DELIVERING CREDIT CARD SUCCESS WITH INNOVATION & EFFICIENCY

FIS

JUNIPER® RESEARCH

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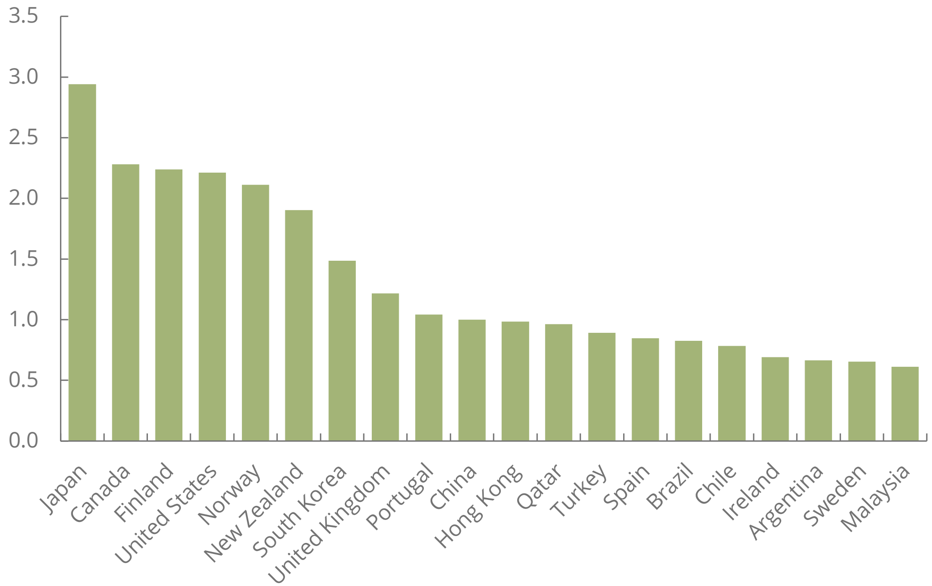
1.1 Introduction

Credit cards are proving to be an enduring payment type within the payments' ecosystem worldwide. While other older payment types, such as cash and cheque are losing ground to digital payments, credit cards are remaining relevant and continuously reinvented for newer audiences.

Indeed, credit card ownership is strong across the world. As of 2024 Juniper Research data, credit card ownership is highly common, with leading markets such as Japan, Canada, Finland and the United States all having over 2 credit cards in service for each adult in the country.

Figure 1: Top 20 Countries for Credit Card Penetration, Credit Cards in Service per Adult, 2024



Source: Juniper Research

Given their popularity, having a strong credit cards strategy in place as a financial institution is not optional – it is an important part of appealing to a vibrant cross section of users, across demographics.

However, credit cards have been moving rapidly. Innovations, such as digital card issuance, virtual cards and digital wallets have meant that credit cards are changing quickly, and user expectations are changing around them. For financial institutions, merely having a legacy card programme is not enough – credit cards must use modern systems for optimal performance, to enable innovations, such as flexible control, instant virtual card issuing and other digital management.

Another key issue around credit card issuing and processing is cost. As credit cards have been around for a while, processing and issuing systems tend to be legacy mainframe platforms. As such, these are expensive to operate, and difficult to add new systems onto without incurring significant cost.

Taking a comprehensive approach to credit cards by updating processing and issuing systems is central to satisfying customer expectations and reducing costs; powering sustainable revenue growth.

1.2 Why Credit Cards Remain Indispensable

Credit cards have been a key part of payments for decades, and this is set to continue. Current usage levels are high. According to the 2023 Survey and Diary of Consumer Payment Choice by the Federal Reserve Bank of Atlanta, credit cards accounted for 32% of payments made by surveyed users; slightly above the 30% by debit card.[i] A summary of key statistics around credit card usage is in Figure 2 below.

