by rapid adoption by customers and merchants.

Stronger demand for **data security enhancement** and **fraud prevention** with shift in customer behavior to **online, mobile, and contactless commerce**.

Good company

Corporates step into the void and drive digital transformation and creation of **digital superstores and marketplaces**
(pages 20–22)

Customers are prudent in spending, primarily on nondiscretionary purchases.

Products, services, and customer retention programs are reimagined. Customers' trust in large corporates and governments rises, leading to **increased data-sharing.**

Large corporates **acquire for scale and show leadership in risk domains**.

Sunrise in the east

East Asian players **gain market share**; they leverage their innovative business models, technology, and **large customer base** power
(pages 23–25)

Recovery in **Western countries lags** and is influenced by **lessons learned from East Asian countries; US dollar declines** as preeminent world currency.

Increased innovation and competition force players in the West to **invest in intelligent automation and digital assets**.

Lone wolves

Competing nationalistic interests lead to fragmentation of global payment standards, networks, and regulations
(pages 26–28)

Reduced business interoperability and regionalization of trade leads to **impediments in cross-border supply chain and increase in price of goods**.

Companies are less resilient, weakened by a prolonged recession and limited investments. **Governments and public sector take the lead** in setting up national payment standards and enabling infrastructure.

Scenarios for the global payments ecosystem

Across the four scenarios, impacts on the payments ecosystem manifest around operations, business model, risk, and regulatory dimensions

Macroeconomy impact	With revenues in many sectors falling substantially in 2020, firms undertake significant voluntary programs, furloughs, and layoffs, causing a sharp contraction in economic growth. Mixed economic signals create uncertainty around the timing and shape of recovery.
Customer behavior	Customers reduce discretionary purchases and increase spending on online retail. With spend shifting toward necessities, financing options and cost become key considerations.
Digital adoption	Payment providers and merchants enhance online, mobile, and contactless payments as customer preferences shift away from physical methods (cash, checks, cards). Real-time payment solutions gain traction (where not already mainstream) to enable quicker access to funds.
Business models	Payment providers focus on resiliency in the near term, while exploring options to enhance products and business models and expand into under-served segments to combat margin pressure, create new revenue areas, and align with changing customer preferences.
Global payments transactions	Global transaction volumes are depressed due to sudden drop in global trade, travel, tourism, remittances, and level of trust between countries. Redefined supply chains begin to reshape cross-border B2B (business-to-business) payment flows.
Ecosystem evolution	Payment ecosystem transforms due to innovations in technology, business models, and bold expansion of non–financial institution (FI) players. Search for scale and declining valuations drive consolidation led by mega-fintechs and incumbent FIs with strong balance sheets.
Heightened risk	Ecosystem players are faced with heightened fraud risk. Enhanced digital identification and authorization frameworks become differentiating capabilities. Credit risk management and modeling evolve to incorporate new indicators and data.
Change through regulations	Significant growth in e-commerce leads to increased vulnerability and cyberattacks, exposing areas where regulations need to be modernized. In some countries, public sector drives change (such as faster payments).

Scenarios for the global payments ecosystem

Leading and lagging indicators may guide leaders in recognizing the emerging recovery scenario

	Key indicators	Impact	The passing storm (PS)	Good company (GC)	Sunrise in the east (SE)	Lone wolves (LW)
Leading indicators of scenario	**E-commerce transaction share of overall transaction volume (C2B)***	E-commerce transaction share rises in all scenarios. Supply-side innovations by major players (GC) and extended duration of lockdowns (GC, SE, LW) will drive commerce online	↑	↑↑	↑↑	↑↑
	Cross-border payment transaction volumes (B2B)**	Cross-border volumes decline with disruptions in global supply chains, travel, and tourism. In GC, this decline is countered by an increase in global collaboration. In SE, stronger currency and money flow from East leads to high cross-border volumes	↓	↑	↑	↓↓
	Global remittances (C2C)***	Global remittances plummet across all scenarios with high unemployment rates, lack of confidence in domestic job markets, and unavailability of excess funds	↓	↓↓	↓↓	↓↓↓
Lagging indicators of scenario	**Charge-off rate or delinquency rate**	Delinquency and charge-off rates increase with the severity and duration of the pandemic, despite stimulus packages and government support	↑	↑↑	↑↑↑	↑↑
	Card not present (CNP) fraud loss	As commerce shifts to digital, fraudulent activity increases. In GC, through enhanced data-sharing and collaboration, antifraud measures are effective. In LW, fraud increases due to lack of collaboration and potential state-sponsored activity	↑	→	↑↑	↑↑↑
	Mergers, acquisitions (M&A), and partnerships	M&A increases due to low valuations, cash on balance sheets, and need to acquire capabilities, but is counterbalanced by antitrust and protectionist measures. In LW, M&A is low due to government involvement and less free-market activity	↑	↑↑	↑	↓
	Fee income	Revenue income from fees, including interchange and membership fees, decreases across all scenarios	↓	↓↓	↓↓	↓

