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MasterCard talks Internet-of-Things, Blockchain, payment experience and partnerships

By **Derek du Preez** September 12, 2016

SUMMARY:

Chief Innovation Officer at MasterCard gave investors some insights into its “extremely complex digital strategy”.

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We have highlighted in the past that the world of digital payments is an incredibly competitive business. Banking is no longer limited to the banks or cardholders themselves, as there is a complex maze of merchants, smartphone providers, digital wallets and infrastructure providers.

MasterCard's MasterPass

MasterCard CEO Ajay Banga has previously noted that there is going to be a lot of “interesting pushing and pulling over time” and that he doesn’t want to be in the “individual wallet business”, but instead part of a complex ecosystem that takes the friction out of payments for consumers.

We got some deeper insight into MasterCard's strategy recently, thanks to a investor community meeting held by the company. During the meeting Chief Innovation Officer Garry Lyons told investors in detail about the company's digital strategy.

What came out of the talk was a clear strategy around partnerships, as well as some detail regarding MasterCard's investments in new and emerging technologies.

Lyons started by highlighting that the world of digital payments isn't straightforward and that MasterCard is having to deal with complexity across a number of areas. He said:

“ *I think it would be fair to say that we're living in extremely interesting times. The world is becoming more connected, technology is evolving at a phenomenal pace, industries have been reinvented and consumers have huge expectations about what technology can do for them to remove the friction as they go about their daily lives.*

Navigating the digital maze...presents huge opportunities for all businesses including MasterCard, but it also presents some traps that we need to be aware of and we need to deal with as we evolve our businesses

So, winning in digital is extremely complex irrespective of the business that you're in and certainly not just the case of migrating what you do in the physical world today and making it work online. It's a lot more complex than that. We've an extremely complex and comprehensive digital strategy.

Partnerships

Lyons explained that MasterCard is doing what it can to enhance the payments experience for its users, primarily via its digital wallet offering – MasterPass. He said that it is digitising new forms of payments with P2P, disbursements, remittances, and that it is setting standards for security and tokenization. In addition, MasterCard has been upgrading its development platform with a major overhaul, because it wants to make it easier for partners of all sizes to enhance their solutions with its services.

Lyons said that MasterCard's four priorities with regards to payment experience are simplicity, speed, convenience and confidence. He said:

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Beautiful thing about MasterPass is what is enabling consumers to make fast, secure and simple payments, it's also the world's first digital payment solutions that enables payments online, in-app and in stores via the contact us.

But by integrating MasterPass directly into the mobile banking experience of the bank, you're effectively able to remove all that friction and signing up for MasterPass [and it] can be as simple as excepting terms and conditions. No need to fill in card details, personal information and shipping address because your bank already have that information.

However, key to all of this is MasterCard's approach to partnerships – in that it doesn't want to have to scale the MasterPass offering on an individual consumer basis. Instead it wants intermediaries to integrate the offering into their solutions, attracting huge groups of customers each time. Lyons said:

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Now, we call this approach..digital by default. And the great thing about this is, it allows us to scale MasterPass quickly. There is no need for us to sign users one-by-one, one-by-one, one-by-one. It can be a long journey. We want to actually sign them bank-by-bank, bank-by-bank, bank-by-bank, and already we have banks such as Citi, Bank of America, Capital One, Fifth Third, KeyBanc, SunTrust, Nordea, and Commonwealth Bank of Australia among others, who've already signed up to partners with our MasterPass. That is going to give 80 million MasterPass enabled accounts by the end of this year.

Now, having bank partners is a bit like having one hand clapping. It's no good if you don't have wide acceptance, so you need to have wide acceptance too.

And MasterCard is aiming for MasterPass to get the same traction online as they already have in the physical world with its traditional banking cards. Lyons said:

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So today MasterPass is available at 290,000 online merchants, including industry leaders such as Avis, Bass Pro Shops, Burger King and Guilt. But the other thing about MasterPass because it works in store and online. Today you can use MasterPass at 6 million contactless merchants around the world.

This is a marathon, not a sprint. It's a little way off the 40 million merchants that accept our physical cards today. With the goal and the objective and the activities that we're doing are absolutely focused and getting the same level of acceptance for MasterPass, as we do for MasterCard.

Lyons added that MasterPass provides advantages to merchants, in that the wallet experience takes out a great deal of friction for consumers on check-out. He said:

“ *The MasterPass has delivered real value on the banking sides, but it also delivers real tangible value on the merchant side as well. So for starters, if you got millions of users, merchants want access to those millions of users. So any merchant that accepts the MasterPass instantaneously has access to the community of users that have signed up through their banks.*

MasterPass provides a faster, simpler checkout for the consumer, so you have less chance of abandoned cards because abandoned cards occur when a consumer gets to a page and goes, do I really want to fill in all that information, not so much.

There is no need to register with the merchants and there is no need for the merchants to restore your card details. We look after all that, we secure the transaction. And also from the security prospective, we're able to take advantage of best in class security mechanisms like tokenization like biometrics

Access to exciting technology

MasterCard's Garry Lyons

Lyons also provided investors with some insight into the investments it is making with new and experimental technologies, via its MasterCard Labs. He said that MasterCard wants to be “at the cutting edge, but not the bleeding edge” of what it provides to its customers.

He added that this has to be focused and that MasterCard's priorities with new tech are always aligned to making payments safer, simpler and smarter – where investments are made in a “thoughtful and structured manner”. Lyons said:

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We would be asking questions like, does the technology solve a real problem? If doesn't solve a real problem, there is not a lot of point working with it. Can it make our products better, faster, cheaper? Can it improve the way that we serve our customers or our partners? Does it unlock new opportunities for us? Are there risks? Are there dependencies? Is this technology likely to go mainstream? If it likely to go mainstream, in what timeframe is it likely to go mainstream? And then as it relates to this, do we want to be a leader or do we want to be a follower?

These are all very sensible and given the rapid changes in modern digital technologies, MasterCard can't realistically be an expert in all things. However, Lyons did outline a number of areas where it is focusing. He said:

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The Internet of Things is something you have heard from us many, many times before, because we still believe that every connected device is going to be a commerce device. We are going to continue to enable simple and secure payments from every device, whether it's a phone, whether it's a tablet, whether it's a fridge, whether it's a washing machine, whether it's a car, we are going to facilitate secure payments from that device.

Machine learning is another very, very interesting area, and given all of the data assets that we have as a company, I'm hoping it will come with no surprise for you that we are already leveraging this technology and have been for some time. We are using it to reduce fraud, to predict behaviours, to enhance our product experiences and generally become more efficient.

Blockchain is a technology that's also top of mind for us. Now we believe that while it's still early days, the technology is interesting and similar to other technologies, we are approaching blockchain in an extremely methodical fashion. But so far with blockchain, we have invested in DCG, a Digital Currency Group. And what they do is, they invest in early stage blockchain and group of currency companies.

We have also built our own private blockchain inside MasterCard from the ground up, and we are currently testing a variety of different use cases. We filed over 30 patents on the various issues and aspects of the blockchain, and we are also working with a number of blockchain companies that have come to us through our start of engagement activities.

We are constantly monitoring the landscape as it relates to these technologies and others, and when appropriate, we will integrate the technologies either into our solutions or into our delivery models.

My take

A complex landscape, but MasterCard appears to be diversifying and investing in the right ways – recognising that partnerships are key, whilst investing in the right technology to support its growing platform. That being said there are many other players doing similar things. This is going to be a tough battle.

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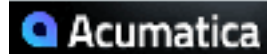


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