Figure 2: Key Credit Card Statistics – United States

57%

Consumers Who Prefer Credit Cards for Online Payments

36%

Consumers Who Prefer Credit Cards for In-store Payments

47%

Consumers Who Revolve Debt on Their Credit Cards

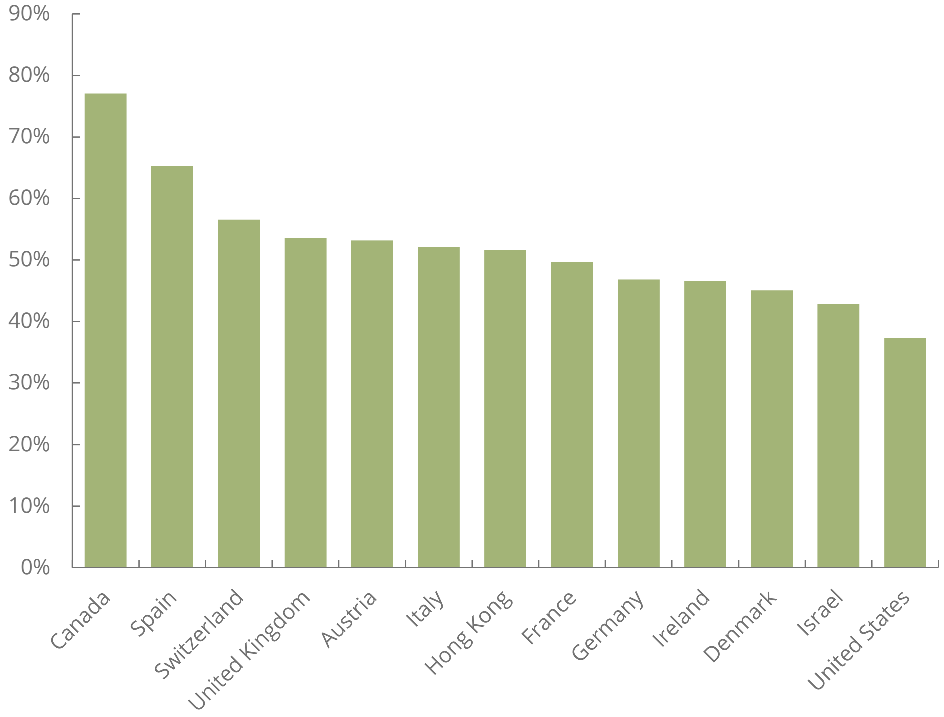
32%

Proportion of All Payments Made by Credit Card

Source: Federal Reserve Bank of Atlanta

It is also important to note that credit cards are important across different demographics. While the perception is that Buy Now, Pay Later (BNPL) has a unique appeal to Gen Z, credit cards are still serving a major role, as Figure 3 shows, with very high ownership rates across key countries.

Figure 3: Proportion of 15-24 Year Olds Who Own a Credit Card, 2021 (%)



Source: World Bank Findex

Another key element here is rising bank penetration. We forecast that banking penetration will reach over 76% of the global adult population by 2029, from making steady progress from 74% in 2024. As such, the addressable market continues to grow for cards.

Credit cards also have a critical role in contributing to primacy for financial institutions. With all the competition in the financial landscape, it is more important than ever to be the primary institution that clients use. Credit cards add to this primacy; increasing client value and retention, which represent major advantages.

All in all, credit cards are indispensable – they have been central to the way people pay for decades, and they will continue to be vital.

1.3 Challenges in the Credit Landscape

While credit cards are vital to how consumers pay, they do come with significant challenges for financial institutions. The key challenges involved are examined below:

1.3.1 Cost

Banks and other financial institutions have extremely complex systems, for good reasons, including the need for guaranteed uptime, varied tasks being undertaken, and complex business structures. However, what this essentially creates is a vast web of different systems, many of which are outdated; creating complexity and cost.

Financial institutions use core banking systems to handle key transaction processes for their customers. However, many of these core banking systems are severely outdated. In many cases, they are still using mainframes rather than cloud services.

This becomes a critical issue with card payments. When financial institutions need to process card payments on legacy mainframe platforms, this tends to be slow and complicated. Even worse, if the financial institution needs to add any new features, this requires the financial institution to bolt on a new, disparate system every time services are extended. That leaves financial institutions working with a range of different software systems and vendors, and making it increasingly complex and costly to run card programmes and add new payment products and solutions.