*Consumer-to-business ***Consumer-to-consumer **Business-to-business*

Negative indicator | Positive indicator | ↑ Overall increase | → Stays the same | ↓ Overall decrease

No-regret decisions made today can enable executives to shape and influence success across scenarios

Considerations include:

Customer acquisition and retention

1. As interactions at the brick-and-mortar store or bank branch shift to digital, **develop omnichannel experiences** for customers that are engaging, enticing, and empowering
2. **Enable digital application, instantaneous credit decisioning, and issuance** for B2B borrowers or online shoppers

Risk mitigation

3. Invest in **fraud mitigation controls and technologies** to manage the increasing risk of cybercrime and emerging fraud schemes
4. **Invest in alternate data sources and forward-looking credit models** to effectively manage credit risk
5. Activate a **robust predelinquency collections strategy and limit exposure** through scenario modeling and credit limit adjustments in sectors that are most affected
6. Invest in **building a B2B ecosystem of verified buyers and suppliers** to reduce risk and enable digital transactions and asset transfers

Modernization

7. **Accelerate adoption of real-time payment solutions by investing in core system modernization and building out use cases,** especially in countries that are not already on real-time rails
8. As global supply chains get reconfigured, **invest in capabilities to streamline, digitize, and automate** order-to-cash and procure-to-pay processes
9. **Invest in AI-driven automation of back-office processes** to reduce the cost of customer servicing, chargeback processing, dispute management, and collections
10. **Harness payment operations digitization and straight-through processing (STP) payment** capability to increase the speed and efficiency of global payments

Business model transformation

11. **Identify potential fintech acquisition targets** that either have a **customer base** or a **scalable digital product offering** that provides differentiation in the market
12. Partner with your legal and tax teams to understand and **optimize legal entity structure and tax implications** from operational and business model changes

How to read the following pages

As you read the scenarios, DO . . .

. . . focus on why this scenario might happen and what it would it mean if it did.

. . . remember that there is no data about the future. There is only data about the past. These are efforts to spark new ideas about the future. If they don’t challenge your expectations, they’re not doing their job.

. . . resist the temptation to focus or anchor on the scenario closest to your current expectations.

As you read the scenarios, DON’T . . .

. . . focus too much on specific details. Instead, read for the overall direction and conditions each scenario creates.

. . . expect to see specific forecasts or detailed views on specific banks according to their characteristics or type (e.g., size in the market, capabilities, regional vs. global bank).

. . . try and assign probabilities to these scenarios. At this moment, the question should be, what do we need to be ready for, even if we think it’s “improbable?”

Structure of the scenario analysis pages

Page 1 of 3: Overview

Signals + signposts depict the conditions that must be true for the scenario to occur

The **contextual environment** paints a picture of how each particular scenario unfolds

Page 2 of 3: A closer look

Additional narrative elements depicts implications for ecosystem participants and the competitive environment

Page 3 of 3: Geographic nuances

Critical nuances by geography that will affect how the payment ecosystem will evolve in key markets

