

The Future of Credit Cards

By Binesh K, Strategy, CEO's Office, SunTec Business Solutions

The credit card industry has evolved and grown significantly since the 1950s when Bank of America launched the first card. Robust consumer protection policies like quick charge back of unrecognized transactions have won the industry some loyal customers. But the basic functionality of the credit card was commoditized long ago and now there is minimal differentiation, with most cards offering variations on loyalty and cash back offers. The question now is, how will the sector hold up as fintechs and tech giants continue to disrupt the sector?

Keeping Pace with Innovation

Credit card companies are currently replacing the magnetic stripe with EMV chips that ensure greater security. Signatures for purchases are also becoming obsolete as most retailers no longer require this. Tokenization is another important development. This implies the use of a unique non-sensitive identifier or token that is stored in a merchant's network to protect credit card information from bad actors.

But the payment landscape is changing fast, as online transactions grow exponentially due to the COVID-19 pandemic. Innovative payment options like Apple Pay, Google Pay, Amazon Pay, Stripe and Klarna are gaining ground as are finance apps like Mint and Wally. Digital wallets are ensuring a seamless online transaction experience by drawing on online banking services, electronic devices, and smart applications. All the customer needs to do is link their bank account or card to the wallet and use it for cashless and cardless transactions. Traditional banks too are launching mobile apps that can manage debit and credit cards that come with innovative features like using the app to turn cards on/off, limiting usage to limit frauds, and expanding the scope of cards. Wells Fargo's app allows the user to keep track of recurring payments using a feature called Control Tower. In London, many credit card customers can pay for public transport directly with their cards instead of loading a separate transit card.

Technology that's Shaping the Future

The innovations happening in the digital wallet space indicate a future where cards will remain the backbone of payments but be increasingly invisible.

Both [fintechs](#) and traditional banks will go mobile first to deliver greater value and innovation to the customer through their products, platforms, and services. For example, Apple Pay allows anyone with an Apple ID to download the app on to an

iPhone, add their card details and carry out cashless, contactless transactions immediately. By using high levels of encryption, the digital wallet safeguards customers' financial information. And even the physical card just has the Apple logo and their partners name on it in addition to the customer's name. This takes personalization to the next level and ensures all sensitive data including card number is safely stored in the app only. Emerging fintechs like Aspiration are attempting to offer a different kind of value to the environmentally conscious customer. Eco friendly living and reduced carbon footprint are their key differentiators – they use biodegradable materials for their cards, and plant trees in the customer's name for every transaction, in addition to giving 1 percent cashback. Of course, loyalty programs will also need to evolve as credit cards change. Loyalty vouchers may become digital and move towards partnership models, looking beyond co-branded cards.

As with most other sectors, Artificial Intelligence (AI) holds great promise for the credit card industry too. AI based algorithms can be used to protect customer interests by tracking spending, budgets, and credit usage to predict spending habits, spot aberrations and help in redeeming rewards. Eventually, AI can even be used to understand and block fraudulent transactions. Bots and AI assistants like Siri, Google Now and Amazon Echo will be capable to carrying out credit card transactions.

The growth of Near Field Communications technology can be used to integrate payment functions with personal data. This will help to quickly exchange information with point-of-sale (POS) devices. Customers will be able to shop without either card or phones because tiny chips embedded in any accessory like watches, key chains, or bracelets can be used to authenticate the sale. Even virtual cards using QR codes could emerge as a new payment mode in the future. The issuers of these innovative payment options can prevent fraud by using data from indicators like geo locations.

Biometric based credit cards are already a reality with Visa and Mastercard launching cards with inbuilt scanners for fingerprint authentication for payment authorization. Voice based authentication will gain popularity in the near future and even facial recognition-based POS options could replace the credit card. Alipay's "smile to pay" recognition system launched in 2017 is an example of this kind of innovative and futuristic option. Hyper personalization strategies may advance to a point where customers can create their own credit cards based on their needs, using platforms like Moca. Their cards can be customized to facilitate a single purchase or be used in specific stores or be set for specific purposes with usage limits. The card owner can control the parameters on the Moca app or website.

Modernizing for the Future

Technology has a key role to play in the credit card ecosystem by helping usher in new innovations. Fintechs are leveraging advanced analytics solutions to gain a

complete view of customer interactions and data to draw more insights about their requirements and come up with personalized offerings. Despite their vast repositories of customer data, traditional banks may not be able to compete with fintechs as their legacy platforms cannot support cutting edge analytics solutions. A digitally powered banking and payment ecosystem requires a versatile and scalable [API based platform](#). Banks can either partner with fintechs or work with third party middleware providers to modernize their legacy core and leverage technology for future innovations.

The future of credit cards will most likely not involve physical cards. Their primary function of communicating and authenticating transactions at POS terminals will be done by new technology powered contactless solutions. As cards become invisible, marketers will need to revamp their strategies to gain top of wallet share. And they will have to find new and innovative ways to retain meaningful engagement with the customer.

Binesh K

Binesh holds a management degree from IIM-L and has worked in Management Consulting, EdTech & Insurance sectors