As such, updating core systems to have a modular, cloud-enabled architecture is critical to reducing costs and increasing efficiency.

1.3.2 Challenges from Digital Methods/New Customer Expectations

While credit cards are extremely popular, customer expectations are changing around them. The digital ecosystem has evolved significantly – digital wallets, mobile banking apps and other digital financial tools are extremely common.

A recent FIS survey found that 99% of Gen Z access their bank with a mobile app.[ii]

In this context then, there are many more expectations than credit cards have had traditionally. Customers have a large set of new expectations:

- Instant Access to Transaction History: As customers are so wedded to their mobile banking apps, they no longer want to wait for a monthly credit card statement. They want real-time information on their transactions, their balance, and their remaining limits.
- Insights Around Spending: Alongside transaction history, customers want insights. They want to understand not only what they have spent, but in which categories, how their spend has changed over time, what impact it is having on their wider financial health, and what they could spend.
- Transparency Around Cost: Customers are increasingly savvy around the costs they are incurring – customers require clear transparency around the costs of credit, so they can make informed decisions around their future financial arrangements.
- Flexibility Around Use: Customers desire to be in control – they want to be able to change their credit limits in app, lock cards if lost, and even block transactions at certain types of merchants. They want the power in their hands.

- Ability to Seamlessly Add to Wallet: With the primacy of digital wallets, particularly Apple Pay in the US market, customers look to be able to seamlessly add their cards to their digital wallets. A one-click ability to add to their wallet is increasingly popular within mobile apps.

These requirements are not new – consumers have been moving in the direction of greater digital enablement for some time. However, even some of the largest banks struggle to offer an effective digital enablement experience.

This is without even considering the wider banking landscape within the US – with over 4,600 federally insured credit unions operating in the US, as of Q4 2023.[iii] As such, meeting user expectations is challenging, particularly when legacy card systems are being used, or a fragile framework of different systems is being relied upon.

Another challenge is competition from digitally enabled payment methods. BNPL has seen a meteoric rise, with our forecasts predicting that by 2028, the BNPL transaction value will reach $687 billion, from $334 billion in 2024; a rise of 106%.[iv] BNPL is, by its very nature, digitally enabled – control is given to the user in-app, and services offer a great deal of flexibility. Additionally, we are seeing increasing alignment between digital wallets and BNPL apps, with wallets increasingly partnering with BNPL services.

As such then, in a climate where competition is rising and customer expectations are shifting, credit card programmes must keep pace and evolve.

1.4 Why Credit Cards Outperform Alternatives

While there is strong competition from digital methods, credit cards consistently have the potential to outperform the competition. Key advantages are outlined in Figure 4, and explained below.

Figure 4: Key Credit Card Advantages

Source: Juniper Research

- Near Universal Acceptance: Cards, certainly within the US, have an extremely high acceptance rate, across the different card networks. The COVID-19 pandemic led to a surge in adoption of contactless-enabled payment terminals within the US; making cards extremely common.
- Combination of Credit and Payment: Credit cards are relatively unique, in so far as they enable both payment and access to credit in a single instrument. If a user does not want to pay interest, they merely have to settle the bill in full, or the user can leverage their credit line to help them financially. Seamlessly offering these capabilities is a big advantage.
- Easy Integration Within Popular Wallets: Most payment wallets in the US operate as proxies for card payments, and support for credit cards within popular wallet apps is high. This enables the user to benefit from the best of both worlds – they can use the normal functions of the card, but also benefit from seamless checkout online at supported merchants and in certain apps.
- Consumer Protection: Credit cards often have superior consumer protection to other payment methods. For example, in a number of different states in the US, the customer has recourse with the credit card issuer if a merchant dispute is taking place. In other countries, such as the UK, there are national laws which provide enhanced protection for credit card purchases; encouraging their use.

As such, it is clear to see that credit cards have major advantages to other forms of payment. Their enduring high use is no accident – it is deliberate based on their key advantages for consumers.