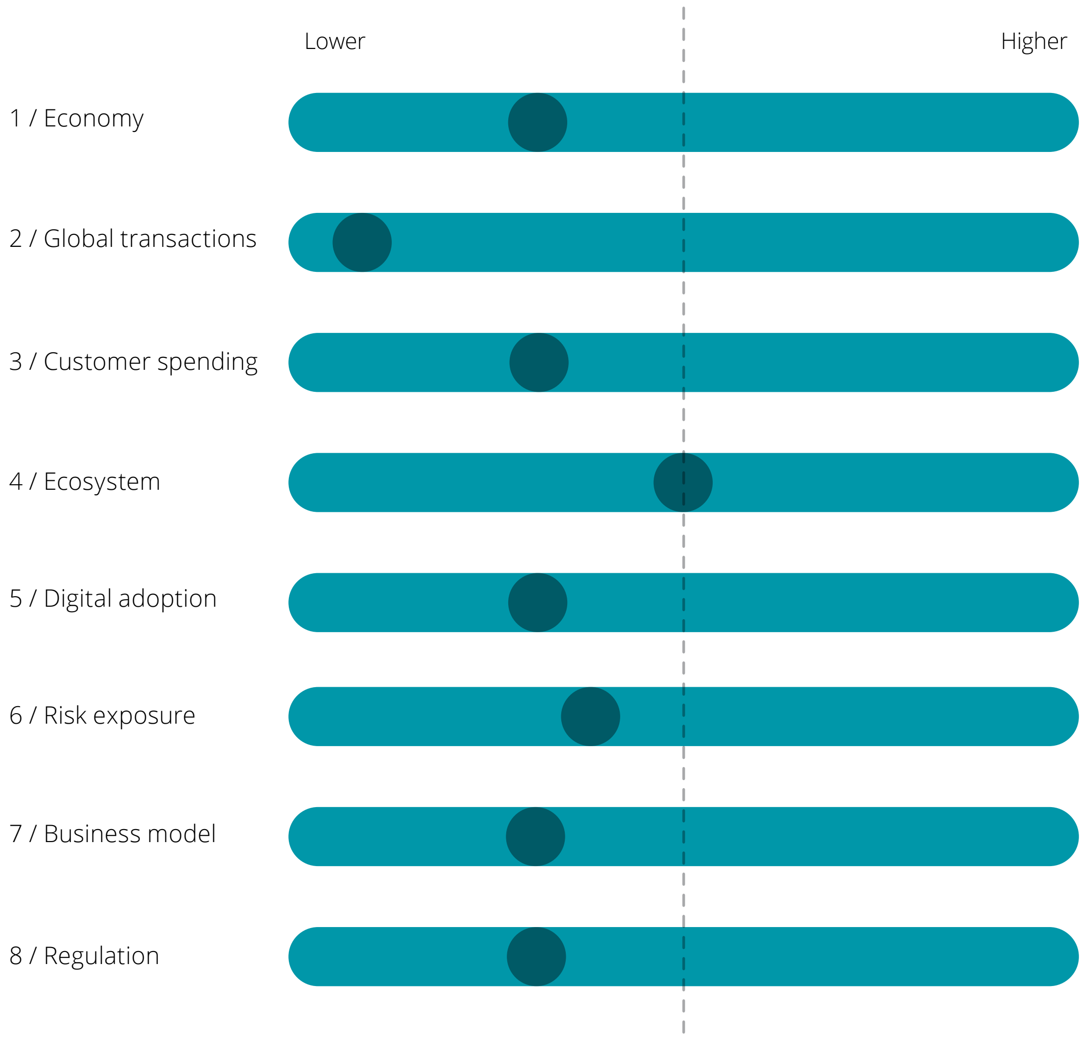
Scenario 1

The passing storm

Contextual environment

- The COVID-19 pandemic shakes the globe, but after an initial slow reaction, the pandemic is met with an increasingly effective health system, a strong political response, and economic stimulus. The virus is contained earlier than feared due to coordinated measures by global players to spread awareness and share best practices
- In response to short-lived quarantine measures, people continue avoiding cash and other physical forms of payments, resulting in massive acceleration of digital payment adoption
- Economic growth takes a hit in the immediate aftermath of the crisis, but the relatively larger global payment players successfully weather the storm
- Although short-lived, the pandemic exacerbates the challenges of socioeconomic inequality, as people's uneven ability to weather the storm becomes highly evident

Payments industry impact: Signals + signposts



What could “Recover” look like?

The passing storm

Competitive implications

Customers

- Physical cash and card payments drop sharply as customers avoid physical payment instruments and in-person transactions given social distancing; shift to digital payment methods
- Digital novice customers get accustomed to digital commerce and contactless payment, and both are broadly adopted
- Gradual reduction in payment defaults and delinquencies as economic activity picks up
- Reduced discretionary spend and increased appetite for credit offerings

Merchants

- SMBs have increased fee sensitivity, leading to an unwillingness to opt for value-added services and ancillary offerings to minimize expenses
- Smaller merchants and “mom-and-pop” stores are forced to create digital presence and e-commerce to stay relevant
- Merchants face increase in disputes and chargebacks due to increase in fraud attempts
- Increased digitization in SMB B2B payments processing, with businesses moving away from check-based legacy payments

Channels

- A significant portion of cash payments migrates to digital channels as physical cash payments substantially decline
- Enhanced focus on fraud and security offerings to counter rising cybercrime
- Players focus investments on self service and call center capabilities to further strengthen servicing
- Traditional payment equipment (like POS) manufacturers are forced to adopt contactless payment offerings to remain viable
- Private sector drives more omnichannel innovations

Ecosystem participant implications

Gateways, processors, and acquirers

- Increased demand for built-in online and mobile payment gateway solutions to help businesses go online rapidly
- Diversification of services (such as invoice generation and inventory management) to help businesses seamlessly transition online
- Acquirers look to offer guaranteed same-day settlement to their merchants to help improve cash flow
- Increased investments (organic and inorganic) to provide offerings across the end-to-end payment value chain
- Innovative offerings that enable virtual merchant acquiring and onboarding (such as instant digital KYCs)

