

# PAYMENTS SHIFTS WITH COVID-19

April 8, 2020

Over the last few weeks we have heard from many of our friends across the industry. This is clearly a very challenging time, and the once unstoppable payments market has shown that it is not immune to profound effects of the pandemic. Revenues have plummeted as shopping, traveling, and eating out have all come to a stand-still, and survival risk now needs to be added to increased payments risks for many businesses – merchants, processors, and banks.

Amid these seismic changes, one thing is certain. Without much fanfare, [COVID-19](#) has just sped up the shift we have all been experiencing in payments. Instead of the slow march to digital, we are seeing five years of change condensed into a couple months. Shifting to online commerce, contactless transactions, digital wallets, and even fraud attacks have all made significant moves.

Below we capture some of what we have heard from clients across the value chain and geographies. Some of these items will be short-term in nature, while others will become trends that create lasting change. The good news is that the fundamentals of the industry remain sound. It is a large, growing, and accessible market. In prior downturns payments has rebounded relatively quickly, benefiting from long-term secular trends and a willingness to embrace innovation to create value for all.

We would be happy to discuss how your business is being affected by COVID-19. Please feel free to contact us at [payments@oliverwyman.com](mailto:payments@oliverwyman.com)

## WHAT'S HAPPENING NOW

### Spend is down dramatically....

- The virus has created a perfect storm of events leading to a dramatic decline in consumer and business spending:
  - Shelter in place orders
  - Forced closure of non-essential businesses
  - Mass increases in unemployment and other financial distress
- The decrease is not uniform, however. Select merchant categories have maintained volumes (or, in limited cases, posted higher sales). Others, such as travel, have endured a virtual stoppage of activity and are down as much as 90%.
- Consistent with the last financial crisis, debit has been more resilient than credit. This reflects the prioritization of everyday needs versus discretionary purchases.

### ....and is shifting

- Relatively speaking, e-commerce is booming. Adoption of online ordering of groceries, restaurant take-out, health supplies, and other goods have increased dramatically. This is not limited to those who are already tech-savvy; older generations are embracing mobile purchasing out of necessity.
- Restaurants, liquor stores, local merchants, and others are adding remote commerce options seemingly overnight with regulators and government entities granting exemptions to what was once a physical transaction only.
- Consumers are expressing a broad desire for contactless payments in-store, following the advice from health professionals.
  - Visa/Mastercard have raised transaction limits for contactless payments
  - Apple Pay, Samsung Pay, Google Pay and other wallet apps are likely to experience increased rates of adoption
- Conversely, the use of cash is declining to reduce physical interactions with paper money and cashiers.

## Fraud is surging in e-commerce and online banking

- Security firms are recording huge spikes, with at least one firm reporting a nearly 700% increase in phishing attacks globally since the beginning of March.
- Some attacks are disguised as legitimate correspondence from trusted organizations such as the World Health Organization (WHO) and the National Health Service (NHS), offering advice, selling facemask protection, and soliciting charitable donations.
- A spike in social engineering attacks will likely follow.
- Transaction fraud is also on the rise as businesses have seen a nearly overnight shift in transaction volume online, and many of these businesses don't have the defenses in place to score and identify fraudulent transactions.

## Fee reductions and forbearance programs are becoming commonplace

- Banks have started aiding customers impacted by the coronavirus pandemic. Customers can, in many cases, receive fee waivers, payment deferrals, and other assistance for credit card, auto loan, mortgage, etc.; some banks are moving to 120-day payment terms for customers in financial distress.
- ... but these programs largely require customers to contact their lenders before falling out of good standing and doing so is difficult as contact centers are overwhelmed by volume, challenged to maintain operations given the need for remote work and, at times, unplanned offshore site closures.
- Banks need to answer key questions surrounding how consumer behavior during this period will impact lending criteria today... and for years to come.

