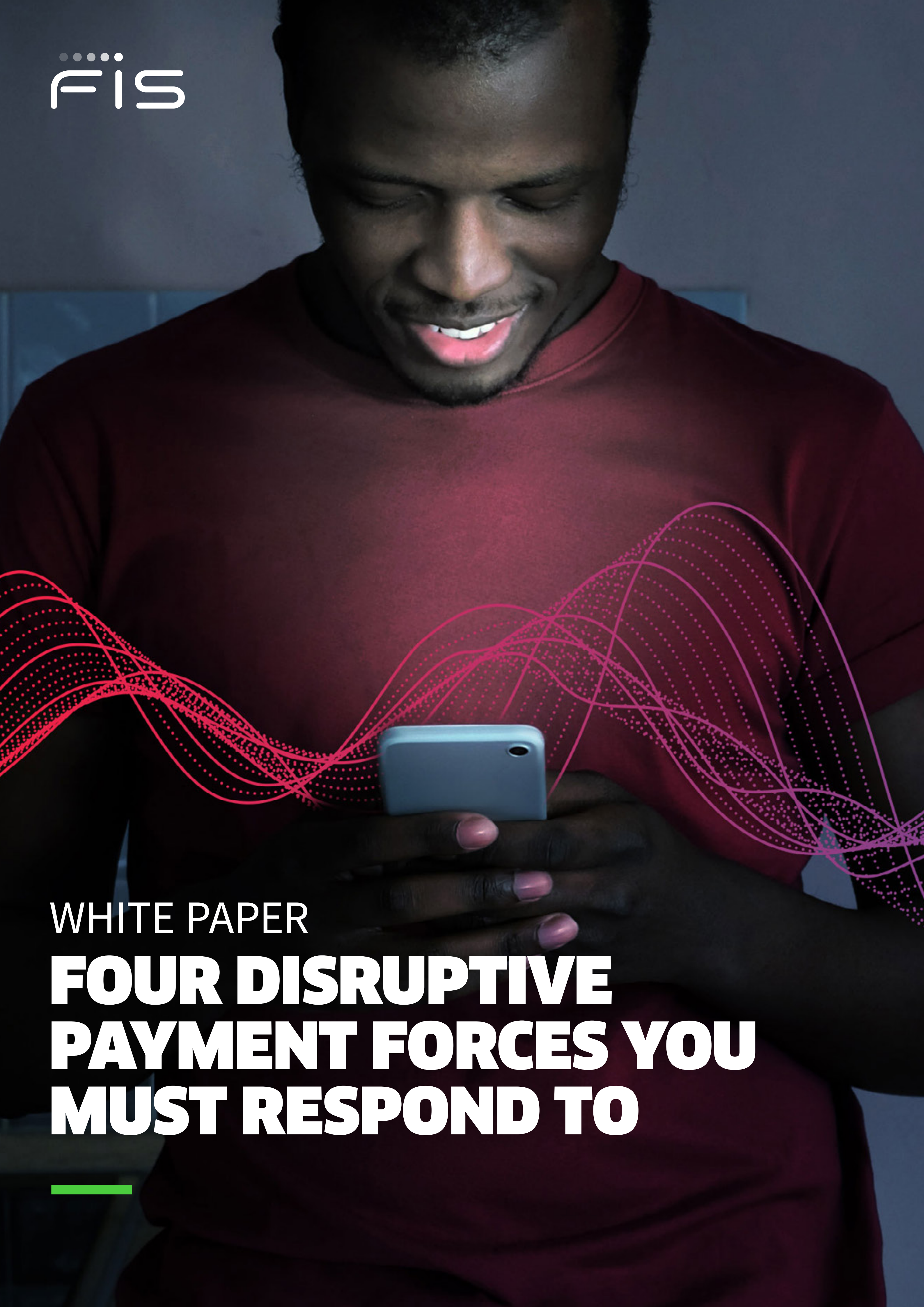


FIS

WHITE PAPER

FOUR DISRUPTIVE PAYMENT FORCES YOU MUST RESPOND TO

While several forces have played a role in disrupting the payments value chain in recent years, the global pandemic underscored the importance of mobile and digital capabilities. It highlighted many changes related to how we live, work, interact, move and manage money. It also revealed two fundamental realities all financial institutions should consider in their payment modernization strategy:

- The future is coming faster than you think.
- Change is the constant you can count on.