Networks

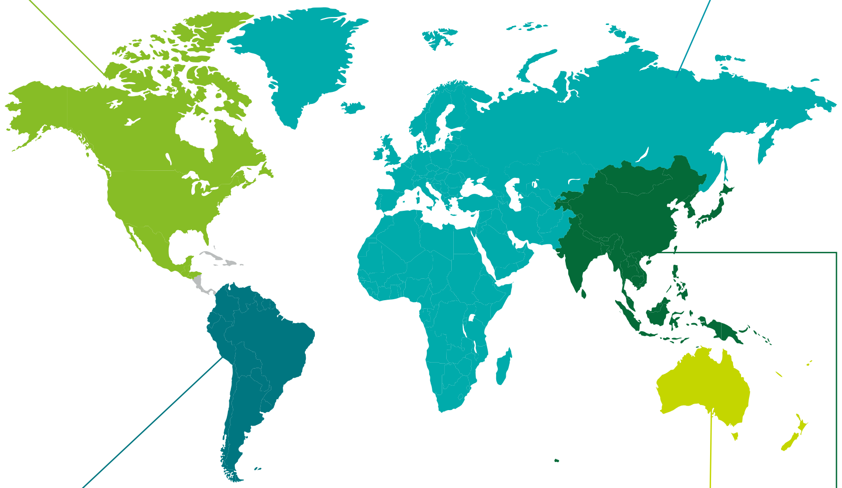
- Decline in revenues in the near term with declining POS volumes and reduction in big-ticket purchases (for example, travel, hospitality, and luxury retail), but pricing structures do not shift materially in the long term
- Increased focus on payment security initiatives like behavioral analytics to counter fraud risks
- Increased focus on digital solutions in the B2B space, such as “push payment” capabilities, as businesses look to go digital
- Increased operation focus needed to support rise in disputes and chargebacks (such as hospitality cancelations)

Issuers

- Increased offers for POS financing and installment payments to ease the burden on customers
- Issuers face temporary decline in revenue with increased charge-offs and interest rate waivers
- Tighter access to credit, but more integrated financial services so consumers and businesses can manage their finances
- Increased focus on cash flow forecasting and tracing payback of credit facilities, such as accounts receivable
- Support community via fees subsidization, loyalty points donation
- Emphasis on stabilizing the loan portfolio and maintaining tighter controls on credit

What could “Recover” look like?

The passing storm: Payments shift to contactless; shift to e-commerce spikes, but is less sticky



North America:

- Change in consumer payment preferences may result in **decline in POS payment transactions** and **uptick of in-app payment**
- Dip in **overall payment volume** with reduction in discretionary spend
- **Digitization of peer-to-peer payments** with migration from check or cash to digital
- Increased fee sensitivity and appetite for credit offerings
- Increased momentum to **expedite infrastructure modernization** and **acquire fintechs with depressed valuations**
- Financial institutions **extend intraday credit limits to clients** to accelerate business recovery

South America:

- Substantial economic contraction due to **reduction in remittances** and decline of tourism
- A push toward a **cultural change**, with people moving away from cash
- Smaller regional banks under pressure to digitize **partner with fintechs**
- Increased demand for SMB loans
- With semiformal and informal payment sectors growing rapidly, there is a pressing **need for a comprehensive regulatory framework**

Oceania:

- **Government and large private companies partner** effectively, with the government providing financial stimulus and the private enterprises driving change and innovation
- Significant **shift away from cash payments at POS** to digital payments
- Customers increasingly favor **“buy now, pay later“** schemes

EMEA:

- **Governments will play a prominent role** with stimulus packages to help mitigate the impact
- The slump in demand will result in an escalation in **missed or deferred payment**
- A temporary shift in purchasing preferences with more people moving **away from cash to digital payment means**
- **Impact on FX margins** due to decline in cross-border travel
- Dedicated government relief packages for startups will provided some relief, but **fintechs** will generally struggle with **delayed or canceled venture capital** funding
- Expansion of **faster payments** use cases in concert with **open banking**

Asia:

- Building on the **existing strong foundations** in place, digital payments will get further mainstreamed
- Apprehension about cash leads to **“cash on delivery”** getting **reduced substantially**
- Increased focus on **transaction security** to counter the threat of rising fraud
- Investment in **optimization of supply chain** and cross-border trade

Scenario 2

Good company

Contextual environment

- The prolonged pandemic rocks the economy and leads to a fundamental shift in the balance of power; large payment players stay more resilient and sustainable
- Large payment players and other organizations step up to fill the void left by the uncoordinated response among global governments, gaining trust and prestige
- People increasingly embrace technology and its role in their lives, and innovation explosions occur in large organizations, with significant investment into technology and new applications
- Prolonged pandemic and economic downturn lead to a fundamental shift in the balance of market power and affect existing market structures

Payments industry impact: Signals + signposts

What could “Recover” look like?