## Banks and FinTechs are frantically trying to team up

- The fiscal relief packages passed by governments provide for directed financial assistance to individuals and small businesses. However, there are significant barriers to disbursing the money at the speed needed to be effective.
- Digital platforms developed by FinTechs are better positioned to quickly process loan applications and disburse funds, but most lack US Small Business Administration (SBA) accreditation.
- Traditional banks have existing SBA lending programs, but most do not have the digital front-ends and infrastructure to handle the unprecedented demand.
- This dynamic creates an environment ripe for partnerships among rivals, but time pressures are severe.

## Chargeback burdens and risks are rising

- With widespread concerns about delayed or canceled orders, merchants are experiencing a high volume of canceled transactions involving future delivery such as events, air tickets, and accommodations.
- Some merchants are seeing return and chargeback volume outpace sales volume. In these instances, they are wiring funds or sometimes being asked to predict and pre-pay funds.
- Acquirers are increasing reserve requirements on merchants (especially travel merchants), exacerbating merchant cash crunches.
- Issuers are similarly dealing with high dispute volumes; in some cases, this is directly attributed to the adoption of e-commerce by smaller businesses like transactions showing up under an aggregator's name as opposed to the actual merchant.
- This situation could go on for months given the lag in reporting due to long chargeback timeframes; it will be interesting to see if payment networks implement temporary changes to rules.
- Those that remain heavily reliant on manual processes and antiquated systems are particularly at risk for operational disruption.

## WHAT SHOULD HAPPEN NEXT

### Digital transformation being redefined

- With physical locations closed, those with advanced digital platforms maintain a comparative advantage.
- The line between commerce and payments is blurrier than ever, and the broader adoption of mobile order/pickup/delivery will likely create a sustained change in consumer preference and behavior.
- Those with effective and inclusive digital platforms should press their advantage; those without will need to catch-up quickly.

### Replacement of static fraud models

- The current situation further highlights a known deficiency in static fraud detection – the inability to adjust quickly.
- Out-of-pattern activity, card-present merchants shifting to card-not-present (CNP), and aggressive phishing all represent challenges to backward-looking models.
- The near-term impact is a higher volume of false positives, false negatives, or both, all of which are bad for consumers, merchants, issuers, networks, and processors.
- Waiting until the crisis passes to re-evaluate is not the right answer; the problem is acute now and a failure to act will impede recovery.

### Know the numbers

- During the last financial crisis many credit card issuers dramatically contracted their credit box and reduced lines. Such actions were not unwarranted, but the implementation was generally blunt.
- These non-targeted tactics opened the door for FinTechs to meet unmet customer needs and ultimately grab share.

- Now is the time to put those investments in data and advanced techniques to use; find pockets of opportunity to engage customers with the right offers.

## Leverage strength of partnerships

- Contrary to common belief, payments is not a zero-sum game between merchants and issuers.
- Co-brand cards, private label cards, and other partnerships are core components of value propositions and a primary contributor to growth.
- The actions of one partner affect others such as reducing credit, tightening fraud rules, closing stores, and/or emphasizing online.
- Consultation and collaboration with partners will yield better results – take the long view on relationships.

## Be prepared to restart while planning for lasting change

- Understandably the last few weeks have been about reacting to the crisis, with a focus on business continuity, but attention will soon need to shift to winning back customers and re-evaluating the long view of your business.
- It is likely that commerce will restart in the second half of 2020, with steady improvement throughout 2021.
- Preparations should begin with an outside-in perspective. What would customers say worked well during the crisis? What didn't? What shifts were temporary? What will become a trend?
- Develop cohesive, segmented yet interconnected plans:
  - Restarting – what do I need to do quickly to support and reengage my customers?
  - Near-term – which changes made either by my business or by my customers during crisis should be encouraged and continued?
  - Long-term – how will these experiences shift customer preference and behavior forever? What attitudes and behaviors are going for good? Where do strategies need to be revisited to maintain relevance?