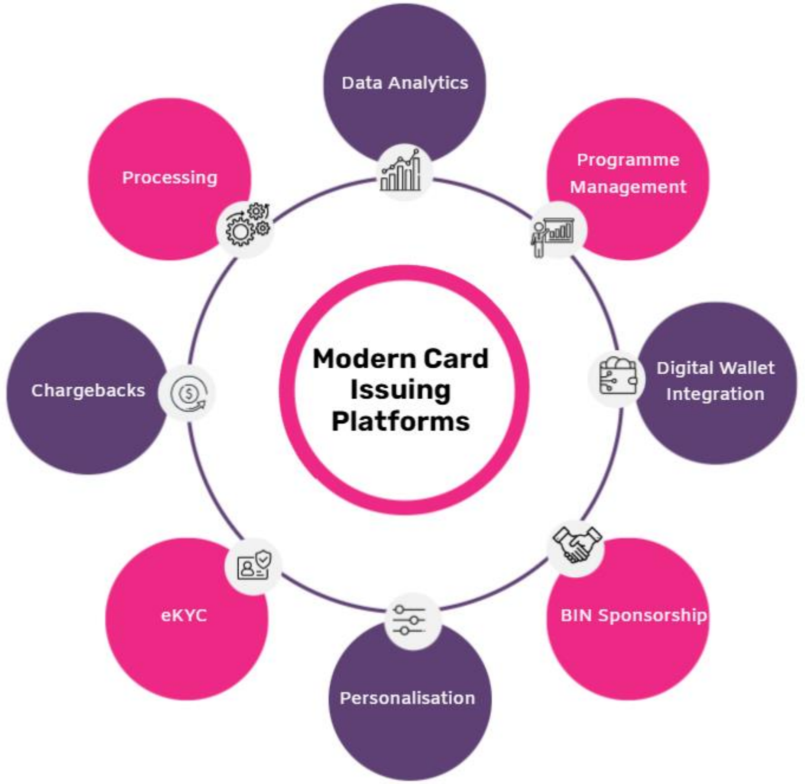
For financial institutions, the advantages are clear. Having an effective credit card programme can allow them to increase their revenue, improve the strength of their customer relationships, and compete more effectively versus other institutions.

1.5 Innovations that Keep Credit Cards Competitive

While credit cards are well established, there are many ways in which credit cards are being kept up to date with the latest developments. One key way is the development of modern card issuing platforms, such as FIS Payments ONE.

Modern processing and issuing platforms have a wide range of different capabilities, which are summarised in Figure 5 below.

Figure 5: Capabilities of Modern Card Issuing Platforms



Source: Juniper Research

By offering a modern, scalable system that banks and other financial institutions can leverage, modern card issuing platforms provide a key way for customer expectations to be met and even exceeded.

Indeed, these key capabilities can enable banks and other financial institutions to achieve their most important objectives:

- Streamlining the User Experience: To best serve increasingly digitally minded customers, credit card issuers need to offer a streamlined user experience. This means centralisation primarily; ensuring that all channels are harmonised and effective, with the inclusion of multi-factor authentication, increased data capabilities, and advanced self-service capabilities. By offering these, the user experience becomes far simpler and more effective. It also becomes more efficient, reducing waste and cost.
- Accelerating Time to Market: Speed is essential when it comes to bringing new credit card offerings to market. However, for banks and financial institutions, speed is an incredibly difficult element to achieve, particularly with legacy IT infrastructure. Ultimately, issuers need cloud-enabled technology platforms that takes care of IT infrastructure, and helps issuers to speed up their time to market. Two key hurdles are typically compliance requirements and IT integration, which both can be minimised by using the right platform. Another key advantage of using a modern card issuing system is that it enables easier global expansion – by using a single global version of the underlying issuing software, issuers can serve more markets, whilst remaining compliant. This boosts flexibility, and will enable issuers to move much faster in a highly competitive market.
- Mitigating Fraud: Fraud is a major concern across the financial ecosystem, and credit cards have been particularly impacted by this; given credit cards are used heavily for online purchases. With legacy systems, much of the data around a customer, their interactions and transactions is siloed; making it difficult to build up a one customer view, or leverage AI analytics to score the risk of transactions. By consolidating services around a modern card platform, this standardises the data, and offers much more capability to use fraud fighting tools and verify customer transactions, which will have a major impact on costs and customer satisfaction.
- Embracing Digital Flexibility: Fundamentally, modern card issuing and processing platforms are highly flexible. Through the use of Application Programming Interfaces (APIs), modern card platforms can support an increasingly wide range of use cases. Whether it is issuing physical cards, pushing a virtual card to a digital wallet, or providing granular card controls, this can all be supported. By moving to a self-service model, issuers can reduce the pressure on customer service teams. Key capabilities to allow users to do include:

  a) Freezing or unfreezing cards

  b) Reporting cards lost or stolen

  c) Activating new or replacement cards

  d) Enabling users to dispute transactions

  e) Setting purchase alerts based on location, merchant type, transaction type or spend limits.

  f) Receiving notifications on card and account status, changes or deadlines.

  g) Creating live alerts for suspected fraud.

  By combining these factors, issuers will both significantly improve customer satisfaction and their own efficiency; levelling up their business.

There is one overarching objective that these capabilities will allow – to reduce cost and improve efficiency. All of the objectives improve efficiency in their own way – whether this is reducing reliance on customer service channels, enabling banks to move faster, reducing fraud or providing greater customer information, these all enable greater efficiency in operations.

1.6 Why a Comprehensive System is Needed to Compete

Fundamentally, the competitive landscape for credit card issuing has never been more intense. There are multiple elements to this competition:

- Traditional Banks: Traditional, high-street banks are common credit card providers within the US market, as well as in many places around the world. These banks have well-established customer relationships, and large branch networks. These banks typically heavily invest in technology and rewards, but can be slow to move compared to others.
- Specific Credit Card Brands: There is a long tradition of independent credit card companies within the US market, including American Express and Discover. These companies often focus on providing compelling rewards to their end users, such as cashback or air miles.
- Neobanks: Increasingly, neobanks are offering credit cards with differentiated strategies to others. For example, Chime, a highly successful digital bank in the US, offers the Credit Builder Credit Card, which has no annual fees; an alternative model to others.
- Fintechs: Fintechs are increasingly offering their own credit card programmes, particularly in areas such as B2B payments, where many smaller businesses have struggled to access mainstream financial services. Some examples include Brex, Ramp or Jeeves.
- Credit Unions: Alongside all of these other categories, there is a massive number of credit unions and community banks in the US market. These institutions are increasingly looking to expand into offering credit cards to boost their revenue and compete more effectively in a crowded market; adding even further competition. While credit unions tend to not have particularly advanced backend technology, the local connection can make them a compelling option, and their smaller size does allow them some agility.

What this means overall is that competition is extremely fierce within the credit cards market – and is intensifying all of the time. Sticking to the same strategies will not work. New efficient and agile approaches are needed.

So, what is needed to achieve success in this challenging market?

Working with a comprehensive modern credit card issuing and processing system is vital for success.

All of the competitors we have already discussed are trying to transform their businesses to be more digitally focused, in an effort to compete with each other. Making small changes to part of your credit card programme is not sufficient – only by using a new, modular and scalable platform can help you compete effectively.

In a crowded credit cards marketplace, what sets issuers apart is user experience, innovation and efficiency.

Balancing these elements is no mean feat. Issuers can use different software solutions to support new credit card innovations. However, by building these on top of existing legacy platforms, this creates additional cost. By having multiple systems with complex integrations, this risks a poor user experience, with gaps between systems. Overall, it slows down the rate of change and stifles innovation.

The best way to create a flexible, efficient and compelling credit card programme is to leverage a modern card issuing and processing platform with modular and API-driven capabilities.

By focusing on this, credit card issuers will achieve the strongest outcomes in a highly competitive, but potentially lucrative market.

1.7 FIS Payments ONE

FIS is a leader in technology and services that helps businesses and communities thrive by advancing commerce and the financial world.

For over 50 years, FIS has continued to drive growth for clients around the world by creating tomorrow's technology, solutions and services to modernise today's businesses and customer experiences. By connecting merchants, banks and capital markets, FIS uses its scale, deep expertise and data-driven insights to innovate with purpose to solve for its clients' future. This enables FIS to deliver experiences that are more simple, seamless and secure to advance the way the world pays, banks and invests.