Good company

Competitive implications

Customers

- Customer purchasing preferences and habits shift to essential goods and services, significantly increasing transaction volume in this space
- Increase in digital wallets, contactless payments, and other payment innovations
- Trust skyrockets for payment operators who demonstrate innovative, effective, and/or socially responsible solutions to customers, leading to greater loyalty and lower price sensitivity
- Customers are more comfortable sharing data with large corporates for a more personalized payment experience

Merchants

- Significant increase of marketplaces and e-commence platforms, led by large corporates that aggregate small and medium-sized merchants, drives adoption of new electronic payments across different regions
- Merchants lagging in digital commerce capabilities may decline in prominence or potentially see an increase in attrition
- Accelerated usage of technologies (such as videoconferencing and 5G networks)
- Focus on consumer lending options to increase revenue

Channels

- Integrated digital experiences require payments service providers to build or acquire new capabilities to streamline digital processes to enable development of integrated offerings
- Increased partnership and collaboration between public sector and large companies globally increase cross-border payments
- Repurposed ATM network capabilities to promote more cashless transactions and high-customer-interaction activities
- Emphasis on providing dynamic discount options to commercial suppliers, enabling buyers to take advantage of cash flow benefits

Ecosystem participant implications

Gateways, processors, and acquirers

- Investments in digital client authentication methods increase, and processors develop partnerships that use proven and secure digital technology
- Spike in online transactions drives acceleration to fully digitize payments processes
- A fundamental shift in the balance of market power toward larger players leads to increased M&A activity and spurs a wave of payment ecosystem consolidation
- Increased aggregated and string payments provide greater flexibility for customers

Networks

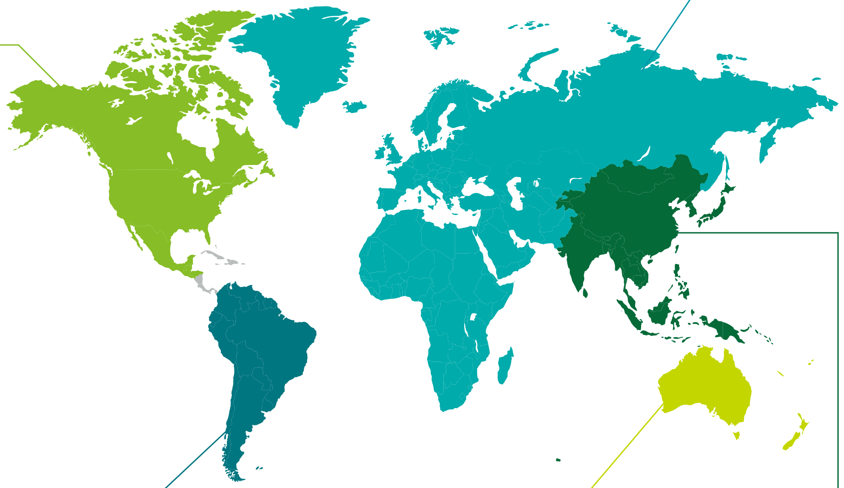
- Market leaders embed crisis-driven demand management into their processes and operating models (network coverage expansion and seamless digitalization)
- Network providers develop new pricing models and value-added services to enable higher profit margins
- Network providers increase the end-to-end payment digitalization to speed up the interaction among processor, networks, and issuers
- Increased emphasis on digital identity (such as biometric authentication) and controls support digital transactions

Issuers

- Accelerated investments and improved governance around data protection, fraud risk, AML, and compliance to protect customers and merchants
- For new customers, enhance predelinquency and collection strategies to assess customer risk; for existing customers, update hardship programs and increase relief programs
- Accelerate cash management product innovations (such as virtual accounts) to advance treasury centralization and simplification
- Willingness of customers to share data accelerates open finance service offerings (such as open banking)

What could "Recover" look like?

Good company: Robust M&A activity and global collaboration among large corporations drive consolidation and adoption of "open" financial services



North America:

- In **early and mid stages** of implementing contactless capabilities (for example, retail tap, and QR codes)
- **Shift the global supply chain** from Asia to local partnership and supplier
- Increased **consolidation of acquirers**
- Large payment players **develop new credit modeling** to assess and adjust to changing credit profiles
- **Strategic focus on customer retention and loyalty** with innovative product and service offerings
- Increased **fraud risk control** of online transaction and enhanced data protection

South America:

- Large payment players expand **new e-commence client niches**
- **Increased collaboration** between incumbents and new payment players drives innovation in the area of digital wallets
- Large payment players start to **expand service capabilities** and further **push digital innovation** around **digital identity** and build **large-scale marketplaces**

Oceania:

- Significant shift away from cash at point of sale, decline in use of checks, and increased offerings of **prepaid and virtual cards** options from payment players
- Larger financial corporations drive sustained innovation with government support to **deliver the emergency funds** to customers

EMEA:

- Governments provide strategic direction to **large companies in helping tide over the storm**
- **Tourism-driven economy rapidly declines** due to strict travel bans due to prolonged pandemic
- Large companies increase customer acquisition by rolling out **low-cost payment rails**
- Physical banking is redefined; **ATMs are repurposed**
- **More regulations on data-sharing and manipulation** to protect consumers from large payment players
- Large payment players **slow down payment innovation**, and **hold more capital** to prepare for uncertainty of pandemic
- Focus on **customer education to use digital capabilities**, and protection of **vulnerable customers** (for example, eliminate mule accounts)