In this paper, we explore four specific forces that are disrupting payments. With these insights, financial institutions can make actionable plans to strategically respond in a way that meaningfully impacts payment operations, costs and the cardholder experience.

1. New market entrants

Disruptors like Uber and Airbnb are in a unique position to provide some iteration of financial services to their community of regular users and providers. Tech giants have likewise extended their role beyond "the Pays" to become more immersed in financial services in recent years. For example:

- 2019: The Apple Card launches. Goldman Sachs says the partnership is the first of many similar deals giving non-banks an entry point into financial services.

- Late 2020: Facebook announces its cryptocurrency formally known as "Libra" is now called Diem. The intent with Diem is to make transferring money online easy and cheap for users. It will include a wallet subsidiary to enhance global financial inclusion. The Financial Times reported the project could launch in the first half of 2021.

- 2021: Plex by Google Pay will allow users to open and manage a mobile bank account directly from the app. The product aims to eliminate common consumer pain points associated with spending and saving.

> **The mobile payments market in the United States lags far behind China, the world leader in mobile payments adoption, but it's a cautionary tale to all financial institutions who think their role in payments could not be upended if they fail to keep up with innovation.**

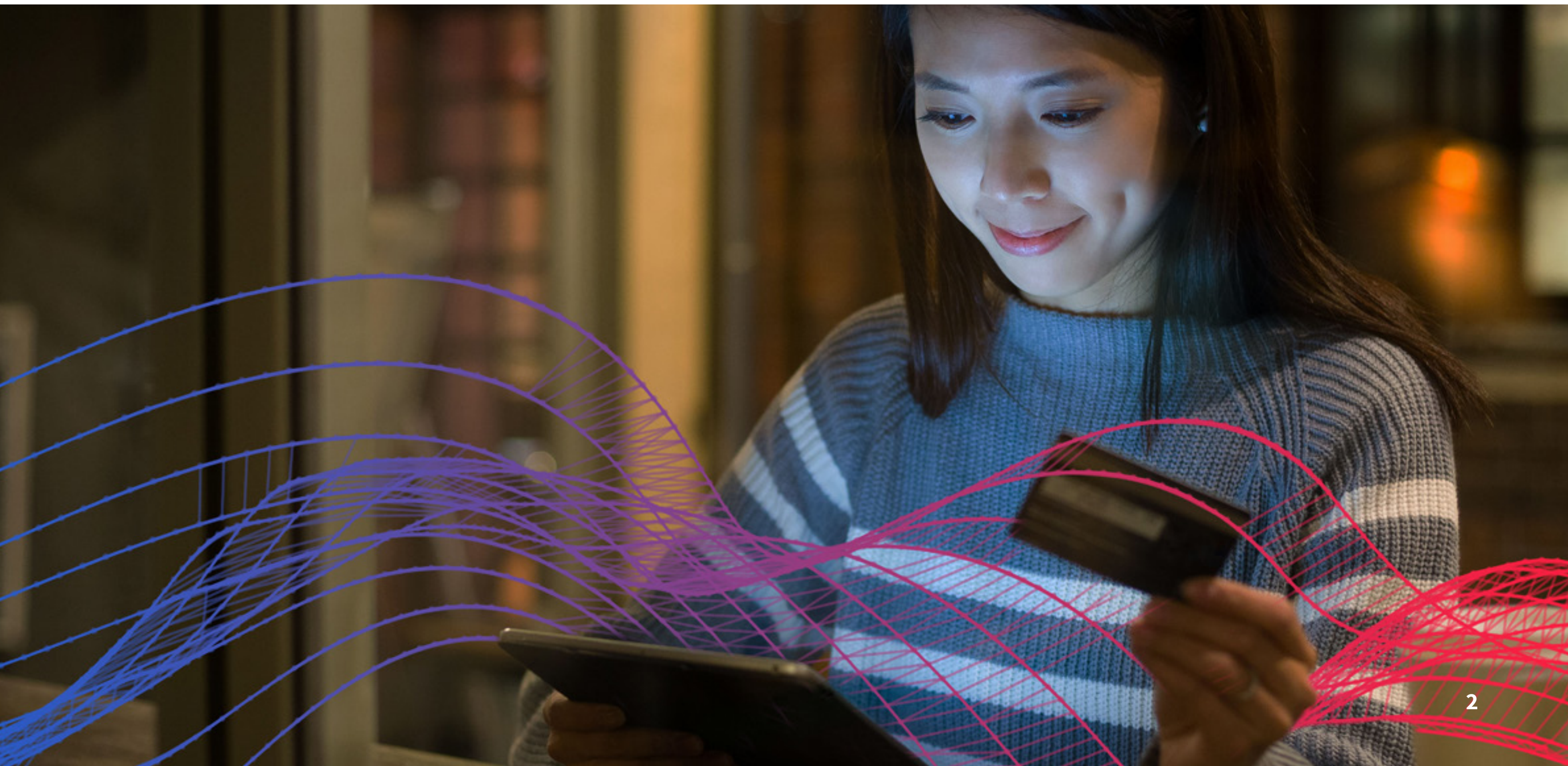
For example, American Banker reports that nearly 80 percent of smartphone users in China are expected to tap, scan or swipe at the point of sale by 2021.