Headquartered in Jacksonville, Florida, FIS employs 56,000 people across 58 countries; dedicated to helping its clients be ahead of what's next. FIS offers more than 500 solutions and processes over $75b of transactions around the planet. FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

FIS' specific solution within the credit card space is FIS Payments ONE. For lower costs, FIS Payments One delivers an ecosystem of flexible, modular technology and services from a single partner. With a full suite of solutions and services, FIS takes on as much – or as little – of the debit and credit card programmes as the issuer needs. With FIS' global network, issuers can code once and deploy new functionality anywhere, reducing their total cost of ownership.

FIS can manage whole card programmes on the issuer's behalf, or bolster in-house capabilities with specialist technology and expert support for card issuing, processing and management, fraud prevention and regulatory compliance.

The FIS Payments One card processing platform enables issuers to power secure digital payments so customers can pay, access accounts and use self-service card controls on any device.

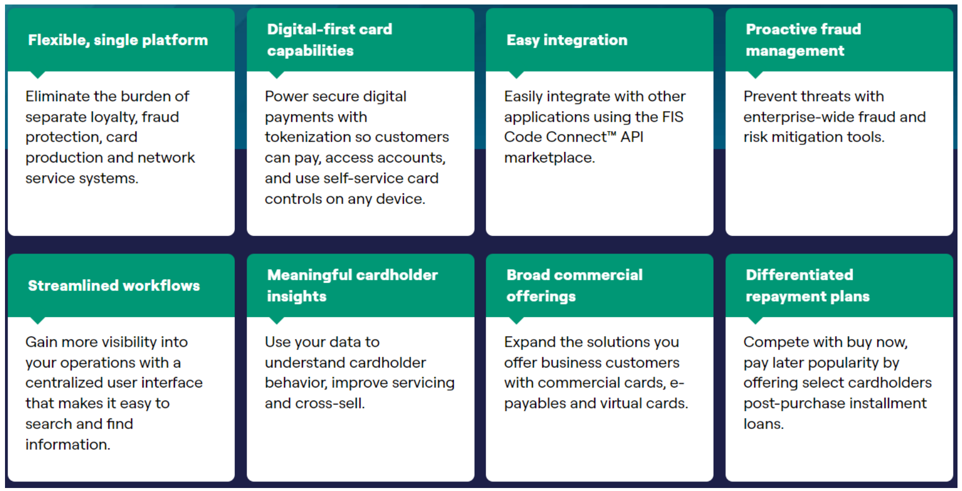
Backed by years of industry expertise, Payments One underpins FIS' commitment to helping issuers continually innovate and modernise their card payments ecosystem. Via an API-led architecture, FIS helps issuers to simplify integration and tailor digital experiences, from BNPL to digital card issuance, so issuers can keep outpacing competitors and provide a market-leading card services.

With FIS' extended suite of value-added payment solutions, issuers can improve loyalty and stay top of the wallet by delighting Gen Z cardholders and optimising their payment experience at every touchpoint.

Additionally, with FIS Payments One, issuers can follow a 360-degree view of their card portfolios and more easily identify and maximise opportunities for growth.

With real-time dashboards, FIS' data-driven solution empowers issuers to increase revenue and manage risks by gaining clear, actionable insights on their customers' card usage and spending behaviour. This enables issuers to be in a stronger position to build a competitive payment card strategy and meet both Gen Z and other generations' needs with the right product and service offers.

Figure 6: FISD Payments ONE Features



Source: FIS

Endnotes

[i] https://www.atlantafed.org/banking-and-payments/consumer-payments/survey-and-diary-of-consumer-payment-choice/2023-survey-and-diary#Tab2

[ii] Source: FIS study of 249 U.S. residents aged between 18 and 26, carried out in April and May 2024

[iii] https://ncua.gov/files/publications/analysis/quarterly-data-summary-2023-Q4.pdf

[iv] https://www.juniperresearch.com/press/bnpl-transaction-value-to-rise-106-globally-by-2028-catalysed-by-regulatory-breakthroughs-and-increased-b2b-use/