Asia:

- With a dip in fee income and a low interest rate environment, banks reconsider if B2C **payments value chain needs to be retained in-house**
- Large payment players' margins are challenged as the **transaction fee trends toward zero**
- **Fintech providers under pressure** due to lack of funds and **shifting of trust to incumbents**
- Government challenged to determine if **tech-driven incumbents** are still **to be backstopped**
- Companies with large distribution networks **adopt digital payments and invest in digitizing AR payments** to enable collections
- In countries with open-source infrastructure, global tech companies will play a prominent role in developing integrated payment capabilities

Scenario 3

Sunrise in the east

Payments industry impact: Signals + signposts

Contextual environment

- China and other East Asian nations manage the disease earlier than Western nations and emerge stronger from the pandemic, while Western nations struggle with deep and lasting human, social, and economic impacts; economic power shifts as Eastern countries help the world recover
- China and other Far East nations significantly ramp up foreign direct investment efforts, bolstering their global reputation
- Increases in customer data-sharing with governments and businesses drive a leap forward in AI development, and the capability is quickly embedded into everyday life (for example, health and security)
- Citizens accept government and institutional surveillance mechanisms as part of the public good

What could “Recover” look like?

Sunrise in the east

Competitive implications

Customers

- Substantially reduced spend owing to prolonged recession and persistent unemployment
- Lack of trust in institutions due to the slower recovery, then a move to any player that makes buying easier
- More customers turn to aggregators and digital marketplaces supported by big tech and East Asian players
- Customers pivot to innovative offerings (such as QR code–based payments), which East Asian players have been using in their local markets and are now introducing to other countries

Merchants

- Many merchants accept newer and cost-effective offerings from East Asian companies
- Digital innovations emerging from the East (such as QR codes or biometrics) become more prominent
- Overall decline in payment volumes, with small and medium-sized merchants increasingly dependent on government bailouts to stay afloat
- Formerly predominantly globally connected supply chain changes to mainly East Asian focus

Channels

- Local market players substantially increase investments in innovative and digital offerings to compete with East Asian players, such as building new value propositions through partnerships and new ecosystems
- East Asian companies and local governments support local SMBs through relief programs such as improved merchant financing
- East Asia’s leadership expedites trade finance between Eastern and Western regions; trade finance becomes a money-making capability and product for banks in Western nations

Ecosystem participant implications

Gateways, processors, and acquirers

- Reduced digital payments volume (after a period of initial growth) owing to reduced economic activities and spending
- Acquisition and partnerships of gateways and processors with new Asian payment players entering the market
- Substantial increase in investments to support innovative and digital payment methods (for example, QR code–based payments, alias payments, and pay-by-points)
- Consolidation among traditional acquirers as they struggle to maintain relevance

Networks

- Penetration of innovative payment networks from the East attract customers with advanced offerings and improved pricing
- Greater investments in biometrics, e-money, and faster settlement will come from Asia, and players in other markets may need to entertain Asian investments
- Restrategizing and restructuring of existing JVs and expansion plans of US networks in East Asia
- Digital identity solutions (such as multifactor authentication) become a key differentiator for payment players
- Significant investment in data and intellectual property protection

Issuers

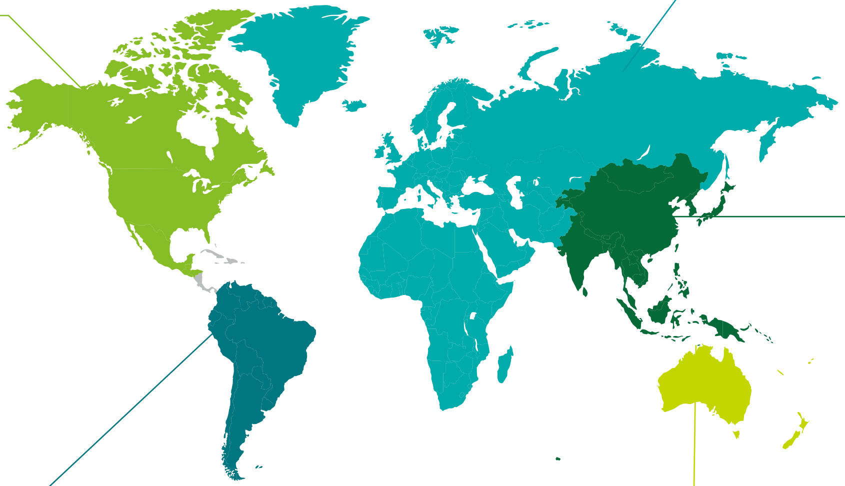
- Issuers partner with tech and digital retail giants who are globally expanding (for example, issuing cobranded offerings)
- Most issuers pivot from physical cards to digital cards or wallets
- Substantial increase in defaults and write-offs due to prolonged recession, counteracted by advanced analytics-enabled collections strategies leveraging extensive customer data
- Development of country-specific regulations increases barriers to entry, but governments may provide incentives for regional startups and fintechs to compete with foreign offerings
- Inconsistent adoption of ISO20022 standard drives asymmetry in rise of faster payments infrastructures across geographies

What could “Recover” look like?