The article also predicts that more than 90 percent of those mobile payments will run through Alipay and WeChat Pay. Though these services are rivals, they are each backed by China's two largest tech companies.

2. Substitutes

The buy now, pay later (BNPL) market is estimated to grow by ten to 15 times its current size by 2025, representing $650 billion to $1 trillion by 2025 globally, according to Bank of America analysts.

Merchants using BNPL programs get paid in full at the time of purchase, in exchange for the commission paid to the BPNL provider. Consumers get the flexibility to spread payments for an item they purchase using a BPNL program over time, at no



additional charge. The popularity of these programs speaks to how consumers now want to access and use short-term credit. Increasing adoption and use of account-to-account and peer-to-peer payments offered first-party by banks and via third-party providers like Zelle, Venmo and Square's CashApp have also raised consumer expectations for just how fast, easy and convenient making a payment should be.

Royal Cole, executive vice president of FI Payments Solutions at FIS, explains that cardholders under the age of 40 tend to be the most comfortable in the app world, and form payment preferences based on choice and control. For these consumers, using apps like Venmo or Zelle have become part of the social fabric of interactions with friends and their communities.

3. Cardholders

The global pandemic influenced how people and businesses move money and pay.

In a global June 2020 FIS survey of over 15,000 consumers, 53 percent of respondents agreed that COVID-19 made them more concerned about using cash to pay, and 56 percent said a mobile wallet made it easier to make a purchase.

> **In the United States, 22 percent of Baby Boomers, 44 percent of Gen Z and Gen X, and 46 percent of Millennials had all used a digital/mobile wallet in the last twelve months."**

Financial institutions may lose some control they once had over payment options as new innovations come to market, but they can still influence payment behaviors by using data to identify what cardholders really want.