Sunrise in the east: East Asian players drive innovation and restructure payments landscape; customer protection is traded off for economic stability

North America:

- Substantial **increase in defaults and write-offs** due to prolonged recession expose payment players to **higher credit risk**
- **Customer shopping behavior continues to shift to digital**, leading to a sharp decline in in-store payment methods
- Need for **central government surveillance** as a public good leads to new privacy and data-sharing policies
- Surge in **JV and M&A** activities with Asian companies to leverage innovation, open new business models, and expedite digital adoption
- Efforts to roll out **faster payments get stalled** due to additional rounds of stimulus



EMEA:

- Continues to see **frugal spending behaviors** and **decline in margins, fees, and interest-based income**
- **Governments** continue to **provide bailouts and push for digital** omnichannel experiences
- Investment in existing payment rails is focused on enabling **digital experiences and digital currencies**
- Substantial **increase in defaults and write-offs** exposes payment players to **higher credit risk**
- **Physical banking (branches and ATMs) are redefined** to enable digital and contactless interactions and value-added services
- **New business models** from East Asia **are adapted by** EMEA payment corporations

South America:

- Continues to see **frugal spending behaviors** and overall **decline in margins, fees, and interest-based income**
- Large payment players expand **new e-commence client niches with increase in JVs and M&A and investment from Asian players**
- Increased focus on **digital onboarding** of customers
- Push from governments to drive **digital payments adoption** and **financial inclusion**

Oceania:

- Due to relatively quicker recovery, countries experience **positive GDP growth and shift to pre-pandemic spending patterns**
- Continued exposure to contactless and mobile payments drives a **permanent change in customer behavior**
- Rise in JVs with East Asian companies to support East Asian tourism, boost local innovation, and **accelerate adoption of digital currencies and assets**

Asia:

- Relatively aging demographics in some countries hinder expedited digital adoption
- Faster progression on **digital identity and e-money**
- Increased apprehension to cash leads to **“cash on delivery” getting phased out**
- With a dip in fee income and a low interest rate environment, banks in Southeast Asia reconsider if **B2C payments value chain needs to be retained in-house**
- In some geographies, **stringent data democratization and localization frameworks** to stave off competition from Southeast Asia

Scenario 4

Lone wolves

Contextual environment

- The COVID-19 pandemic becomes a prolonged crisis as waves of disease rock the globe for longer than anyone was prepared for. No vaccine seems to be close, global health systems are overwhelmed, and societies become increasingly depressed
- Countries grow isolationist in the name of domestic safety as mounting deaths and social unrest continue. The isolationist reaction limits trade flows and reduces geopolitical alignment
- Government surveillance is commonplace as tech monitors civilian movements. The government collects personal and social information not only to eradicate the pandemic, but also to put in place effective prevention methods

Payments industry impact: Signals + signposts

What could “Recover” look like?

Lone wolves

Competitive implications

Customers

- Loyalty to issuers declines as customers switch cards often in search of the best rewards program during a persistent economic downturn
- Existing contact tracing initiatives encourages more “sharing” of identity information by customers
- Cash and check payments drop sharply as individuals are afraid of getting infected, instead using digital payment methods
- Extreme customer behavior, with some customers hoarding cash, while others explore alternative cost-efficient payment options, such as cryptocurrencies

Merchants

- E-commerce demand increases, greatly affecting point-of-sale activity; customer behaviors are permanently changed, and demand will remain online
- With governments having more and better control of the payment system, merchants are more protected from fraud risk
- Online and mobile payments increase drastically due to isolation
- Real-time payments become more relevant as the need for rapid disbursements increases
- Supply chain scarcity with less foreign trades, slower recovery, and thinner margins

Channels

- Contactless and digital payments become the norm as physical transaction volumes continue to decline heavily
- Increasingly, customer devices (mobile, wearables) act as a point of sale as the need for single-purpose transaction terminals to facilitate commerce fades
- Ongoing crises and the proliferation of the sharing economy conditions customers to avoid borrowing and making large, one-time transactions. Shift to “pay-as-you-go” sees a rise in flexible consumption models

Ecosystem participant implications

Gateways, processors, and acquirers

- Rapid domestic consolidation among the gateways and processors as transaction volumes continue to stay low
- Demand for instant disbursements as merchants require immediate access to funds
- Cashier-as-a-service begins to rise as customers are more careful with online transactions
- Payment processing for brick-and-mortar commerce declines significantly as new waves of stay-at-home orders are imposed
- Business models based on either “high-end purchases” or “sub-prime customer” segments will likely suffer

Networks

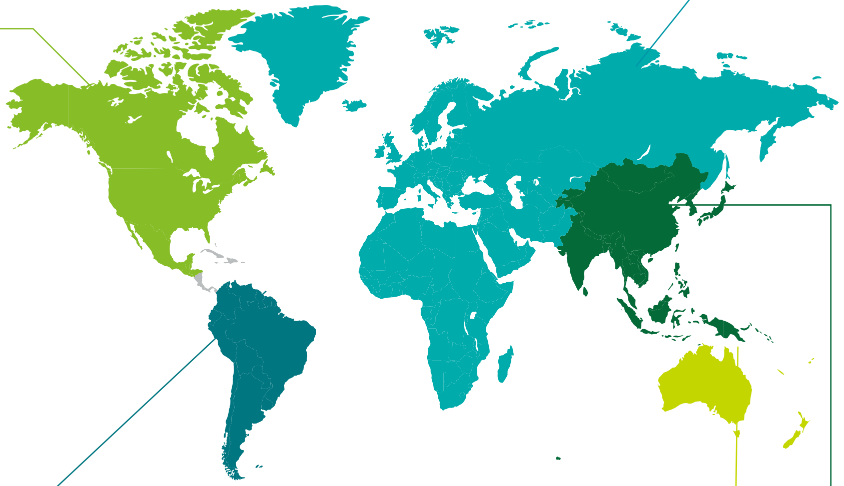
- Networks may face competing standards for messages, e-money, and identity and greater risk thresholds for supporting cross-border transactions
- Networks need to find new revenue and operating models as customers become extremely price-sensitive. Transaction volumes have declined, and fee-based models are untenable
- Rise of shadow networks and alternate networks as consumers try to avoid data-sharing and surveillance
- Clearinghouse doubles down on the rails of expediting inward, real-time payment network development and expansion

Issuers

- Call center volumes are increasingly higher than pre-COVID-19, as payments and transactions are under scrutiny by customers who are under financial pressure
- Government adoption of strict measures on money movement, and country-specific regulation improves fraud risk as location tracking and data privacy and controls become commonplace
- Issuers struggle to balance between managing credit risk and credit issuance
- Governments provide additional support through stimulus

What could "Recover" look like?

Lone wolves: Increased nationalism affects innovation, M&A activity, and supply chain; operating costs rise due to fragmented regulatory schemes



North America:

- Investment in **national digital identity** systems for rapid disbursement of benefits
- **Tech giants** play a much more prominent role in the payments space as they **diversify into payments** and lending.
- **Consolidation** of acquirers and payment providers accelerates
- Customers explore alternative **cost-efficient payment options**, such as cryptocurrencies
- **Decreased loyalty to issuers** as customers frequently switch cards in search of better deals

South America:

- The region faces **severe recession** as governments struggle to inject liquidity and look to international organizations for bailouts
- More people have now adapted digital payments, but **overall spending** is at an all-time **low**
- **Rise in cybercrimes** due to absence of an effective regulatory framework and enforcement
- Rapid growth of **cryptocurrency and its underlying blockchain technology**

Oceania:

- Contactless and digital payments have **become the norm** as physical transaction volumes decline heavily
- **Sharp decline in cross-border e-commerce** (for example, from Southeast Asian countries) as governments try to promote local businesses
- Increased **investment in contactless and ambient device commerce**
- Increase in **subscription-based payments (buy now, pay later)**

EMEA:

- More **isolationist policies** with countries prioritizing individual needs and wants over common European Union (EU) goals
- Governments restrict entry of external players, and **encourage local innovation**
- Regulations in EU (GDPR, PSD2) for **data security** are relaxed, with contact tracing initiatives encouraging "sharing" of identity information
- Customers explore alternative **cost-efficient payment options**, such as cryptocurrencies
- **Increased interest in credit** as consumers struggle and government social spending increases
- Low net income margins due to **low- (or negative) interest-rate environment** coerce banks to **seek new revenue models** (such as differentiated service models or charges for intraday liquidity)

Asia:

- A relatively **aging economy** in many Southeast Asian countries is a barrier to quick digital adoption
- Some **fintech providers go out of business** due to lack of funds
- Private players **struggle to compete** with government-backed and subsidized payment rails
- Increased digitization of **B2B payments** to help **distributors and suppliers with collections**
- Emerging fintech ecosystems in Southeast Asia **struggle with less FDI**

1 / Evolution of the business environment

2 / Scenarios for the global payments ecosystem

3 / What could “Recover” look like?

4 / Team and acknowledgements

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