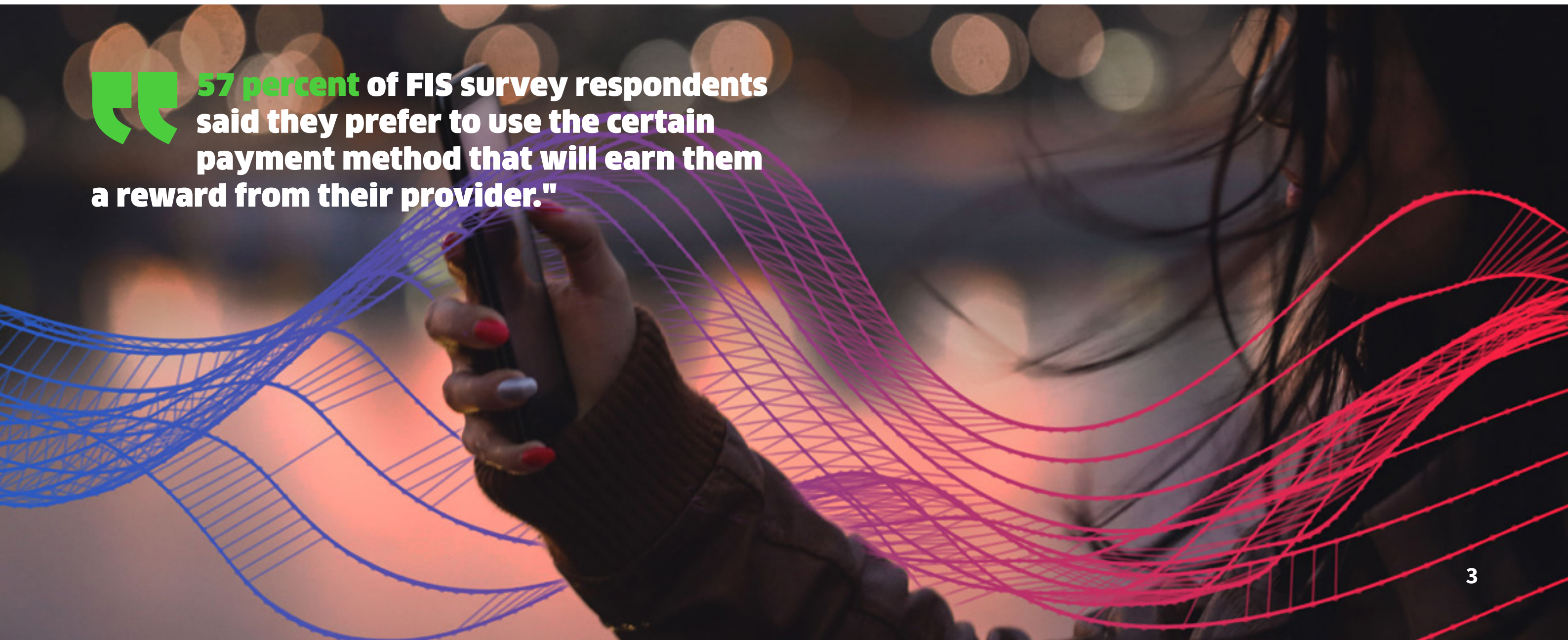
4. The Industry

Fast, easy and frictionless is now the expectation in payments. But the industry as a whole continues to raise the bar for how that experience comes to life for the user. The ability to manage cards via mobile apps is rapidly becoming the norm, and adoption of technologies like tokenization, secure remote commerce (SRC), and 3D Secure 2.x will further deliver a smooth and secure experience when paying with cards and digital tokens.

Now that the U.S. has contactless infrastructure in place and most major U.S. issuers have added contactless capability to their cards, financial institutions should expect that payment behaviors will continue to move towards digital, mobile and contactless methods. For example, a number of issuers around the world have already started to pilot biometric cards, and nearly 30 percent of respondents to FIS' survey said they already use biometric authentication to authorize payments. Of those who hadn't used the technology, 37 percent expressed interest in doing so.

LET'S REIMAGINE PAYMENT EXPERIENCES.

Every financial institution can differentiate their payments experience to increase engagement across all channels, improve experience and overall portfolio profitability and harness real-time data to make informed and cost-effective decisions — but not all will take the action to do it. To learn how FIS can help you reimagine your payments experience with a strategic approach to payments modernization, portfolio management and sophisticated fraud prevention tools, consult with your relationship manager or **click here**.



> **57 percent of FIS survey respondents said they prefer to use the certain payment method that will earn them a reward from their provider."**

About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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